



Building prosperity

Five recommendations for growth and investment in the UK

Foreword

Standing up for those who drive the UK's growth



Camilla Stowell, CEO Wealth, Rathbones Group

Earlier this year I joined Rathbones Group to oversee our wealth management and financial planning services serving clients across the UK.

We are one of the country's largest wealth management groups, with over £113bn in funds under management through offices in over 20 locations around the country. Clients trust us to advise, plan and invest their money well, so they can live well and realise their life ambitions.

We have deep and long-term relationships with our clients. They are, in many cases, the people who are now or have been at the heart of building and managing the real-world activity we call the economy. This, across the private sector around the country, is responsible for generating the revenues and taxation which fund public investment in schools, hospitals and national infrastructure.

The government's focus on growth is welcome, as we sorely need this as a nation to catch up to our peers and have a sustainable future. Our role is to support those whose effort and hard work delivers that growth. In a real sense, if our clients, and millions of other people like them, aspire and succeed in their professional lives, businesses and personal decisions, the whole country stands to gain.

However, instead of energy and aspiration, many of our clients tell us they feel anxious and frustrated in the run-up to the coming Budget. We believe this reflects a risk not only to their prosperity and the wider success this generates, but also the government's ambition of accelerating and sustaining UK growth and investment.

We have an experienced team of financial planners and investment managers around the country who speak to people daily. They tell us their clients' worries - about having enough money to live well in retirement, support their children and wider families, grow their businesses or support charitable causes close to their hearts.

Professionals also tell us about putting off promotions, selling property and assets, or exploring plans to leave the country, as they strive to build their lives personally and professionally amid rising uncertainty.

It is not our role to resolve the economic challenges facing the UK and government but, as one of the leading UK providers of wealth management services, we can and should stand up for our clients, having heard what they want and need to strive and build wealth which has a wider positive effect to the UK.

This assessment, from our own economists and research analysts, applies the lens, of people building and driving growth across the private sector, to economic data to analyse and consider key policy options available to the Chancellor.

The many people we professionally look after up and down the country are often simply referred to as "those with the broadest shoulders". In giving them voice, grounded in evidence, we hope to inform the wider national discussion about growth and investment - and highlight the real-world costs and consequences of government policies which, far from building prosperity, may undermine it.

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Executive summary

- Persistently low economic growth has impacted tax receipts, creating enormous pressure on the government's fiscal rules. Investment-led growth is key to minimising the need for tax rises or spending cuts, breaking what could become a vicious cycle.
- In (or for) corporate investment as a share of GDP, we've been ranked among the bottom fifth of OECD countries every year since 2005. If the government wants to make the UK "the best place in the world to invest", this needs to change.
- Reform is needed to encourage aspiration by supporting those who build and own businesses. Extending capital allowances on all business investment could help boost entrepreneurship and growth, potentially adding up to £60bn-plus to UK GDP in today's terms.
- The Chancellor should ignore the siren song of a seemingly simple, but ultimately counterproductive, form of 'wealth tax' on the highest earners and business owners. We estimate that at least £100bn of wealth could leave the UK or move into less productive assets if a wealth tax in some form is imposed.
- The government's approach to pensions is inconsistent; seeking to boost investment through pension funds while disincentivising pension saving at the last budget and reportedly mulling cuts to pension tax relief this time. We estimate that reducing higher and additional rate relief could lower contributions by £50bn over the next five years, risking growth and hurting the retirement outcomes of millions.
- Higher rates of stamp duty are choking the housing market, with increasing evidence it is a disincentive for downsizing, inhibiting mobility and investment at an individual level. Household mobility could rise by over a quarter were stamp duty to be abolished, equivalent to an additional 300,000 home transactions a year.¹

Turning ambition into action

The government says it wants to make the UK "the best place in the world to invest" and "the best place to start and grow a business". To achieve this, it needs to go much further. Based on what we see and hear from businesses, professionals and individuals up and down the country, and own economic analysis, our principal recommendations are as follows:

1. Pensions

Boost investment in productive assets through the pension system

2. Business taxation

Reform to encourage entrepreneurship and investment

3. Public investment

Support public investment in the regions and sectors where it is needed most

4. Wealth

Resist counterproductive calls for wealth taxes

5. Property

Reinvigorate the housing market through reformed transaction taxes

- Regional growth is held back by the planning system and underinvestment in infrastructure and public services, while UK companies face energy costs twice as high as their EU counterparts, undermining profitability and deterring investment, especially in energy-intensive sectors like data centres that support AI and the digital economy.

Sources and further reading

¹ Hilber, C A L. and Lyytikäinen, T. "Stamp duty, mobility and the UK housing crisis" (2017).

Overview

Laying the foundations for sustainable growth



Oliver Jones, Head of Asset Allocation

To break out of the vicious cycle of tax increases and weak economic growth it is vital that the government prioritises investment in the UK at the Autumn Budget. – in the Chancellor’s own words, it is “the lifeblood of growth” and delivering economic growth is central to maintaining the sustainability of the public finances. Indeed, there is a strong consensus among economists that low investment has been the main reason the UK economy has grown so slowly in recent years. A larger economy means higher tax receipts, all else equal, so less of a need to hike tax rates or cut spending.

It is not our place to set out a comprehensive policy platform. There are certain political trade-offs that only a democratically elected government can navigate. However, we can offer a view on what the government should do to improve the outlook for economic growth, while remaining cognisant of the spending pressures it faces. The Chancellor will need to make some tough choices. Taxes are likely to rise and spending is likely to fall. Yet the UK is one of the only indebted countries whose government is even trying to shrink the fiscal deficit and we do not advocate that the government gives up that position. On net, and if implemented sensibly, we think our recommendations improve the outlook for both the public finances and living standards.

We’ve grouped our recommendations under five key principles, which we see as critical to the success of the economy. We argue the Chancellor must:

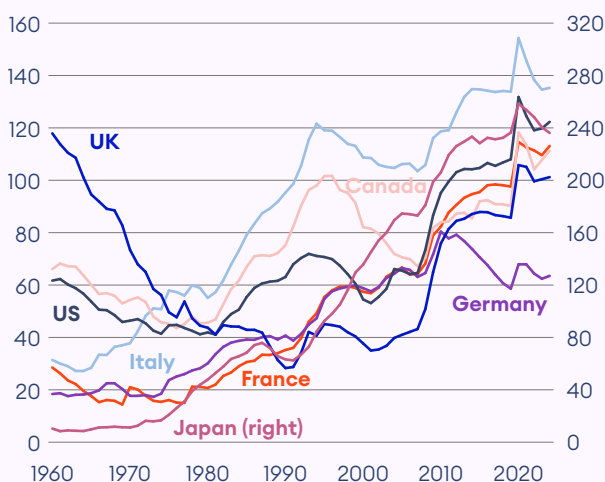
1. Boost investment in productive assets through the pension system.
2. Reform business taxation to encourage entrepreneurship and investment.
3. Invest alongside businesses in the regions and sectors where it is needed most.
4. Resist counterproductive calls for wealth taxes.
5. Reinvigorate the housing market through reformed transaction taxes.

Investment-led growth is the only solution to the UK’s fiscal puzzle

The Chancellor is in an unenviable position ahead of the 26 November Budget. Like most of her counterparts across the world’s largest advanced economies, she inherited high government debt, relative to the size of the economy (figure 1), and significant structural spending pressures.

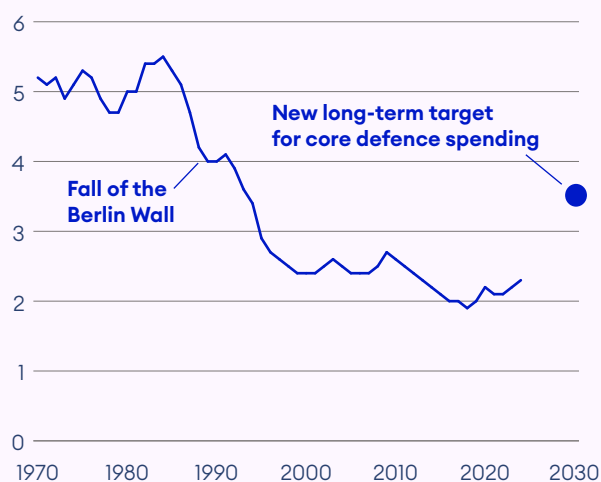
Government debt is already high, yet it faces pressure to increase spending on areas like defence

Figure 1: G7 general government gross debt (% of GDP)



Sources: IMF, LSEG, Rathbones

Figure 2: UK defence spending (% of GDP)



An aging population means more spending on health and retirement benefits is needed to maintain the standards of care and living in old age that voters expect. An increasingly fractured geopolitical backdrop, including Russia's renewed aggression, means defence spending must rise from the lows reached after the Cold War (figure 2 on page 4). And the cost of borrowing has risen, with the end of the period of the ultra-low interest rates of the 2010s and early 2020s.

The UK's persistently lacklustre economic growth makes managing these pressures harder. This has led to slower growth in tax *revenues*, creating pressure to increase tax *rates* to ensure compliance with the government's fiscal rules. There's a risk that this dynamic becomes a vicious cycle. Higher tax rates could lead to weaker economic growth, which would slow growth in tax revenue, prompting even higher tax rates, and so on.

Investment-led economic growth is the key to breaking this cycle. Economists agree that the most significant reason the UK economy has grown so slowly in recent years is low investment. This has hampered growth in labour productivity, the amount of output produced per worker.² In the long run, productivity growth is the only way to raise an economy's living standards.

The investment figures are stark. Looking at corporate investment as a share of GDP, the UK has ranked among the bottom fifth of OECD countries every year since 2005. And while the UK has risen in the rankings for government investment lately, that's from a position of weakness. It is still below the median OECD country and has been in the bottom third every year bar 2022 since at least the mid-1990s (figures 3 and 4). It comes as little surprise, then, that in a recent survey of 26 academic experts on productivity, the top factors

blamed for low UK productivity growth over the past couple of decades were the lack of private and public investment and the quality of infrastructure.³

The Chancellor took positive steps on public investment in her 2024 Budget, revamping the fiscal rules to treat investment spending more favourably, allowing more leeway to borrow to invest. That was sensible, given the evidence of the long-term damage caused by cutting public investment during the austerity of the 2010s.⁴ Before those changes, public investment had been set to fall relative to the size of the economy.

But when it comes to private investment, the government's record is mixed. The last Budget included small wins, such as establishing long overdue certainty about the headline rate of corporate tax. However, announcements of higher rates of capital gains tax (CGT) and cuts to CGT reliefs were disappointing. And the hike in employer national insurance contributions and changes to employment law, which reduced labour market flexibility, clearly hit business confidence. Meanwhile, far more could be done to ensure that public investment goes where it is needed, without unnecessary delays or costs.

Sources and further reading

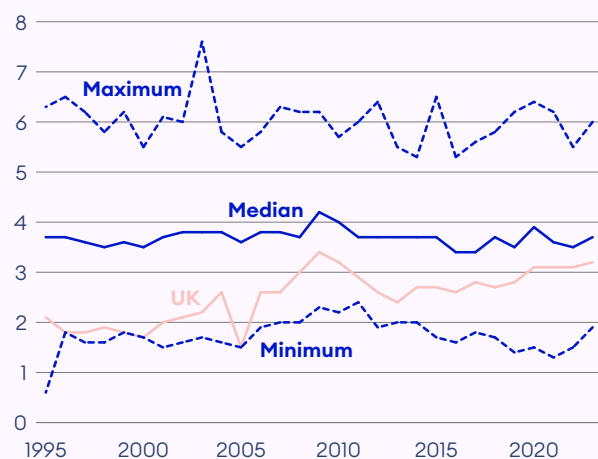
² Coyle, D. et al "The Productivity Agenda: a blueprint for how the public and private sector can be better equipped to translate productivity gains into improved living standards" (2023); Brandily, P. "Beyond boosterism: realigning the policy ecosystem to unleash private investment for sustainable growth" (2023).

³ Glass, A J. et al "The UK productivity puzzle: a survey of the literature and expert views" (2024).

⁴ Carbo, P. et al., "Public investment and supply in the United Kingdom", (2025).

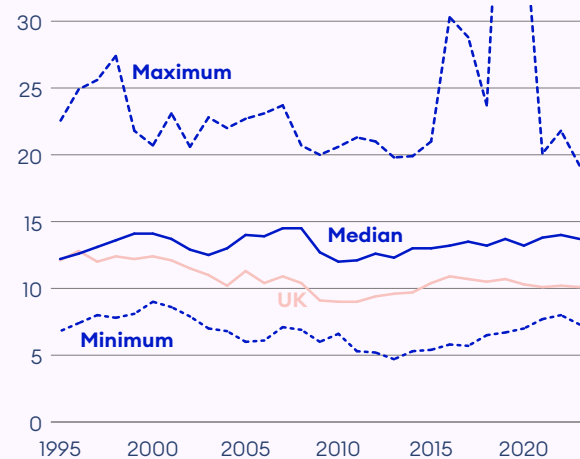
Both government investment and corporate investment in the UK have consistently been below the advanced-economy average

Figure 3: Government investment in UK and rest of OECD (% of GDP)



Sources: OECD, Rathbones

Figure 4: Corporate investment in UK and rest of OECD (% of GDP)



Building prosperity

Five recommendations to support growth and investment in the UK

The government says it wants to make the UK “the best place in the world to invest” and “the best place to start and grow a business.” To achieve this, it needs to go much further. Based on what we see and hear from businesses, professionals and individuals up and down the country, and own economic analysis, our principal recommendations are as follows:



1. Pensions

Boost investment in productive assets through the pension system

There is a logical inconsistency in the government's approach towards pensions and investment. On the one hand, the broadly sensible reforms in the government's Pension Schemes Bill are (rightly) premised on the idea that the pension system has a vital role in supporting productive investment. On the other hand, the Chancellor has already made one tax change that *disincentivises* saving into pensions – and is reportedly considering more in this Budget.

A lack of access to external financing, of the kind which the pension system is well-equipped to provide, is a key reason smaller UK firms have not invested enough. More than half of smaller businesses that say they haven't invested enough in the past three years cite a reason related to a lack of external financing. They are either unable to self-fund investment with their cash reserves or to access debt/outside equity investment on reasonable terms.⁵

£50bn

We conservatively estimate a £50bn reduction to pension contributions over the next 5 years if higher and additional rate tax reliefs are cut to 25%.

This is particularly important for economic growth because the fastest-growing firms typically use, and need, external financing the most.⁶ Financing of smaller businesses suffers from deep regional inequalities, too. Fast-growing firms outside London are particularly under-served. Yorkshire & Humber, the Midlands, Wales and Northern Ireland suffer from the largest 'equity gaps': unmet demand for equity finance, relative to actual flows (figure 5).^{7,8}

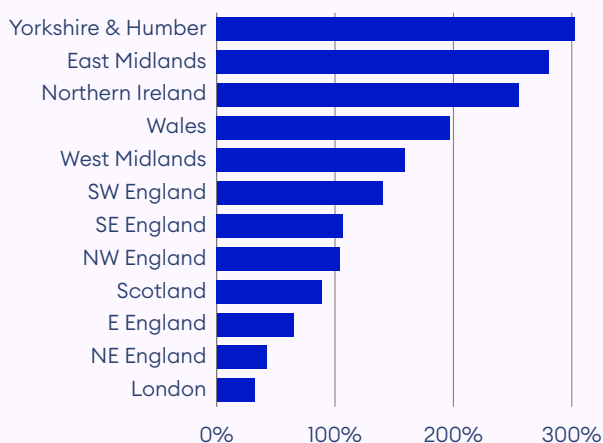
There is also plenty of evidence that the pension system has a special role to play here. The government argues that pension funds' long time horizons make them particularly well-suited to invest in assets that require patience, like private equity and credit, that can help meet funding gaps for smaller businesses.⁹ In the words of Pensions Minister Torsten Bell, "we need bigger and better pension funds, as part of a pensions landscape that drives ... higher investment for Britain".¹⁰

With this in mind, the government's Pension Schemes Bill aims to get pension funds to increase the proportion of their funds invested in productive assets in the UK – assets that contribute to economic growth. The bill would drive consolidation across the pensions sector, giving funds the scale needed to invest in private assets. And it would provide a legal enforcement mechanism for the pension industry's voluntary commitment to invest more in domestic productive assets. The government calculates that its proposals could prompt more than £50bn of investment into productive assets in the UK by 2030.

In this context, the government's approach to taxing pensions is incongruous. It announced in the 2024 Autumn Budget that pensions would no longer be exempt from inheritance tax from 2027. Across the country, our firm has seen a rise in queries from individuals deeply concerned about this, because of its impact on their retirement and succession planning.

Firms outside London struggle for the equity finance they need

Figure 5: Estimated 'equity gaps' by country/region (% of actual equity finance, 2021/22)



Sources: Kacer, M. and Wilson, N. "Supporting innovative start-up and growing business: equity finance provision through the pandemic: interim report" (2023), Rathbones

Furthermore, the Chancellor is reportedly mulling several further changes that would make the treatment of pensions less favourable. Ideas said to be under consideration, or previously favoured by the Chancellor or Pensions Minister, include removing higher-rate tax relief on contributions, changing the rules on salary sacrifice and re-introducing the lifetime allowance.

This matters because people adjust how much they put into their pensions when the generosity of tax treatment changes.¹¹ For example, the UK's fiscal watchdog, the Office for Budget Responsibility (OBR), judges that the decision to make pension funds subject to inheritance tax will encourage people saving for retirement to shift into non-pension assets. The OBR thinks it will also encourage people who are retired to spend down their pensions faster. It factors in "attrition" from these factors (a reduction in the value of taxable pension funds in estates) of 20% by the end of its forecast period, 2029-30.¹²

What about other changes to pension taxation which the Treasury may be considering ahead of the Budget? The proposal that might generate the biggest short-term saving is to scrap higher and additional-rate relief on pensions contributions, in favour of a single 25% relief. But that could significantly reduce the amount flowing into pension funds as people decide to contribute less overall.

The most reliable studies on the impact of tax changes on pension contributions are from Denmark, which releases exceptionally detailed data on its full register of taxpayers. When tax reliefs on contributions to a key type of pension account became less generous, individual contributions into those accounts by people affected fell sharply. Some of that was switched into another type of retirement account, but not all, so pension contributions fell.¹³

Even if conservatively assuming a much smaller impact in the UK, the cumulative impact on flows into pensions could be large.¹⁴ We calculate that any further reduction in tax reliefs on pension contributions could plausibly reduce the amount paid into pensions by higher and additional rate taxpayers over the next five years by over £50bn.

A further reason not to toughen the tax treatment of pensions is the crisis in pensions adequacy. According to the government's own statistics, 45% of working-age adults currently save nothing into a pension, and retired people in 2050 are on track to have 8% less private pension income than retired people today.¹⁵ A further reduction in the tax incentives to save into pensions would be a strange choice in this context because it would reduce pensions saving even more.

Scrapping higher-rate relief would not just affect the wealthy. It could have a significant negative impact on the retirement income of millions as frozen tax thresholds have pulled more and more people into the higher and additional-rate bands. There are now over eight million in these bands – more than 21% of the total number of people who pay income tax, including, by way of example, experienced nurses and teachers. This is up from 14% five years ago and as little as 8% in 1995. This proportion will rise even further since thresholds are frozen until at least 2028.

Sources and further reading

⁵ Bora, N. et al "Identifying barriers to productive investment and external finance: a survey of UK SMEs" (2024).

⁶ OECD "Understanding firm growth: helping SMEs scale up" (2021); Bank of England.

⁷ British Business Bank "Nation and regions tracker 2024" (2024).

⁸ Kacer, M. and Wilson, N. "Supporting innovative start-up and growing business: equity finance provision through the pandemic: interim report" (2023).

⁹ Department for Work and Pensions.

¹⁰ HM Treasury, Department of Work & Pensions and Ministry of Housing, Communities & Local Government.

¹¹ OECD "Financial Incentives and Retirement Savings" (2018).

¹² OBR "Costing of applying inheritance tax to pension wealth" (2025).

¹³ Chetty et al., "Active vs passive decisions and crowd out in retirement savings accounts: evidence from Denmark" (2014). The paper shows that people affected by the tax relief change reduced individual contributions into the pension accounts subject to the change by 48%. It also shows that these people reallocated only 57% of that reduction into other types of pension account, so overall individual pension contributions fell significantly. From the data in the paper, we infer an overall reduction of about 16% from those affected by the tax change. Using this as a benchmark, we conservatively assume a reduction of just 10% in the UK context – so an effect over one-third smaller. Our assumption for the UK is deliberately cautious, to account for the different context.

¹⁴ In the change studied, Denmark reduced the relief on contributions by 14c per krone for people in its top income tax bracket, a very similarly sized change to the reduction from 40p higher rate relief to a 25p flat rate proposed in the UK.

¹⁵ Department for Work and Pensions and HM Treasury.

2. Business taxation

Reform to encourage entrepreneurship and investment

If Rachel Reeves wants to make good on her pledge to make the UK “the best place in the world to start and grow a business”, she should consider reforming business rates and extending capital allowances. Changes to both could improve the incentives for firms to invest and grow.

Business rates, which tax the rental value of commercial property, can inhibit growth by penalising upgrades to premises: improvements increase values, so they mean more tax. Labour committed to replacing the current system in its manifesto and a progress report in September said the Chancellor would update us in this Budget.¹⁶

£15bn to £60bn

The possible long-term boost to UK GDP from extending 100% capital allowances to all business investment is 0.6% to 2%+ of GDP, or £15bn to £60bn-plus in today’s money.

The UK’s capital allowances for investment in buildings and intangibles are not generous by international standards

Figure 6: Average capital allowance for investment in buildings*

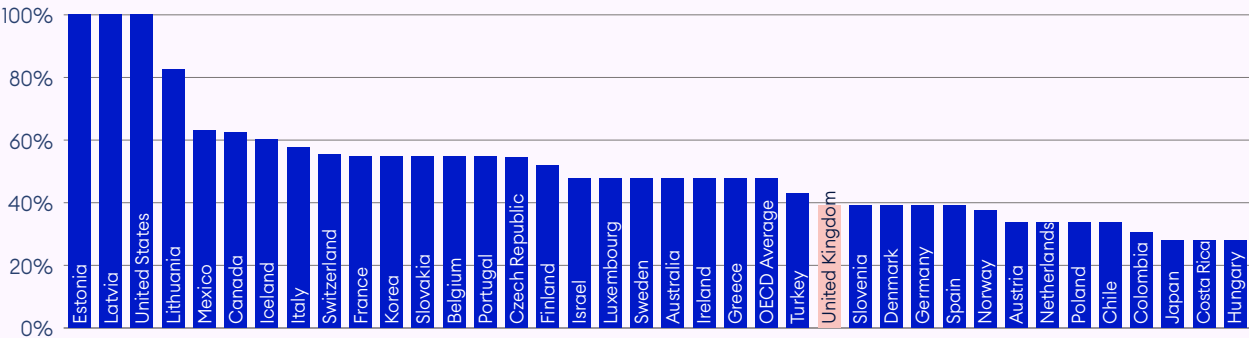
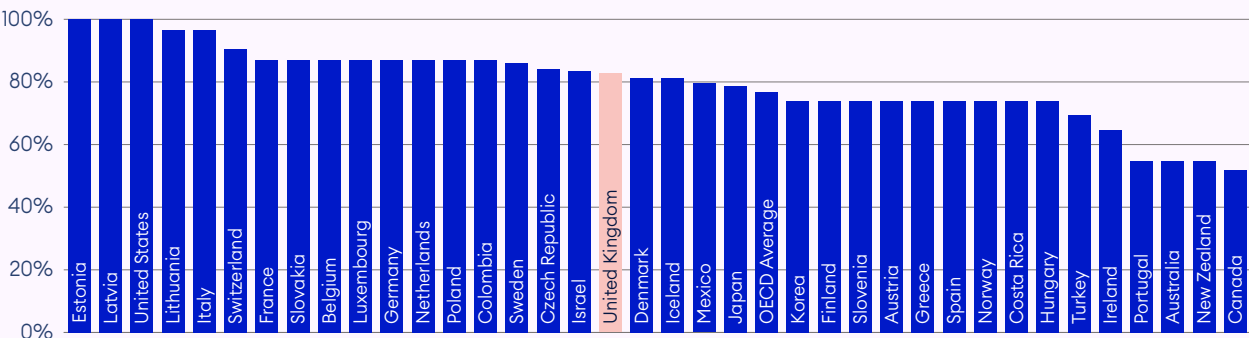


Figure 7: Average capital allowance for investment in intangibles*



Sources: Tax Foundation, Rathbones *2024 data, plus US changes passed in 2025.

The government appears to be considering moving to a marginal rate system and making ‘improvement relief’ (introduced in 2024 to reduce the disincentive to invest) more generous. Those would both be sensible changes that should prompt some businesses to invest more in their premises.

We believe a bolder approach could make an even bigger difference. Moving towards a system where only the value of commercial land is taxed, not the value of the buildings atop it, would remove the tax penalty for upgrading premises entirely.¹⁷

Capital allowances is another area where the Chancellor could do more, building on the commitment in the Autumn 2024 Budget to maintain existing reliefs for at least the duration of this parliament.¹⁸

Capital allowances let businesses deduct investments from profits before paying tax. The UK has previously had a particularly *ungenerous* system for this: in 2019, it ranked 33rd out of 36 OECD countries for the overall generosity of its capital allowances, according to the Tax Foundation. Since then, it has moved up to 15th, helped by the 2023 decision to make full expensing for certain plant and machinery investments permanent.¹⁹ But that still only puts the UK in the middle of the pack. Lower capital allowances for buildings and intangible investments are dragging the country down in the rankings (figures 6 and 7).

Making incentives for *all* business investment, such as buildings, software, and research and development more generous, would push firms to invest. And it would make the UK more competitive relative to the US, where comparable changes were made earlier this year.

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Admittedly, this would reduce tax revenue in the near term, which would not help Reeves meet her fiscal rules. But it should improve the UK’s long-term growth prospects, ultimately making the fiscal position *more* sustainable. We calculate that the OBR could raise its long-run GDP forecast by around 0.6% in response to such a change – twice as large as the OBR’s upgrade earlier this year because of planning reforms. And the OBR’s methodology is cautious, compared with other estimates. The Resolution Foundation and the Tax Foundation calculate that the impact could be above 2%, giving the policy a reasonable chance of eventually paying for itself.²⁰

From an economic perspective it would be preferable to extend full expensing to all businesses and avoid giving preferential treatment to specific sectors. The government has identified eight high-growth sectors in its industrial strategy,²¹ but they are very broad and require substantial private sector investment from myriad businesses across the supply chain. A general principle of good tax design is that the system should try to avoid distorting people’s behaviour as much as possible as that can lead to inefficiencies in how resources are allocated. That is unlikely to be helpful for growth in the long run.

Sources and further reading

¹⁶ HM Treasury.

¹⁷ Adam, S. “Submission to Treasury Committee inquiry: the impact of business rates on business” (2019).

¹⁸ HM Treasury “Corporate Tax Roadmap” (2024).

¹⁹ Enache, C. “Capital cost recovery across the OECD, 2025 update” (2025).

²⁰ Brandily, P. “Beyond boosterism: realigning the policy ecosystem to unleash private investment for sustainable growth” (2023); Tax Foundation “Temporary Full Expensing Arrives in the UK” (2023).

²¹ Advanced manufacturing, clean energy industries, creative industries, defence, digital and technologies, financial services, life sciences, and professional and business services.

3. Public investment

Invest alongside businesses in the regions and sectors where it is needed most

The Chancellor's commitment to public investment is welcome, but she could do more to ensure that money is spent where it is needed most and without undue delay or waste.

There are several glaring weaknesses in the UK's public infrastructure today. One is regional inequality. The UK has, on several counts, the most geographically unequal economy in the developed world.²² One reason for this is the gulf in public transport provision between London and the rest of the country.

50%

At 26p per kWh the cost of industrial electricity in the UK in 2023 is almost 50% higher than the median among developed economies.

London receives the lion's share of public transport spending; UK industrial electricity prices are very high by international standards

Figure 8: Annual spending per head on local roads, buses and rail (£)

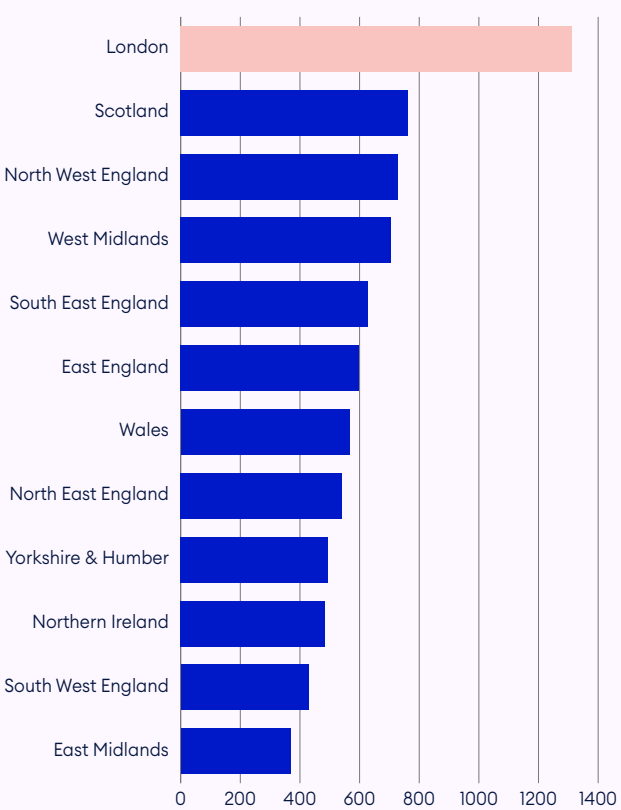
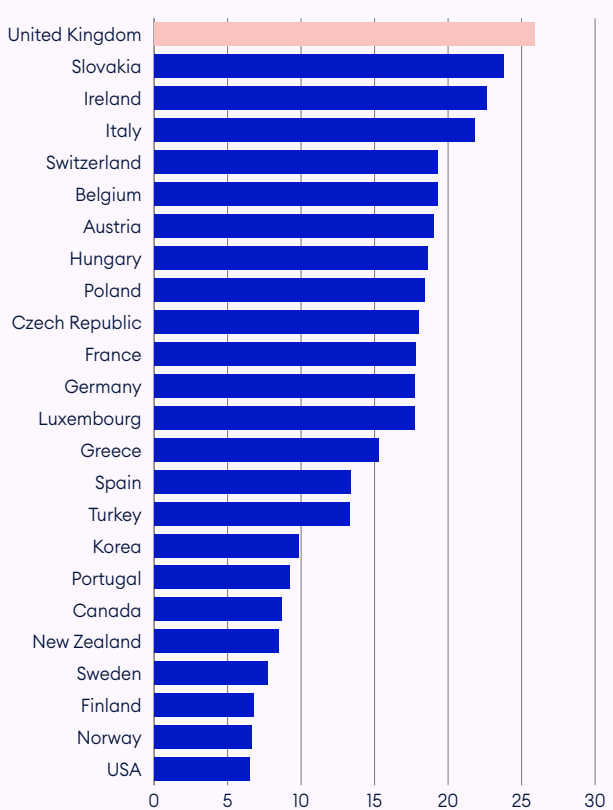


Figure 9: Industrial electricity prices (pence per kWh, 2023)



Sources: House of Commons Library, ONS, Rathbones

Spending per person on transport is a remarkable 80% higher in London than in the next highest part of the UK, Scotland (figure 8).²³ In the nine largest cities outside London, only 40% of people can reach the city centre in 30 minutes by public transport, compared with 67% in comparable European cities.²⁴ This situation is set to persist after recent decisions to cancel the northern leg of HS2 and delays to Northern Powerhouse Rail.

The government should prioritise transport spending outside London and the surrounding area, such as on the Northern Powerhouse Rail scheme. It should also further devolve decision-making, away from Whitehall to cities and regions.

The government has given the go-ahead to two major transport projects in the South East: the Lower Thames Crossing and the Gatwick Airport expansion. But it has delayed plans for Northern Powerhouse Rail, which would slash travel times between Liverpool, Manchester, Sheffield, Leeds, Hull and Newcastle. We believe, and hear from our clients across these Northern cities, that this decision could significantly hamper the prospect of a growth revival in the North.

Energy infrastructure is another weakness. The UK has the highest industrial electricity prices of the 24 countries in the International Energy Agency (figure 9).²⁵ Prices are four times higher than in the US, and one-and-a-half times the European average.

A major reason is that domestic production of natural gas has slumped since the 2000s, but not enough has been invested in other forms of energy production to fill the gap. The planning system is at least partly to blame. That has left the country much more dependent on imported gas. With gas storage capacity also very limited, the UK is particularly vulnerable to higher global gas prices following Russia's full-scale invasion of Ukraine in 2022. Reduced reliance on imported energy and lower costs for firms would boost economic output, particularly for energy-intensive sectors such as manufacturing and data centres.

Issues stemming from the UK's planning system extend far beyond energy infrastructure. London's Elizabeth Line, for example, cost ten times as much per mile to build as Madrid's metro system. The spiralling costs and delays of HS2 are notorious, with the project subject to 45 separate legal cases since 2018. The planning system is also a reason why no reservoirs have been built in the UK since the early 1990s. That creates one barrier to building new homes.

Accordingly, along with maintaining its commitment to public infrastructure spending, the government should pass the Planning and Infrastructure Bill soon and resist attempts to dilute it.

The bill contains a host of sensible measures to speed up the approval and delivery of major infrastructure projects, including both transport and energy. It would reduce the number of times such projects can be challenged in court and the length of statutory pre-consultation periods, while reforming how projects mitigate environmental impacts to avoid situations like HS2's infamous £100mn 'bat tunnel'. But the bill still has not passed, and amendments proposed in the House of Lords would water it down. Assuming the bill does pass, it is vital to ensure enough funding for the planning system.

A lack of funds creates bottlenecks. That is one reason why less than a quarter of major planning decisions are decided within the statutory 13-week timeline.²⁶

Sources and further reading

²² Davenport, A. and Zaranko, B. "Levelling up: where and how?" (2020).

²³ Overton, J. et al "Regional transport inequality" (2025).

²⁴ Rodrigues, G. and Breach, A. "Measuring up: comparing public transport in the UK and Europe's biggest cities" (2021).

²⁵ ONS.

²⁶ Ministry of Housing, Communities & Local Government.

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4. Wealth

Resist counterproductive calls for wealth taxes

In the scramble to find revenue raisers that avoid tax increases on “working people”, some suggestions could do more harm than good. Chief among these is the plan, which has been backed by 42 MPs, for an annual wealth tax on net assets above £10mn. The Chancellor should ignore the siren song of this seemingly simple, but ultimately counterproductive, proposal.

First, wealth taxes are expensive to administer. They require the regular valuation of all kinds of assets, including things like private companies and intellectual property that may have no market price. Many people who do not pay the tax would still need to make regular valuations to determine their (non-)eligibility. These costs are a key reason the Labour government of the 1970s never delivered the wealth tax it said it would.

Such costs also help to explain why the number of rich countries levying such a tax has dropped from 12 in the early 1990s to just three today (figure 10). Economists and tax experts have estimated the initial set-up cost to the government at nearly £600mn, with compliance and administrative costs to taxpayers of £700mn a year.

£100bn

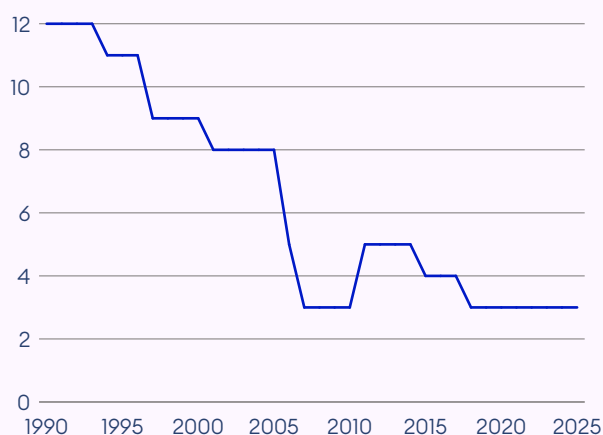
Our lower estimate of how much wealth could leave the UK or move into less productive assets if a wealth tax was imposed is £100bn.

Second, wealth taxes can have unintended consequences for holders of illiquid assets. People with wealth tied up in things such as private businesses could find it hard to pay in any given year. Two studies from Norway and one from a wider set of countries show that private firms whose owners are subject to wealth taxes pay their owners much higher dividends, to help them meet tax liabilities. Because of this, those firms invest less and therefore grow less.²⁷

Finally, and most importantly, wealth taxes can create substantial distortions, encouraging people to shift into less productive assets, to relocate, or to invest abroad.

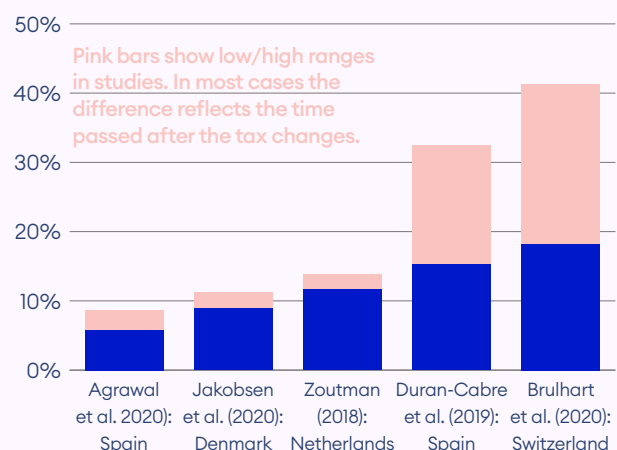
The number of rich countries levying wealth taxes is in long-term decline; some studies find that wealth taxes cause large falls in the tax base

Figure 10: Number of OECD countries levying a wealth tax



Sources: OECD, Advani, A. and Tarrant, H. “Behavioural responses to a wealth tax” (2020), Rathbones

Figure 11: Estimated fall in wealth tax base for 1pp rise in wealth tax rate



In other words, they can reduce the size of the taxable base of assets. That would run counter to the broader goal of increasing investment.

The scale of these distorting behaviours is extremely hard to predict since there are few recent precedents for a wealth tax like the one proposed in the UK. That alone is reason for caution – a wealth tax would be a leap into the unknown. The range of estimates for how much a wealth tax might change the taxable base is huge, including some very large effects (figure 11).²⁸

In the most detailed study of a potential wealth tax in the UK, the authors argued that a wealth tax of 1% would shrink the taxable base of assets by between 7% and 17%.²⁹ That's a very large distortion – equivalent to at least £100bn shifting outside the UK or into less productive assets. And the effect could be much larger; the leading UK proposal calls for a higher rate of 2%.

There are also good reasons to think that in the UK, the change in behaviour in response to a wealth tax could be particularly large. The country is a popular destination for wealthy people from overseas. That makes wealth in this country quite mobile. More than a quarter of the UK's billionaires, and an even higher proportion of the very richest of them, are foreign nationals.³⁰ (Which, relatedly, is a good reason why the government should quell speculation surrounding an 'exit tax'.) Taking this all into account, we regard our £100bn figure as conservative.

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Find out more

A new wealth tax would be complex, costly and counterproductive. Our analysis shows it could raise little revenue while discouraging investment and driving wealth overseas. Read more in [Counting the cost: why a wealth tax looks unlikely and what might happen instead](#).

Sources and further reading

²⁷ Berzins, J. “Shareholder illiquidity and firm behaviour: financial and real effects of the personal wealth tax in private firms” (2022); Ebeltoft, J. and Johnsen, N. “Liquidity effects of the Norwegian wealth tax” (2022); Barroso, R. et al. “Individual wealth taxes and corporate payouts” (2023).

²⁸ Admittedly, a handful of studies based on comparing people with wealth just above and just below tax thresholds find smaller effects than those shown in the chart. But these studies are a poor guide to the *overall* effect of a wealth tax, which mostly depends on the behaviour of people with wealth far above the threshold who stand to lose much more than those only marginally above it. We have therefore not included these studies in our analysis.

²⁹ Advani, A. and Tarrant, H. “Behavioural responses to a wealth tax” (2020).

³⁰ Advani, A. et al. “Who are the super rich? The wealth and connections of the Sunday Times Rich List” (2022).

5. Property

Reinvigorate the housing market through reformed transaction taxes

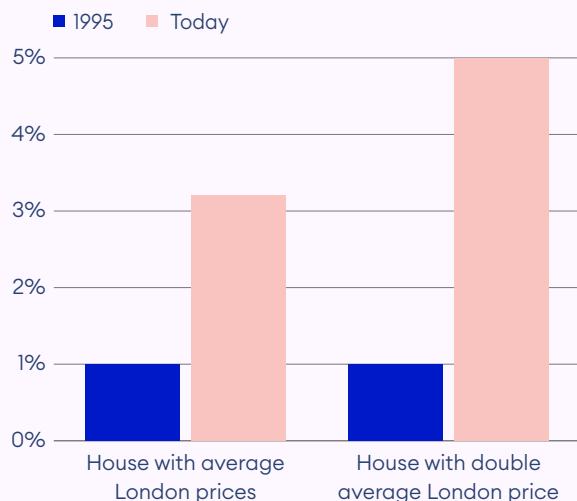
Housing is the least mobile form of wealth, so property taxes are hard for taxpayers to avoid. That makes them appealing for policymakers trying to raise revenue. However, not all taxes on property are equal. Those that make it much more expensive for people to move house, such as stamp duty land tax (SDLT), are the most economically damaging.

The Chancellor should avoid compounding this problem, resisting the rumoured plan to charge CGT on sales of more expensive homes. And in the longer term, she should consider the best ways to replace SDLT entirely. SDLT disincentivises people from moving around the country for employment – and CGT would make this worse.

Some simple statistics illustrate how taxing transactions gums up the UK's property market. 72% of households in the UK have two or more spare bedrooms, compared to just 39% in the mid-1990s. The proportion is highest of all for people aged over 65, at 85%.³¹ This suggests that downsizing has become much less appealing.

Stamp duty land tax costs have increased significantly since the 1990s

Figure 12: Stamp duty land tax cost as a % of property price



Sources: stampdutyrates.co.uk, gov.uk, Rathbones

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The stamp duty bill for the average London home is 11 times higher than in 1995, after adjusting for inflation. We believe reform would increase activity in the housing market by 25%, equivalent to more than 300,000 extra transactions per year.

Indeed, 30% of pensioners cite SDLT costs as the biggest barrier to downsizing. That is not surprising given how much SDLT costs have increased, especially for more expensive homes. We calculate that the buyer of the average London home in 1995 would have paid just 1% of its value in SDLT, or £800. Today, someone buying the average London home would expect to pay SDLT of 3.2% of its value, or about £18,000 – an 11x increase, when adjusted for inflation. For someone buying a more expensive house – let's say double the average London price, or £1.1m today – the figure rises from 1% thirty years ago to 5% now, or more than £55,000 (figure 12).

The Chancellor is reportedly considering levying CGT on primary residences worth over £1.5mn. That would reduce the incentive to downsize even further. Someone fortunate enough to own a house worth more than £1.5mn, sitting on a large capital gain, and wanting to downsize to a property worth £1.1mn, could plausibly face a combined tax bill above £100k to do so. Many are likely to conclude that it's not worth the cost and stay put.

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When Australia scrapped stamp duty, first-time buyers rose by more than 5% and household mobility by 27%
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What do well-off downsizers have to do with investment and growth in the economy more generally? The other side of every downsizing sale is a purchase – often a family able to move to a more suitable home. That purchase may itself be part of a longer chain of people moving house. One study shows that after the Australian Capital Territory abolished its stamp duty in 2012, house purchases by first-time buyers rose by more than 5%.³²

Another study, this time from the UK, suggests that overall household mobility would be 27% higher in the absence of SDLT. That could amount to over 300,000 additional home transactions a year.³³

These broader trends in mobility ultimately affect businesses' ability to grow and invest. The harder it is for people to move to suitable, affordable housing, the harder it is for firms to find the workers they need to expand. Growth in centres of innovation like Cambridge has clearly been limited by restricted housing supply.³⁴ Policymakers should therefore look for ways to remove and replace, not increase, taxes on property transactions.

Sources and further reading

³¹ Scanlon, K. et al "Is Stamp Duty Land Tax suffocating the English housing market?" (2017); Ministry of Housing Communities and Local Government.

³² Vidyattama, Y. et al "Changing housing taxation composition: a review of policy in the Australian Capital Territory" (2023).

³³ Hilber, C A L. and Lyytikäinen, T. "Stamp duty, mobility and the UK housing crisis" (2017).

³⁴ Ministry of Housing, Communities & Local Government and Department for Levelling Up, Housing & Communities.



Find out more

Our research shows that house prices have barely kept pace with inflation since 2016, while higher interest rates, tougher regulation and slowing demand have squeezed buy-to-let returns. Read more in [*Don't bet the house: why the golden age of property is over.*](#)

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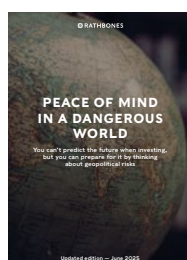
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