

Taxing the rich?

The government has indicated it wants to cut income and wealth taxes. Doubtless the cry will go up from Labour that this will be tax cuts for the rich. In trust in practice it will be tax cuts for all. Today I want to seek your advice on who are the rich that Labour wants to tax.

Let's begin with a group of millionaires. Many would say automatically all millionaires are rich, because by definition they have a million pounds of assets which no poor person enjoys. Here are some interesting millionaires:

Mr A is an elderly pensioner living on his own in a modest one bedroom flat in central London. He bought this many years ago, and it is now said to be worth £1m even though it is not in a good state. He has no other savings and lives on the state retirement pension and top up benefits. He cannot afford a car or holidays. He does not want to move as his friends and support group live nearby.

Mr B is another elderly pensioner who lives in a modern flat in a market town, worth £250,000. He has an investment fund worth £750,000. With his adviser he plans to draw down around £50,000 every year to spend, and reckons with the anticipated returns his fund might last him 20 years. He will adjust his drawing up if the investments do better, and down if they do worse. He also has his state pension.

Mrs C recently sold her £750,000 family home on the death of her husband. She also has £250,000 of other savings. She has bought a £250,000 new smaller home. She has given £250,000 to each of her two children to help them with housing and private education costs for her grandchildren. She has bought an annuity with the other £250,000 to provide her with an income of £10,000 a year to add to the state pension.

Mrs D and her new partner have just sold her £1m house and have decided to rent. They also plan to spend their way through the £1m whilst they are still in good enough health to enjoy the cruises, expensive hotel stays, grand events and good restaurants they have always wanted to try. They expect to spend at least £100,000 a year. They take the view that no-one knows how long they will live and you can't take the money with you. They say you can always rely on the state if you live for a long time.

Are all 4 of these people rich? If not, which if any of them are rich? Mrs C is no longer a millionaire because she chose to give money away. Mr A is very income poor and depends on state top ups for his income. Mr B is on a well above average income, but will be depleting his capital, taking it down to very little over the balance of his lifetime. Mrs D will spend like a rich person but will run out of cash quite quickly as she does.

Do we tax them fairly? Those that spend away their capital will pay more VAT but less income tax and capital gains. Those who keep their savings will pay more income tax and capital gains tax. Those who move will pay more Stamp

Duty. Those who run down their capital will not only pay less income tax but will receive more state benefits if they live long enough. Those giving money away before their death will be trying to find ways to avoid Inheritance Tax.

Observant readers will realise that all these people have the same options as each other because they all start with £1m of assets.