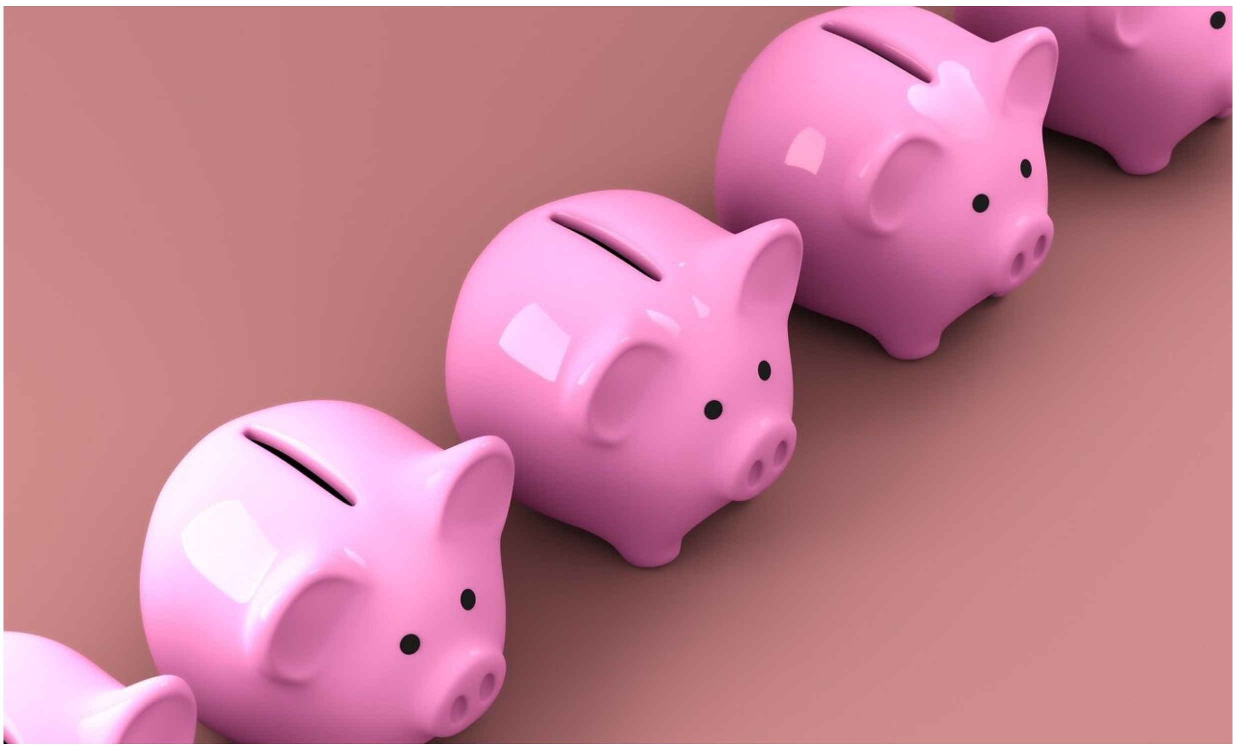
UK's top 1 percent received a sixth of the nation's income pre-crisis due to hidden rise of capital gains

May 21 2020, by Sheila Kiggins



Credit: CC0 Public Domain

The top 1 percent received a far greater, and faster growing, share of the nation's income pre-crisis than previously thought, if capital gains are included in official statistics, according to major new research published today (Thursday).

The research—a collaboration between the CAGE Research Centre at the University of Warwick, the Resolution Foundation and the LSE—uses confidential tax return data to build a fuller picture of incomes across the UK, specifically by including taxable capital gains.

The report Who gains? notes that taxable capital gains are a major source of income in the UK, but are excluded from official income statistics. In 2017-18, £55 billion of taxable capital gains were recorded—more than double the amount recorded just five years earlier (£24bn in 2012-13, in real terms).

The value of capital gains are not only large, but also concentrated among the very richest individuals. The majority of the UK's taxable capital gains (£34bn) in 2017-18 were received by just 9,000 individuals, who each made gains of £1 million or more.

The report notes that despite being ignored in official income measures, these gains are often related to people's work, and so have more in common with employment earnings than passive investment returns. They include the £24 billion of gains eligible for Entrepreneurs' Relief and £2 billion of 'carried interest' for fund managers.

Adding these taxable capital gains to official income statistics significantly changes the distribution of income across the country, says the report, and deepens our knowledge of how rich the 'super rich' really are.

It finds that the income share of the top 1 percent in 2017-18 was 16.8 percent once taxable capital gains are accounted for, rather than 13.8 percent as previously thought—meaning a sixth of all taxable income is received by just one percent of adults. The income share of the Top 0.1

percent is also revised, up by 44 percent to 8.1 percent, from 5.6 percent.

The inclusion of capital gains also changes the picture on how these income shares have changed over time, says the report. It finds that the income share of the top 1 percent has grown by 3.1 percentage points since comparable data began in 1996-97—twice as fast as previously thought.

The report notes however that just as the value of capital gains fell sharply during the last recession, it is likely to have fallen sharply during the current crisis.

The report authors say that getting a more complete picture of the scale and distribution of income across the UK is vital if policy makers are to make informed decisions about living standards and tax policy. Official income data should therefore start to include taxable capital gains, as well as other major missing sources of incomes, such as pension lump sums—which are also generally excluded but now total £25 billion a year.

And as the Government starts to think about Britain's post-pandemic future, the report raises questions about whether the lower tax rates for capital gains over other income—which overwhelmingly benefit super rich households—can continue to be justified in a country that will need to raise more revenue.

Dr. Arun Advani, Assistant Professor of Economics at the University of Warwick, said:

"Official statistics on the impact of austerity suggest that everyone was 'in the same boat." But our report reveals this is simply not the case. When you take into account income from capital gains—the profits received on the sale of assets, including business shares—the top one percent has in fact been doing rather well and inequality has been rising.

"While the share of all income going to the top 1 percent has remained around 13 percent since 1997, once gains are included it rises to 17 percent, with the largest growth towards the very top."

Adam Corlett, Senior Economist at the Resolution Foundation, said:

"Capital gains are now a major source of income in Britain, particularly for a small number of high-income individuals. But until now they have been excluded from official statistics, distorting our understanding of how income is distributed across society, and how this has changed.

"We now know that the top 1 percent are even richer than we previously thought—and account for £1 of every £6 of taxable income received, while the income share of the top 0.1 percent has actually grown almost 50 percent faster than we thought. That scale of inequality should be addressed in post-pandemic Britain."

Dr. Andy Summers, Assistant Professor at the LSE, said:

"Capital gains are taxed at much lower rates than regular income, but the legal line between these is very blurred. This means business managers have a big tax incentive to take their rewards as gains instead of salary or dividends. When we look at the types of gain going to people at the very top, that's exactly what we find. A lot of capital gains are, in fact, just repackaged income going to the already-rich."

Provided by University of Warwick

of capital gains (2020, May 21) retrieved 23 June 2024 from https://phys.org/news/2020-05-uk-percent-sixth-nation-income.html