Appendix

The analysis above is simplified because the subject of taxation is extremely complex and without simplifying it, we cannot see the wood for the trees:

- There are many taxes – including but not limited to Income Tax, National Insurance Contributions (NICs), Capital Gains Tax, Inheritance Tax (IHT), Indirect Taxes & Duties, Value Added Tax (VAT), Insurance Premium Tax, Excise Duties, Stamp Duty & Property/Land Taxes, Taxes on Dividends, Council Tax and Tax on Vehicles;
- There can be complex interactions between the taxes;
- In practice, there are loopholes which mean that not all taxes are collected as intended.

In addition, the analysis above looks at total economic income (your gross gain in wealth from all sources), but in reality, not all economic income is treated the same way for tax purposes. For example, while as explained above, Warren Buffett has virtually all his economic income in unrealised capital gains, Denise Coates, Britain's highest-paid CEO, took a pay cut last year, down to £94.7million (from £221million the previous year) plus dividends of around £63 million. Buffett's unrealised capital gains were not taxed; Coates's income and dividends were both subject to tax.

The same issue applies to more normal people: a young successful professional would have a high income, but probably not very high wealth; a pensioner might not have very high income at all but might have a house with a value in the millions – they could be 'asset rich but cash poor.'

This means that at any point on the total economic income spectrum, you could receive your total economic income in different ways, which would have different tax treatments. Strictly speaking, therefore, there is neither such a thing as a normal year or a normal person, and no single line can precisely capture this variation. But as John Maynard Keynes commented, *"It is better to be roughly right than precisely wrong."*

The analysis aims to be roughly right and assumes for simplicity that:

- We are only concerned with Income tax and NI for earned income and Capital Gains Tax for unearned income;
- If you are wealthier, you also have a higher earned income – though as you become extremely wealthy, you do not increase your earned income proportionately as that would be tax-inefficient;
- As you become extremely wealthy, you also realise a smaller percentage of your capital gains (eg if you have wealth of £100 million, you may have gains of £7 million and realise £2.5 million for spending; but if you have wealth of £10 billion,

you may have gains of £0.7 billion and realise only £150 million for spending in the year);

- We are looking at a 'normal' year, when returns are in line with the long-run averages.

If you change these assumptions, the line moves a little, but the overall shape remains the same: it starts low, then rises and then falls again for the wealthiest.

As a final note, some argue that unrealised capital gains are *not* really untaxed – if the gains are not realised during the lifetime of the wealthy person, they will be caught by inheritance tax when they die. That is one of those areas where there are many loopholes which mean that not all taxes are collected as intended. In reality, many of the wealthiest estates attract very little inheritance tax.