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Braver politicians needed

Irrespective of one's views on the merits of mansion taxes or restricting pension tax breaks, one thing has become very clear in the farcical open-house debate which led up to last week's Budget: the green eyed monster is alive and well in the United Kingdom. Not for nothing is envy one of the seven deadly sins, and it is an unflattering characteristic at a personal level, let alone a national one.

The fact is that everyone, the well off and the not so well off, will have to breathe in significantly, and for a long time, before the overspending and subsequent indebtedness of a decade or more is unwound. We all know that making the rich pay more tax is popular, because the rich are always people with more money than us. However, it is a pity that our politicians are not brave enough to deliver the real message, which is to a much broader audience.

The simple truth is that increasing tax on the rich until 'the pips squeak' will come nowhere near to raising the amounts that are needed. This will only come from the much broader middle classes, and probably, ironically, from a much simpler, rather than more complicated, tax system. Governments also need to recognise the 'tipping point' of both income and capital taxes, beyond which people not only lose the will to earn or create more, but also become more inclined to seek ways to avoid tax in the first place. Capital gains tax is a case in point: low rates encourage entrepreneurs to risk everything and forsake the relative security of a steady income. They won't do this if capital taxes are too high, and as a result, higher rates of capital gains tax tend to raise less money than lower rates. It is interesting that many believe that the cuts in California's capital gains tax rates in 1978 helped to make Silicon Valley the centre of global technological development. The 2003 cuts to US capital gains tax rates are also acknowledged to have been a significant boost to the US economy as a whole.

The implications of the general mood swing in the UK for clients of wealth management firms are likely to be wide-reaching: we can expect to continue to see tax breaks and allowances being squeezed (the CGT and IHT allowances are both unchanged for next year, which effectively means an increase). This means that we as professional investment managers need to stay nimble on our feet to ensure that we maximise returns in what is already a challenging fiscal environment for investors.

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