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Who would be affected by Capital Gains Tax reform?

CAGE Policy Briefing no. 40

February 2024

Arun Advani, Andrew Lonsdale, and Andy Summers

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UKRI Economic and Social Research Council

Who would be affected by Capital Gains Tax reform?

Arun Advani,[1] Andrew Lonsdale[2] and Andy Summers[3]

[1]Associate Professor, University of Warwick Economics, CAGE, IFS, III

[2]LSE International Inequalities Institute (III)

[3]Associate Professor, LSE Law, III, IFS

Published by

CAGE Warwick

LSE International Inequalities Institute

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This research was funded by the Nuffield Foundation 'Reforming Capital Gains Tax' grant (GE/FR-000024377) grant, the Economic and Social Research Council (ESRC) through the 'Taxing the Super Rich' grant (ES/W001683/1), and CAGE Research Centre at Warwick (ES/L011719/1), and by LSE International Inequalities Institute, LSE Law, and Warwick Economics. This work contains statistical data from HM Revenue and Customs (HMRC) which are Crown Copyright. The research data sets used may not exactly reproduce HMRC aggregates. The use of HMRC statistical data in this work does not imply the endorsement of HMRC in relation to the interpretation or analysis of the information. The authors thank Helen Hughson for foundational work on which this analysis builds; and the entire HMRC Datalab team for insights and support. Correspondence to a.advani.1@warwick.ac.uk and a.d.summers@lse.ac.uk.

This briefing presents new research on the distribution of capital gains and characteristics of taxpayers who receive them. It contributes to the debate on Capital Gain Tax (CGT) reform by outlining who would be most affected by changes to this tax. We investigate this question using de-identified, confidential data accessed via HMRC, which provides information on all individuals with taxable capital gains from 1997 to 2020.[1]

Key findings

- **Less than 3% of UK adults paid CGT over the 10-year period from 2011 to 2020.** In 2020, just 0.5% of adults paid CGT—less than the number of additional rate Income Tax payers. Even accounting for the infrequency of gains by looking back over a decade, the number of CGT payers is low, since many recipients receive gains in multiple years.
- **Three in every seven pounds (42.6%) of all taxable capital gains went to individuals earning above £150,000.** By comparison, the same group received one pound in seven (14.1%) of total incomes.
- **The top 5,000 taxpayers received more than half (52.2%) of all taxable gains in 2020, amounting to an average of £6,815,000 per person.** Capital gains are not only concentrated among those with high incomes, but highly skewed among those who receive them.
- **Capital gains per capita are four times higher in London than in less prosperous parts of the UK.** More generally, there is a stark divide between southern England and the remainder of the country.
- **There are more capital gains in the parliamentary constituency of Kensington than in all of Wales.** The top 100 constituencies receive more than 53% of all gains, while the poorest 100 receive less than 1.5%.
- **Compared with Liverpool Walton, someone in Kensington is around 150 times more likely to receive gains, and total gains in Kensington are almost 2000 times larger**. One neighbourhood in Kensington, home to just 6400 people, had as much in capital gains from 2015-2019 as Liverpool, Manchester, and Newcastle combined.
- **Half of taxpayers with capital gains in 2020 paid CGT on at least one other occasion in the preceding decade.** While capital gains are often thought to be an infrequent form of remuneration, some taxpayers receive gains on a regular basis. Average gains are highest among these regular recipients of gains.
- **By value, almost 70% of capital gains are from business assets.** While CGT is most often paid on listed shares, they account for less than a fifth (18.5%) of value. Carried interest makes up almost one twentieth (4.3%) of gains by value, and goes to a small minority of taxpayers (just 2000 per year), at an average gain of over £1.2 million.

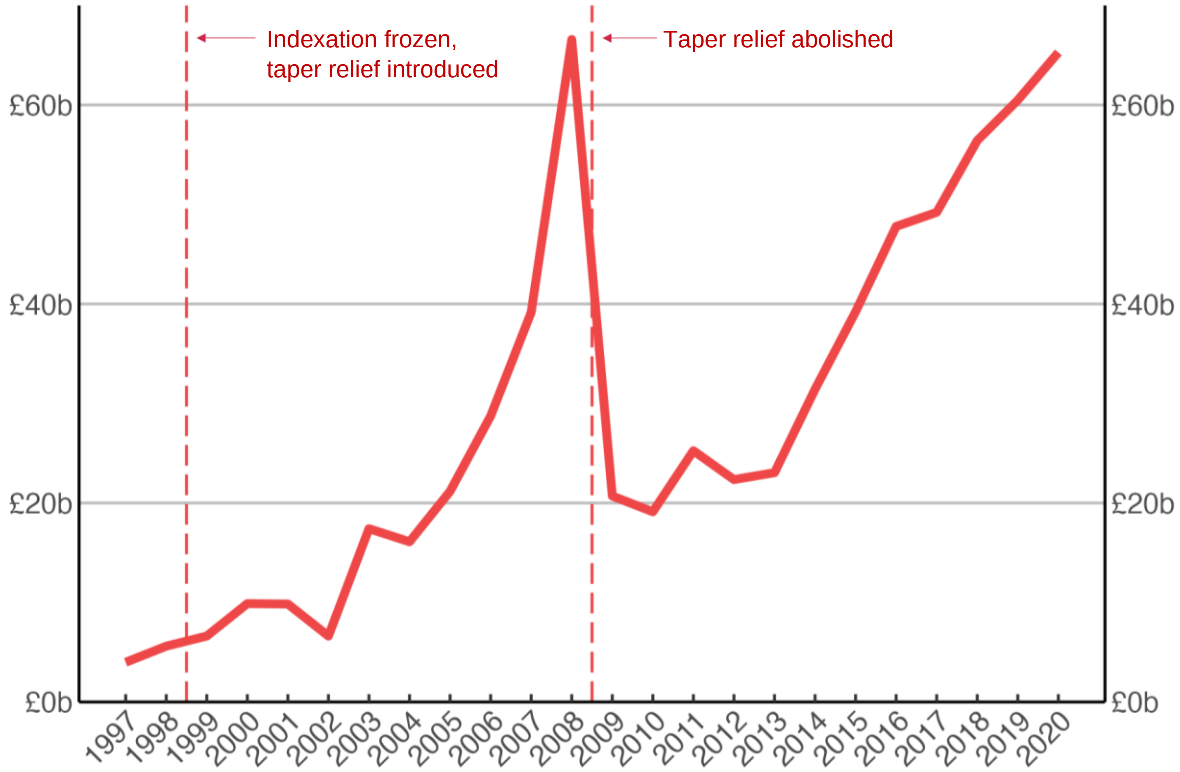
[1] Editorial note: all references to years in this briefing are based on tax years, giving the later year e.g., tax year 2019–20 is given as 2020.

Introduction

Capital Gains Tax (CGT) is badly designed. It is not alone in this, among UK taxes, but it stands out because poor design is particularly costly here. From a purely financial perspective, the rapid growth in capital gains over the past decade means choices about CGT design have large and growing consequences in terms of government revenue. Between 2013 and 2020, aggregate capital gains increased almost three-fold, from £23 billion to £65 billion (Figure 1).

Over recent years, academics, think tanks and government bodies have published numerous proposals for reform.[2] Inevitably, politicians worry about the 'winners and losers' from embarking on reform. The aim of this briefing is to provide some basic facts about who currently pays CGT in order to place the debate on a sounder footing.[3]

Figure 1: Aggregate taxable capital gains in £ billions, 1997-2020



Notes: Constructed using data on all reported taxable capital gains going to individuals. Prior to 2009, our measure of gains differs from HMRC aggregates. Our series describes the full nominal gains realised by taxpayers, whereas the main series provided by HMRC shows gains after taper relief and indexation allowances—policies which reduce the amount of gains on which tax was due. These policies were removed from 2008. See Advani and Summers (2020b) for details.

Source: Authors' calculations based on HMRC administrative datasets.

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[2] A non-exhaustive list of proposals for reform includes Adam & Miller, 2021 (IFS); Advani, 2022; Advani & Summers, 2020c; Broome, Corlett, & Thwaites, 2023 (Resolution Foundation); Nanda & Parkes, 2019 (IPPR); Office of Tax Simplification, 2020; Robinson & Shorthouse, 2022 (Bright Blue).

[3] In subsequent work, we plan to model specific reform options, including their revenue and distributional effects.

What is Capital Gains Tax?

A taxpayer realises a capital gain when they sell (or otherwise dispose of) an asset that has increased in value from the price at which they acquired it. CGT typically applies if the assets sold were held for investment, rather than the 'stock in trade' of a business, which is instead subject to Income Tax or Corporation Tax: supermarkets and car showrooms both sell products at prices above the purchase price, but these are not considered capital gains.

CGT is charged on the difference between the amount that the asset is sold for (or its market value if given away) and the amount that it cost to acquire, after deducting a tax-free allowance.[4] An accrued capital gain is therefore not taxed so long as the owner retains the asset. On death any accrued gains are 'forgiven' entirely. Main homes are also exempt from CGT, regardless of when sold.

For most asset types, gains are subject to a CGT rate of either 10% (for basic rate Income Tax payers)[5] or 20% (for all other taxpayers). Gains made on residential property are taxed at either 18% or 28%, according to the taxpayer's income bracket. Carried interest paid to private equity managers is always taxed at 28%.

Taxpayers selling all or part of their business may benefit from Business Asset Disposal (BAD) Relief, which allows the resulting gains to be taxed at 10% up to a lifetime allowance of £1 million (reduced from £10 million in the March 2020 budget). Taxpayers selling unlisted shares in a company they have no connection to can still access a 10% rate on lifetime gains up to £10 million via Investor's Relief.

These CGT rates stand in contrast to the marginal Income Tax schedule of 20%, 40%, and 45% for basic, higher, and additional rate taxpayers. Moreover, unlike earnings, national insurance contributions are not paid on capital gains. Consequently, this form of remuneration is currently treated much more favourably by the tax system than other types of income.

[4] Taxpayers are exempt from CGT when their total capital gain is below the tax-free allowance (known as the 'Annual Exempt Amount'), which was £6,000 for the 2023-24 tax year and is set to fall to £3,000 in 2024-25. The allowance ranged from £6,300 (1997) to £12,000 (2020) in the years covered by this policy brief.

[5] Specifically, basic rate Income Tax payers pay 10% on gains up to the point where their combined taxable income and taxable gains exceed the higher rate Income Tax threshold. Any portion of their gains bringing their combined taxable income and taxable gains beyond this threshold is then taxed at 20%.

Data

Our analysis is based on administrative microdata from His Majesty's Revenue and Customs (HMRC) covering everyone who reported a taxable gain between 1997 and 2020. Gains are broken down into five categories: listed shares, unlisted shares, residential property, carried interest, and other property. For reporting purposes, all gains benefiting from BAD relief are classified as 'other property', regardless of their specific type. Our analysis focuses on individuals whose taxable capital gains exceed the annual tax-free allowance, since reporting is not comprehensive below this threshold.[6]

For individuals who report taxable gains, we observe demographic and socioeconomic information such as gender, age, income, and area of residence. We are able to link individuals across years through a pseudonymised identification number, allowing us to observe their capital gains (and other income) over time. For comparison purposes, we often contrast the distribution of taxable gains with the distribution of taxable incomes, which we also obtain from HMRC records on all UK Income Tax payers. Lastly, we exclude non-residents from our analyses, since they pay CGT under a different regime that broadly only applies to UK real estate.

How many people pay Capital Gains Tax?

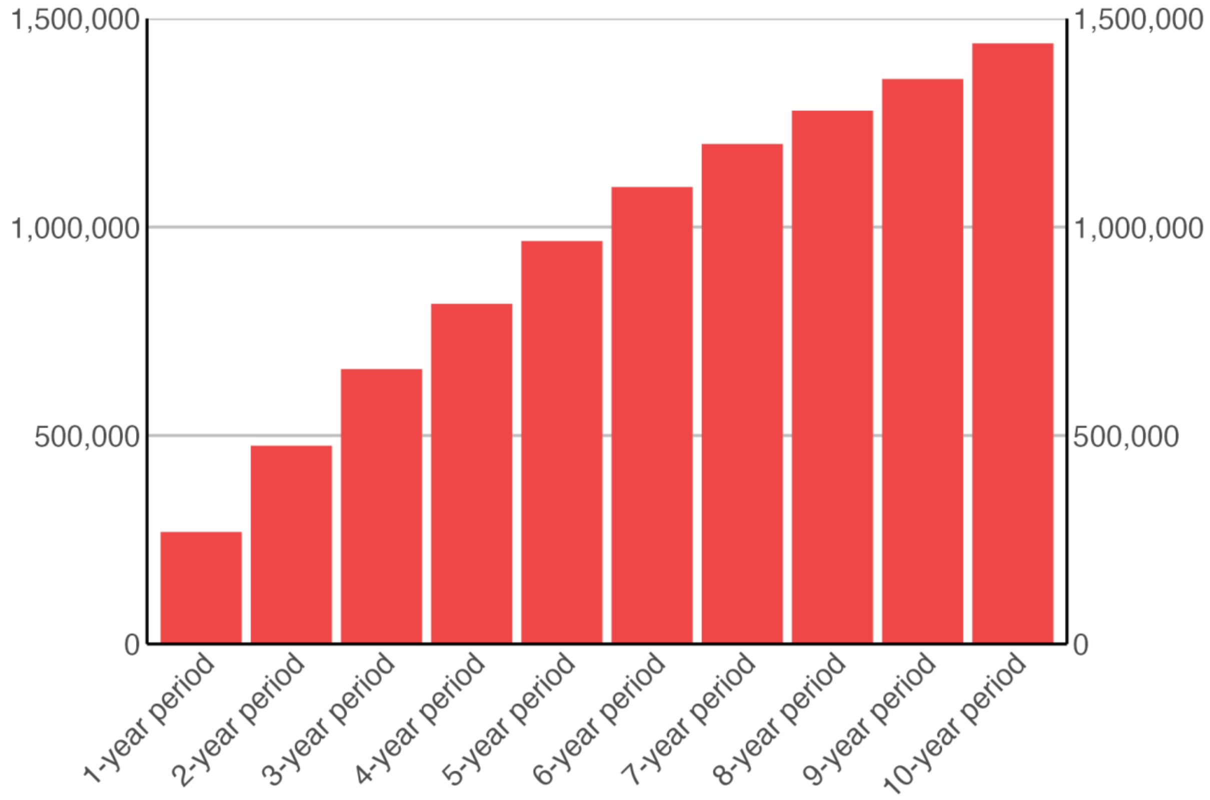
The number of taxpayers with taxable gains has important implications for the politics of CGT reform. Our data allow us to determine how many people paid CGT over a given period, starting in 2020 and cumulating backwards over preceding years (Figure 2).

There were 269,000 taxpayers with taxable capital gains in 2020, making up around 0.5% of adults in the UK (i.e. less than the number of additional rate Income Tax payers). Over the two-year period from 2019 to 2020, 476,000 individuals paid CGT at least once; this is less than double the number from 2020 alone as 66,000 taxpayers reported capital gains in both years.

Over the 5-year period from 2016 to 2020, less than a million (967,000) taxpayers paid CGT, while 1.4 million did so over the 10 years from 2011 to 2020. These statistics imply that CGT is paid by a relatively small share of the population, even over an extended period. Although 0.5% of UK adults had taxable capital gains in 2020, under 3% did so over the decade from 2011 to 2020.

[6] Generally, taxpayers are only required to report net gains below the Annual Exempt Amount if the disposal value is more than four times this amount.

Figure 2: Number of people paying Capital Gains Tax over a given period, from 1 year (2020) to 10 years (2011-2020)



Notes: 1-year period covers 2020, 2-year period covers 2020 and 2019, and so on covering years further back. A person is counted only once in each column if they paid CGT in multiple years, to illustrate how many unique taxpayers were concerned by this tax over the period under consideration.

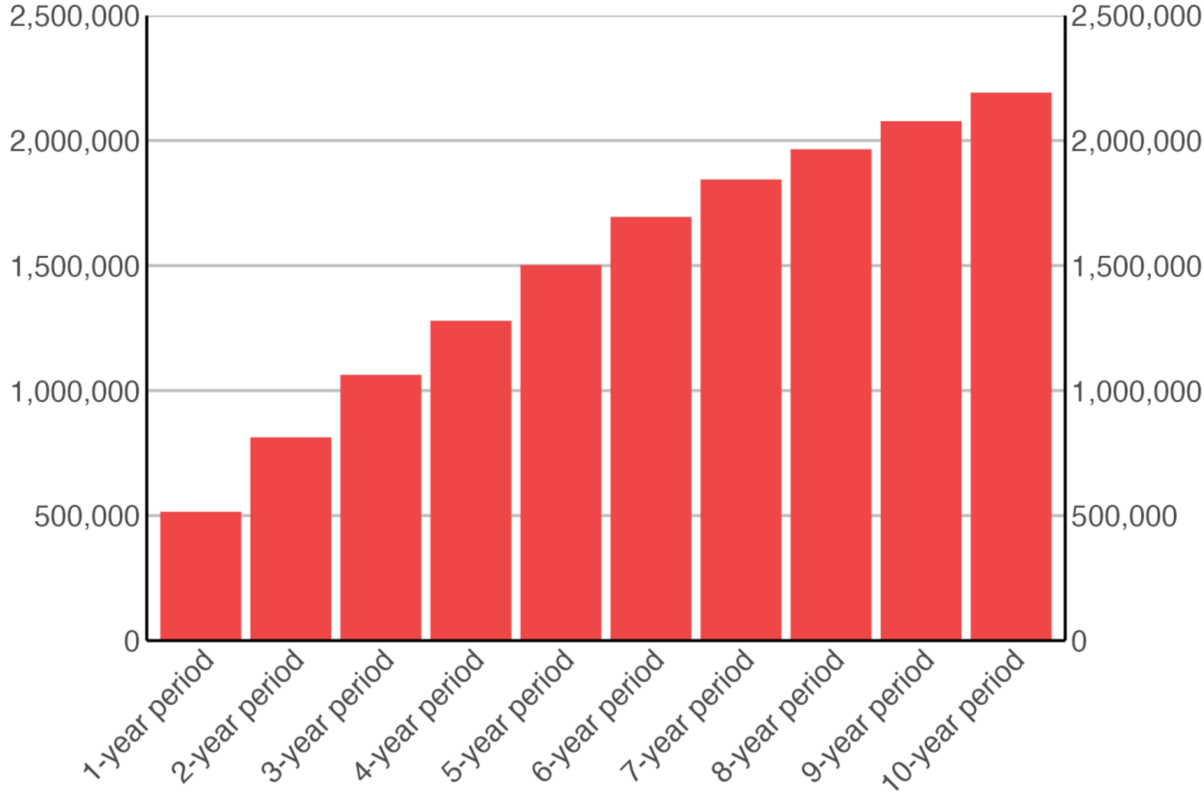
Source: Authors' calculations based on HMRC administrative datasets.

To understand how many people are affected by CGT reporting requirements, we repeat the same exercise looking at all individuals who report capital gains information to HMRC without necessarily having to pay CGT in the current year (Figure 3). This includes taxpayers with gains below the annual exemption amount but who are obliged to report them because their total disposals are more than four times the tax-free allowance, as well as those who declare losses. We find similar patterns over time to the prior analysis, albeit with larger counts of taxpayers.

Around 515,000 taxpayers reported information on capital gains in 2020, close to 1% of UK adults. Looking back over previous years, the number of people reporting CGT rises more slowly than the number of taxpayers: 1.5 million people filed a return over the 5-year period from 2016 to 2020, rising to 2.2 million over the 10 years from 2011 to 2020.

Over a ten-year period, the number of filers is 'only' 50% more than the number of taxpayers, compared with over 90% more in a single year. This implies that around half of non-taxpaying filers in any given year will end up paying CGT at some point over the subsequent decade.

Figure 3: Number of people reporting information on capital gains to HMRC over a given period, from 1 year (2020) to 10 years (2011-2020)



Notes: 1-year period refers to 2020, 2-year period refers to 2020 and 2019, and so on covering years further back. A person is counted only once in each column if they reported information on capital gains to HMRC over multiple years, to illustrate how many unique taxpayers were concerned by CGT reporting requirements over the period under consideration.

Source: Authors' calculations based on HMRC administrative datasets.

Who pays Capital Gains Tax?

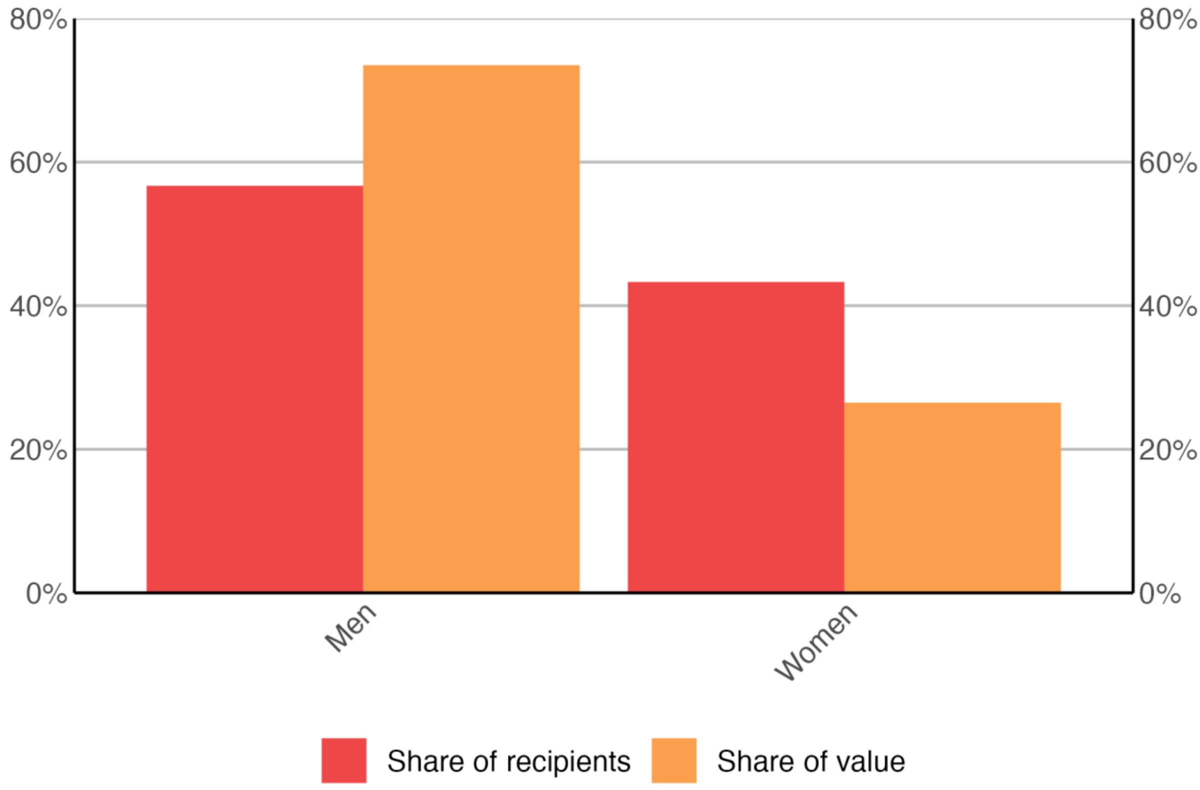
Gender

Looking at the breakdown of taxable capital gains by gender (Figure 4) reveals striking inequalities along this dimension. From 2015 to 2019, men accounted for 56.7% of taxpayers that received capital gains and 73.5% of total gains by value.

Capital gains are more unequally distributed than overall incomes, where men are overrepresented among recipients to a similar degree (57.9%) but receive 65.8% of the total amount. They are less unequal than high incomes (incomes above £100k), where men comprise 78.9% of earners and receive 82.4% of the total.

These results imply that capital gains exacerbate gender inequalities in total remuneration (income and capital gains combined) across the population as a whole, though they have a slight equalising impact at the top of the distribution owing to the particularly unequal nature of high incomes. In the absence of data linking taxpayers by household, it is difficult to know how much of the relative gender equality of gains compared to high incomes derives from the splitting of capital gains within couples to make use of both members' tax-free allowance (Advani & Summers, 2020a).

Figure 4: Recipients and value of capital gains by gender, 2015-2019



Source: Authors' calculations based on HMRC administrative datasets.

Age

Given that wealth is accumulated over the lifecycle and CGT is paid on the disposal of assets, older taxpayers – who have had more time to both acquire and hold onto assets – should be more likely to pay CGT than their younger counterparts. Almost half (48.9%) of people with taxable gains from 2015 to 2019 were aged 60 or above, while only 2.2% were younger than 30 (Figure 5). Despite being the most frequent payers of CGT, however, less than 3% of adults aged 60+ had taxable gains over this 5-year period. These figures imply that the likelihood of paying CGT remains low even at ages where the probability of doing so is highest.

Looking at aggregate values of capital gains by age paints a different picture. A majority (55.8%) of gains go to taxpayers between the ages of 40 and 59, while just 36.8% go to those aged 60+ and only 1.1% to those under 30. These differences are consistent with most gains being made on business assets (see 'What do they pay CGT on?' section below). By value, capital gains are concentrated among taxpayers selling their businesses in preparation for retirement. Older taxpayers have typically moved past this point in their lives, while younger taxpayers generally have not yet had time to accumulate and dispose of large assets.

Figure 5: Recipients and value of capital gains by age, 2015-2019

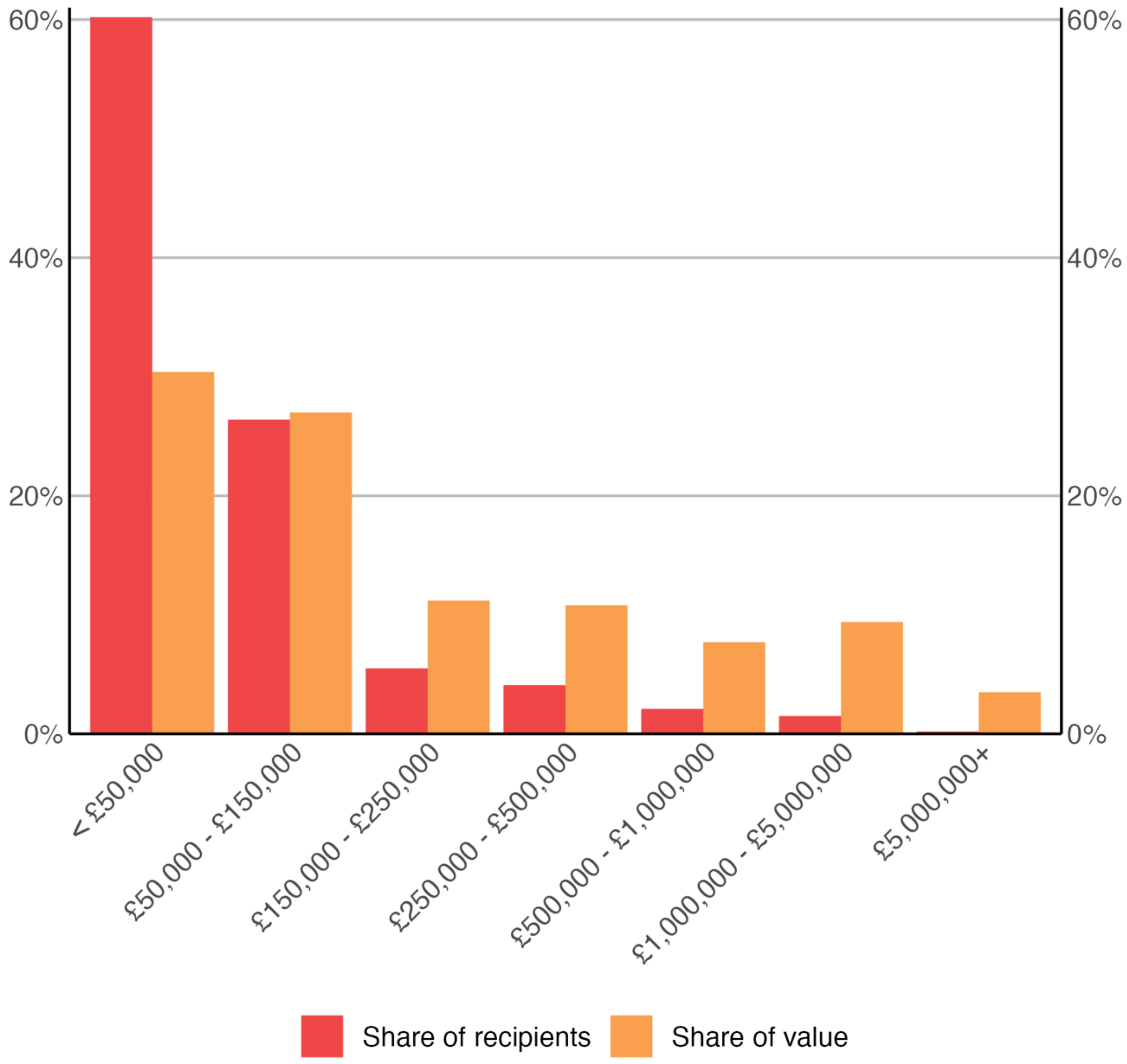
Source: Authors' calculations based on HMRC administrative datasets.

How well off are they?

Income level

Prior research has found that capital gains in the UK are primarily concentrated among high-income taxpayers (Advani & Summers, 2020a). Accounting for capital gains uncovers higher levels of inequality than can be seen from estimates based on income alone. Looking at the distribution of capital gains across income brackets from 2015 to 2019 reveals that 13.4% of individuals with capital gains had an annual income above £150,000, while only 1.3% of all earners reported an income above this threshold. Three in every seven pounds (42.6%) of aggregate capital gains went to individuals earning above £150,000, compared to just one pound in seven (14.1%) of total incomes, underscoring the particular concentration of gains (Figure 6).

Figure 6: Recipients and value of capital gains by income level, 2015-2019

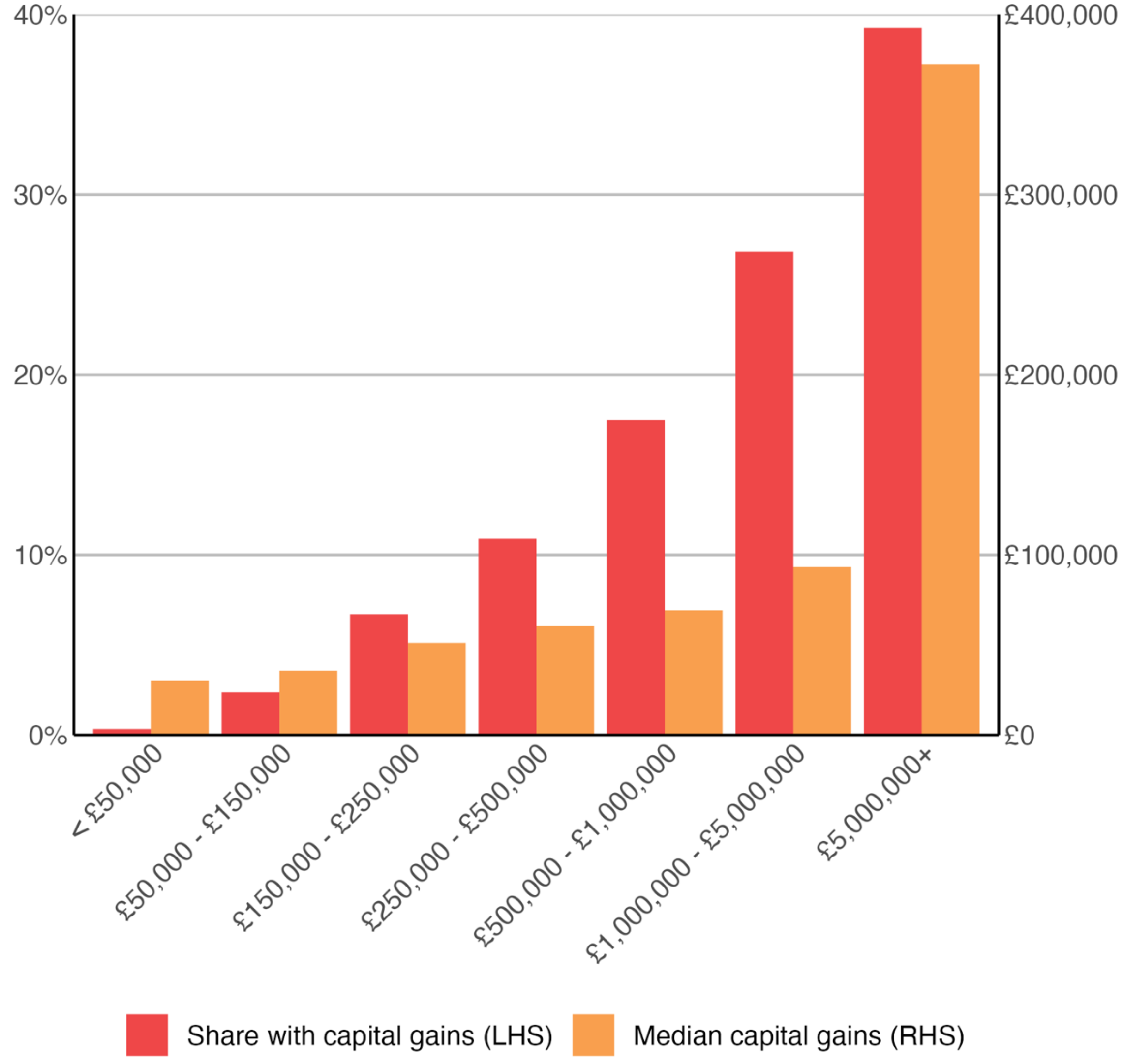


Source: Authors' calculations based on HMRC administrative datasets.

Importance of gains

We also find large differences in the size and prevalence of capital gains by income group. Although the majority (60.2%) of those that paid CGT from 2015 to 2019 had an annual income below £50,000 (reflecting the fact that this group accounts for over 90% of UK adults), just 0.3% of people with income under £50,000 had taxable gains in an average year (Figure 7). The median gain within this income group was £30,000, implying that only 0.15% had gains above £30,000. Even among those with income between £50,000 – £150,000, just over 1% had gains above £36,000. On the other hand, 39.3% of taxpayers with incomes of £5,000,000 or above recorded capital gains in a given year, and the median gain for this group was £372,000. Altogether, these statistics reiterate the critical role that capital gains play in the remuneration of high-income taxpayers, who derive disproportionate benefit from the discrepancy between CGT and Income Tax rates.

Figure 7: Probability of receiving capital gains and median gain for recipients, by income level, 2015-2019



Notes: The median gain is the average of the yearly median over the 5-year period for each income group. The probability of receiving capital gains captures the probability of reporting taxable capital gains in a given year, conditional on income in that same year.

Source: Authors' calculations based on HMRC administrative datasets.

Concentration of gains

Capital gains are highly concentrated (Advani & Summers, 2020a). In 2020, 52.2% of gains went to the top 5,000 taxpayers, totalling £34 billion. Average gains in this group were £6,815,000, and even the lowest gainer received £2,286,000. Looking at a wider group, the top 50,000 taxpayers received 86.4% of total gains, equal to £56.4 billion, with each person receiving at least £143,000.

The shares of gains going to these top groups have been remarkably stable over time. Looking back over the past 25 years, and across multiple different CGT regimes, the share of gains going to the top 5,000 remained between 50 and 55% in nearly all years, with no clear trend over time (Figure 8a).

The share of CGT paid by this group was initially higher than their share of gains, peaking at 68.1% in 1997, implying that the CGT regime was progressive during this period. The introduction of taper relief in 1999 offered a lower tax rate for those who held assets for a number of years – the precise details varied over the period taper relief was in force – and the discount differed by asset class. Under this system the share of CGT paid by the top 5,000 dropped rapidly to below 50% by 2005. Since then it has closely tracked the concentration of capital gains themselves, ranging between 50 and 55%, including since taper relief was replaced by a low flat CGT rate.[7] In some years it has been below the share of gains going to this group, indicating that the CGT regime is actually regressive – rather than just not progressive – at the top.

A similar pattern emerges for the top 50,000 taxpayers. The share of total gains among this group was between 81% and 87% in most years, with the level being slightly higher in the period since taper relief was abolished (Figure 8b). The share of CGT paid peaked in 1997 (at 96.5%) before falling after the introduction of taper relief, to between 85% and 92% for most of the remaining period. The share of CGT has always remained higher than the share of gains, since the 15-20% of gains not going to this group include gains to those with lower incomes, a portion of which are taxed at lower rates.

The different CGT regimes in place over recent decades seem therefore to have had little impact on the pre-tax distribution of capital gains—in each case, the shares received by top groups have been relatively constant over time. There is, however, a clear distinction in levels of CGT shares pre- and post-1998, when indexation allowances were frozen and taper relief was introduced. This reform appears to have rendered the CGT system less progressive (and actually regressive at the very top at some points in time), with large declines in top CGT shares in the years after 1998. Consequently, the post-tax distribution of gains is barely more equal than the pre-tax distribution.

[7] Although technically the rate varies between those whose combined taxable income and taxable gains do or do not exceed the threshold for the higher rate of Income Tax, the vast majority of all gains go to individuals who exceed this threshold.

Figure 8a: Shares of total capital gains received and capital gains tax paid by the top 5,000 taxpayers, 1997-2020

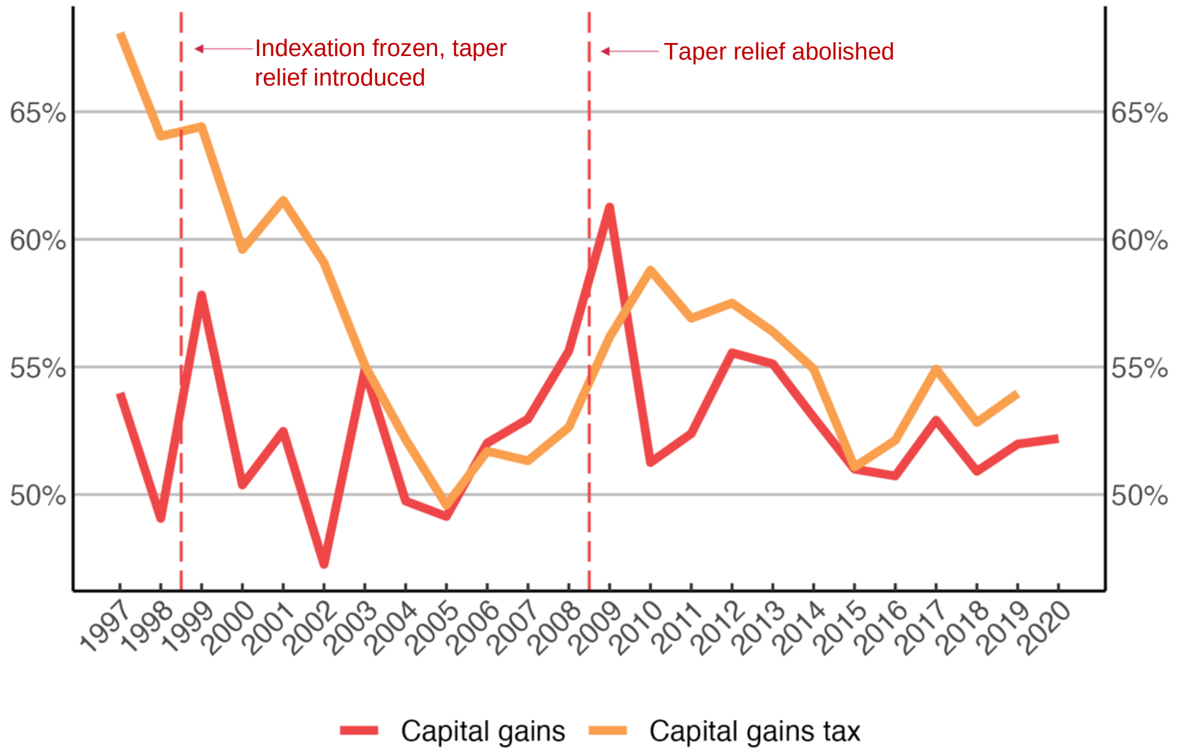
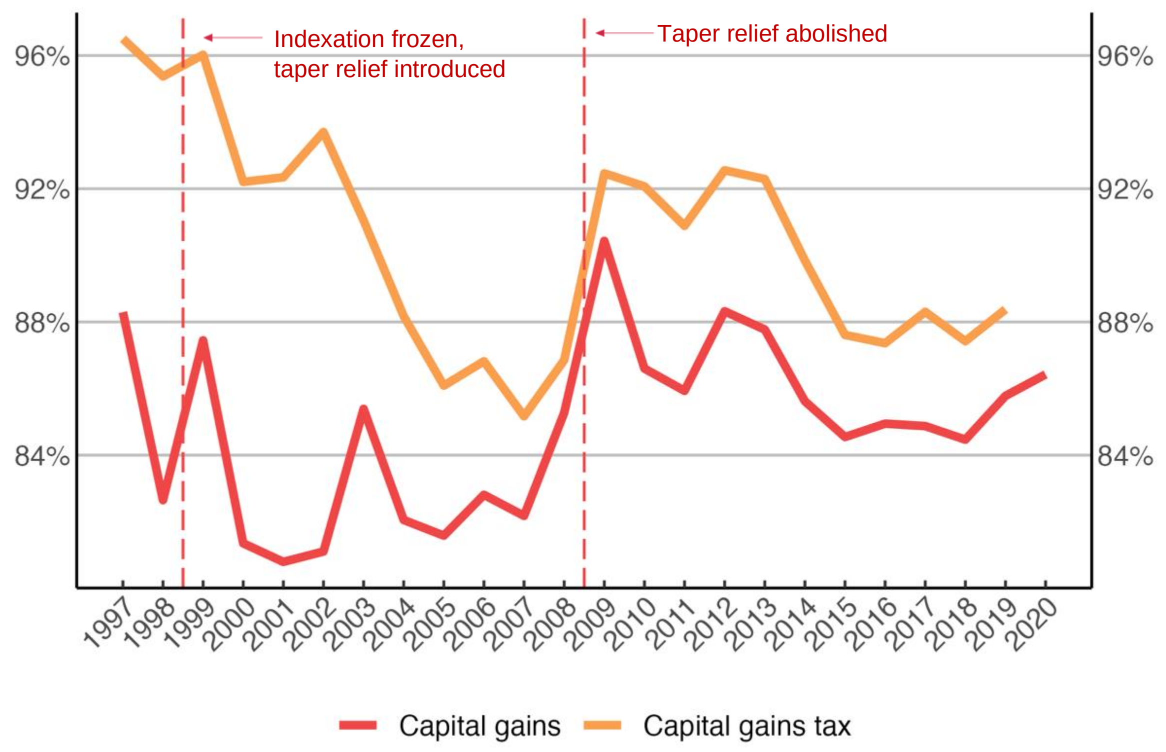


Figure 8b: Shares of total capital gains received and capital gains tax paid by the top 50,000 taxpayers, 1997-2020



Notes: Data on CGT paid was unavailable for 2020.

Source: Authors' calculations based on HMRC administrative datasets.

Where do they live?

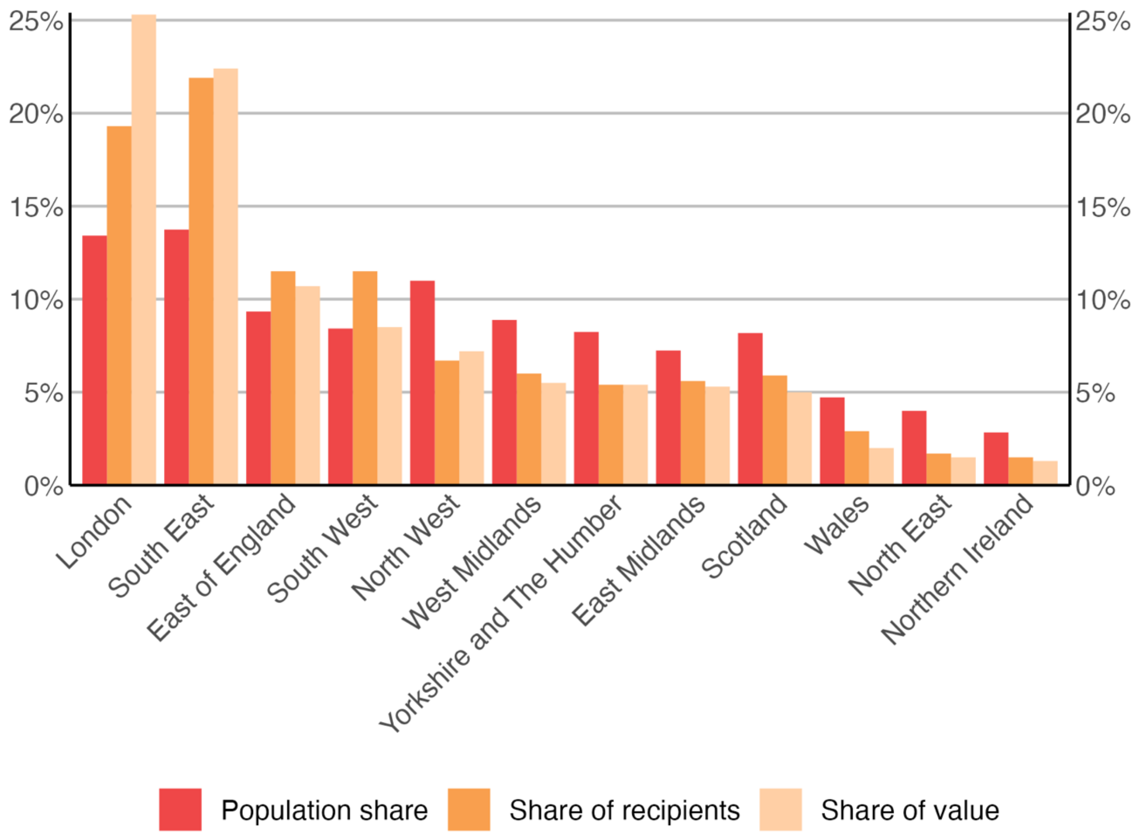
Region

Almost half of taxable capital gains go to people in London (25.3%) and the South East (22.4%). By contrast, taxpayers in Wales, the North East and Northern Ireland received just 2.0%, 1.5%, and 1.3% of capital gains, respectively (Figure 9).

These discrepancies partly reflect regional differences in populations, but London, the South (East and West), and the East of England are all over-represented in CGT payers relative to their population shares. Gains in London and the South East are also higher value, so that the share of all gains that goes to these regions is larger than the share of CGT payers who are from these regions.

The combined effect is that by value the share of gains in London is around twice as large as the city's population share, while the shares of gains in Wales, the North East and Northern Ireland are each less than half the population shares of their respective regions. Per capita capital gains in London are therefore at least 4 times higher than in less prosperous parts of the UK. The growth in aggregate gains has therefore contributed directly to rising regional inequalities in spending power.

Figure 9: Recipients and value of capital gains by region, 2015-2019



Source: Authors' calculations based on HMRC administrative datasets.

Parliamentary Constituency

Looking across parliamentary constituencies, it is clear both that there is a stark north-south divide in the receipt of gains, and that there are substantial disparities within region (Figure 10).

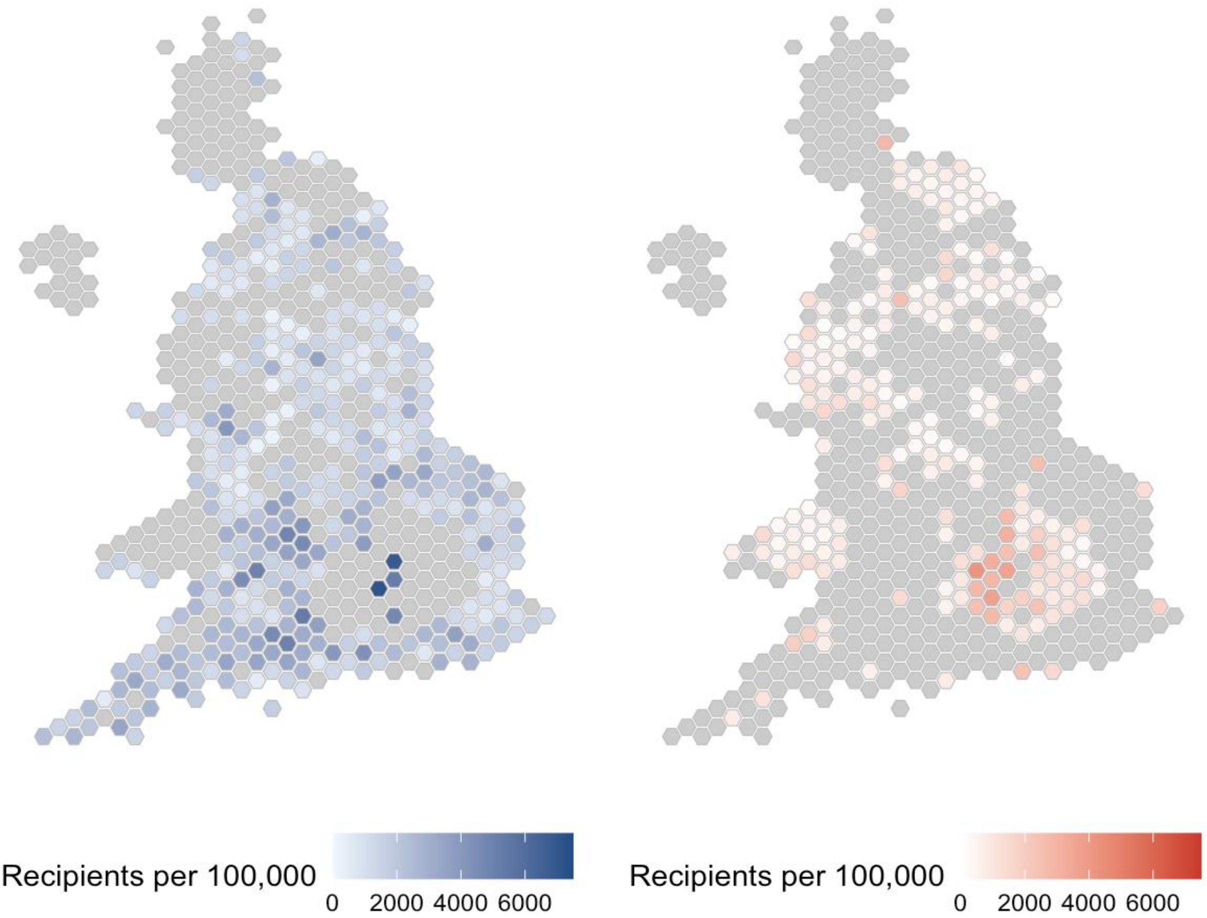
Capital gains in the top London constituencies are comparable to the levels of capital gains found in entire regions of the UK. The share of all UK gains in Kensington (3.1%) was greater than the share in Wales (2.0%), despite Kensington having a population that is around 30 times smaller. Five London constituencies (Kensington, the Cities of London and Westminster, Chelsea and Fulham, Hampstead and Kilburn, and Richmond Park) each had more capital gains than both the North East and Northern Ireland.

The top 100 constituencies receive more than 53% of all gains, while the poorest 100 receive less than 1.5%. Compared with Liverpool Walton, someone in Kensington is around 150 times more likely to receive gains and the average gain among recipients is over 10 times higher. Overall, total capital gains are almost 2000 times larger in Kensington.

Even within region there are large disparities. Compared with Barking, the constituency in London with the lowest gains, someone in Kensington is more than 50 times more likely to receive gains. The average gain for recipients is almost 8 times larger in Kensington, while total gains are more than 360 times higher. In the South East, someone in Esher and Walton is around 15 times more likely to receive gains, and the average gain for recipients is 5 times larger, than in Southampton, Itchen. Overall, total gains are almost 60 times higher in Esher and Walton.

The North-South divide means that the politics of CGT reform are not clear. Certainly, capital gains are more common in Conservative seats: based on votes at the 2019 election, the median Conservative constituency had almost three times as many CGT payers from 2015 to 2019 (1,530 per 100,000 residents) than the median labour constituency (590 per 100,000). Within both the major parties it is the case that the vast majority of their seats had fewer than 3% of individuals receiving gains over this period: 321 of 365 Conservative seats (87.9%), and 197 of 202 Labour seats (97.5%) are below this threshold.

Figure 10: Recipients of capital gains per 100,000 residents from 2015 to 2019 by parliamentary constituency
(a) Conservative constituencies **(b) Labour constituencies**



Notes: The party affiliation of each constituency corresponds to the results of the 2019 general election.

Source: Authors' calculations based on HMRC administrative datasets.

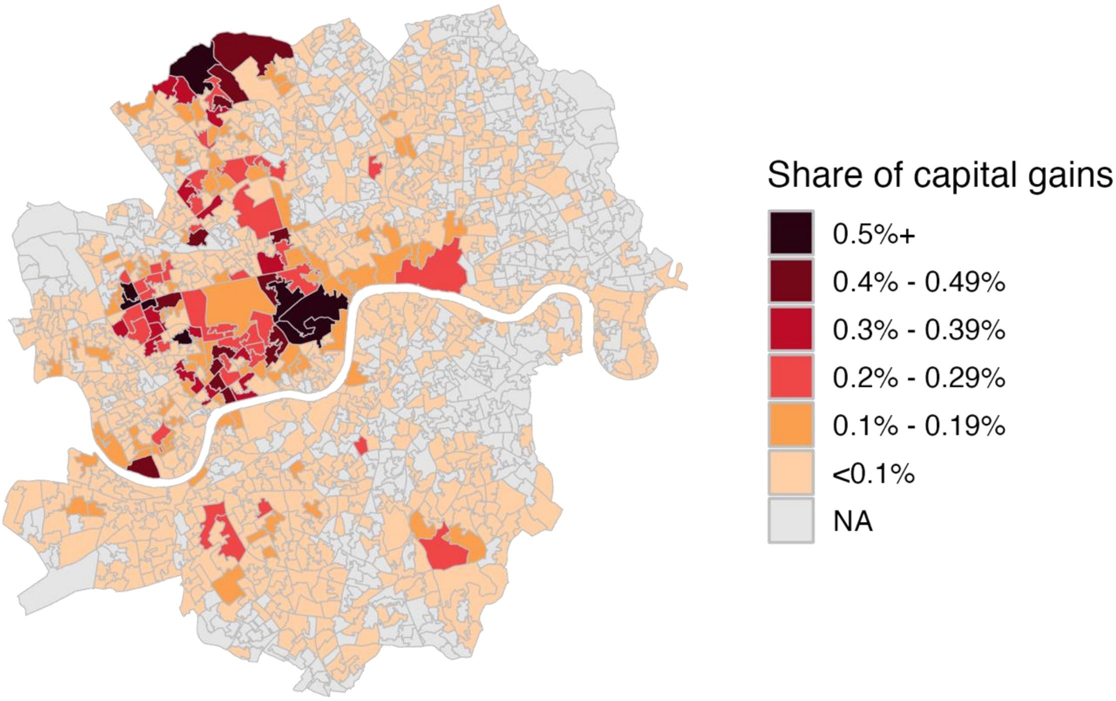
Within London

Even within London – which is clearly the main hotspot for capital gains in the UK – gains are highly geographically concentrated (Figure 11). Gains are disproportionately concentrated in a handful of neighbourhoods, particularly in Kensington and Chelsea, the City of Westminster, and Camden. Instead of being pervasive throughout the city, it appears that high capital gains are limited to a certain profile of Londoner that is typically found in just a few specific areas.

One neighbourhood in Kensington, home to just 6400 people, had as much in capital gains in 2015-2019 as Liverpool, Manchester, and Newcastle combined,[8] highlighting the extent of hyper-local concentration within the capital.

[8] Cities are defined by the constituencies that make up the city area: Garston and Halewood, Liverpool, Riverside, Liverpool, Walton, Liverpool, Wavertree, and Liverpool, West Derby, for Liverpool;

Figure 11: Share of capital gains in London by LSOA, central London, 2015-2019



Notes: The boroughs displayed in this map are Camden, the City of Westminster, the City of London, Hackney, Hammersmith and Fulham, Islington, Kensington and Chelsea, Lambeth, Southwark, Tower Hamlets, and Wandsworth. Reported shares refer to the share of total gains in London that are found in this LSOA. London accounts for 25.3% of UK gains. NA values correspond to Lower Layer Super Output Areas (LSOAs) that did not have enough taxpayers with capital gains to meet HMRC's statistical disclosure control criteria.

Source: Authors' calculations based on HMRC administrative datasets.

How often do they pay Capital Gains Tax?

Half (49.1%) of individuals who paid CGT in 2020 did not receive gains at any point over the preceding decade (Figure 12a). Many of the other half received gains regularly. Almost one in eight (11.6%) individuals received gains at least 5 times, while a small minority (0.6%) received gains in all 10 years. Capital gains are often thought of as an infrequent form of remuneration. While this is true for many who receive them, our results show that some taxpayers realise capital gains on a recurrent basis and, consequently, derive regular benefit from low CGT rates.

Perhaps more surprisingly, average gains (both mean and median) actually increase with the frequency of receiving gains, even when averaging only across years where gains are realised (Figure 12b). For one-off gainers, the mean (median) capital gain was £193,900 (£37,400). Among those with gains in every year from 2010 to 2020, on the other hand, the mean (median) capital gain averaged over this period was £441,100 (£91,200), almost 2.3 (2.5) times larger. Similar to income, many large capital gains go to taxpayers who realise them progressively over time, rather than occasionally doing so all at once.

Blackley and Broughton, Manchester Central, Manchester, Gorton, Manchester, Withington, and Wythenshawe and Sale East, for Manchester; Newcastle upon Tyne Central, Newcastle upon Tyne East, and Newcastle upon Tyne North, for Newcastle.

Figure 12a: Recipients of capital gains in 2020 by frequency of gains in the 10 previous years

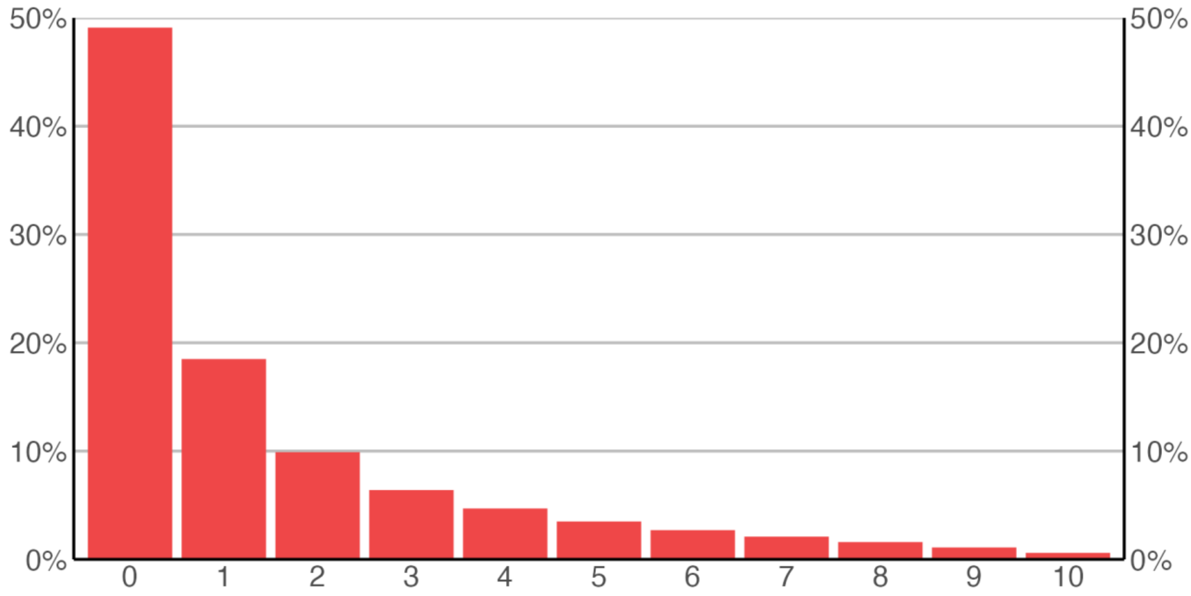
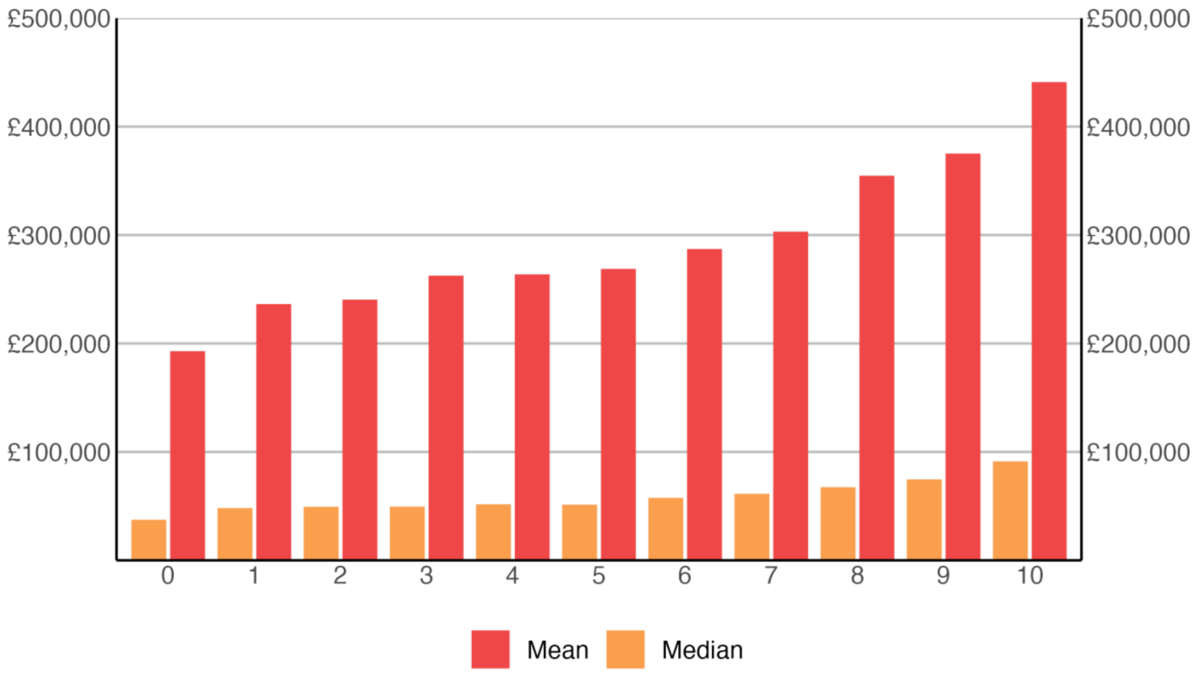


Figure 12b: Average level of capital gains by frequency of gains in the 10 previous years, among those with gains in 2020



Notes: For each individual with taxable capital gains in 2020, we first calculate their average gains over years in which they received gains from 2010 to 2020. We then group these taxpayers by the number of times they received gains over the preceding decade. 0 indicates that a taxpayer did not receive gains in any year from 2010-2019, 1 indicates that they received gains in exactly one of these 10 years, and so on. Panel (a) shows the share in each group. Panel (b) shows the mean and median level of average gains within each group.

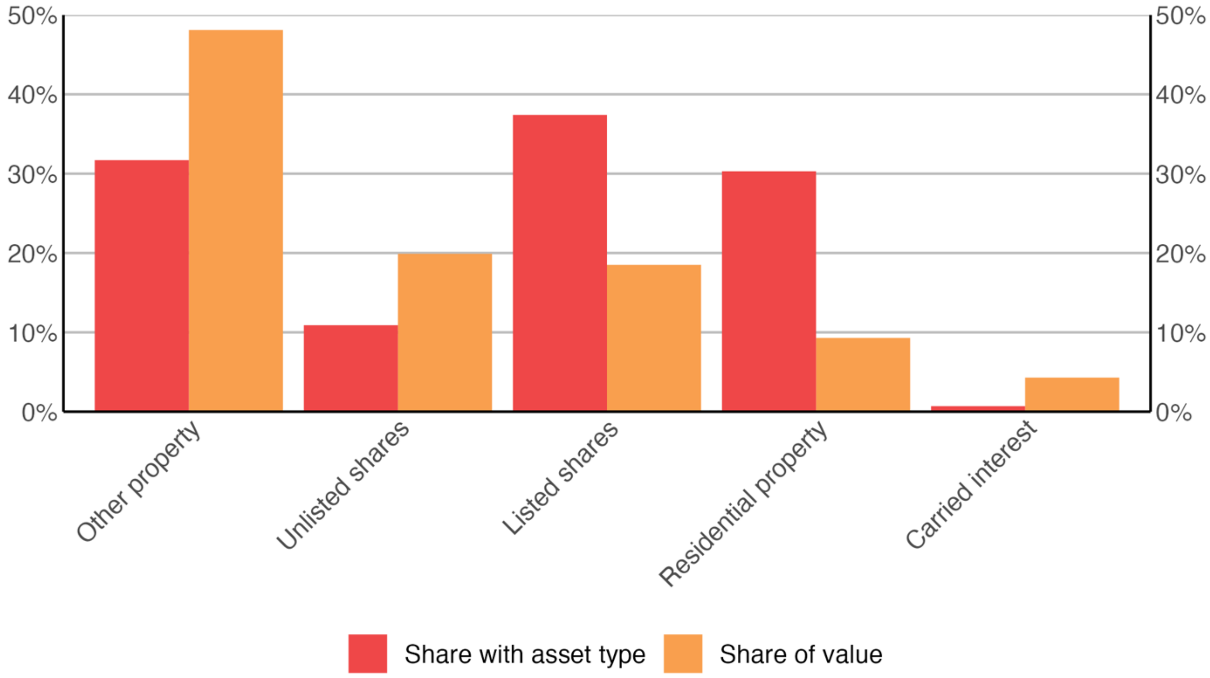
Source: Authors' calculations based on HMRC administrative datasets.

What do they pay Capital Gains Tax on?

Among those with taxable capital gains from 2017 to 2020, one in three made disposals of listed shares (37.4%), with slightly fewer (31.7%) having gains from other property (which includes all assets subject to BAD relief) and residential property (30.3%) (Figure 13). Gains on unlisted shares and carried interest were realised by 10.9% and 0.7% of these taxpayers, respectively. By value, however, it is gains on private businesses that really matter: other property accounted for the largest share of gains by a considerable margin (48.1%), while unlisted shares (19.9%) were second. Despite their prominence in discussions about capital gains, listed shares and residential property made up only 18.5% and 9.3% of total gains, respectively.

Discrepancies between the share of taxpayers with each asset class and the share of capital gains from these categories reflect sizeable differences in average gains across types of assets. The mean gain realised on unlisted shares and other property was £346,000 and £315,000, respectively, reflecting a high number of large disposals on business assets. Mean gains on listed shares and residential property were much lower, at £100,000 and £64,000, respectively. The largest discrepancy (in relative terms) between volume and amount of disposal is for carried interest, which is only received by around 2,000 taxpayers per year yet has a mean gain of £1,281,000.

Figure 13: Capital gains by asset type, 2017-2020



Notes: 'Share with asset type' does not sum to 100% across categories as some taxpayers report gains on multiples types of assets, so are included in multiple categories.

Source: Authors' calculations based on HMRC administrative datasets.

Conclusion

What do our results imply for the 'winners and losers' of CGT reform? First, the number of people who ever pay CGT is small. Over the decade to 2020, it amounted to less than 3% of all UK adults.

Second, capital gains are disproportionately concentrated among the rich. This finding reflects the extreme skew of gains among those who receive them coupled with the fact that these taxpayers already tend to have high incomes. It also runs counter to the narrative that CGT reforms would fall heavily on the middle class: even among those with incomes between £50-150k, just 1% have gains over £36,000 in an average year.

Third, the bulk of capital gains go to working-aged individuals, to individuals selling private businesses, and to individuals residing in the South of England. Within the South, gains are further concentrated in particular local areas.

Finally, capital gains are also more recurrent than often believed, with larger average gains among those with frequent realisations.

An oft-stated concern about CGT reform is the risk of hitting "ordinary" taxpayers. Our results set this concern in context, highlighting that only a small minority of largely high-income taxpayers are actually affected by CGT. In the event of reform, the greatest effects would be felt by the handful of taxpayers disposing of sizeable business assets, who currently benefit the most from the existing discrepancies between CGT and Income Tax rates.

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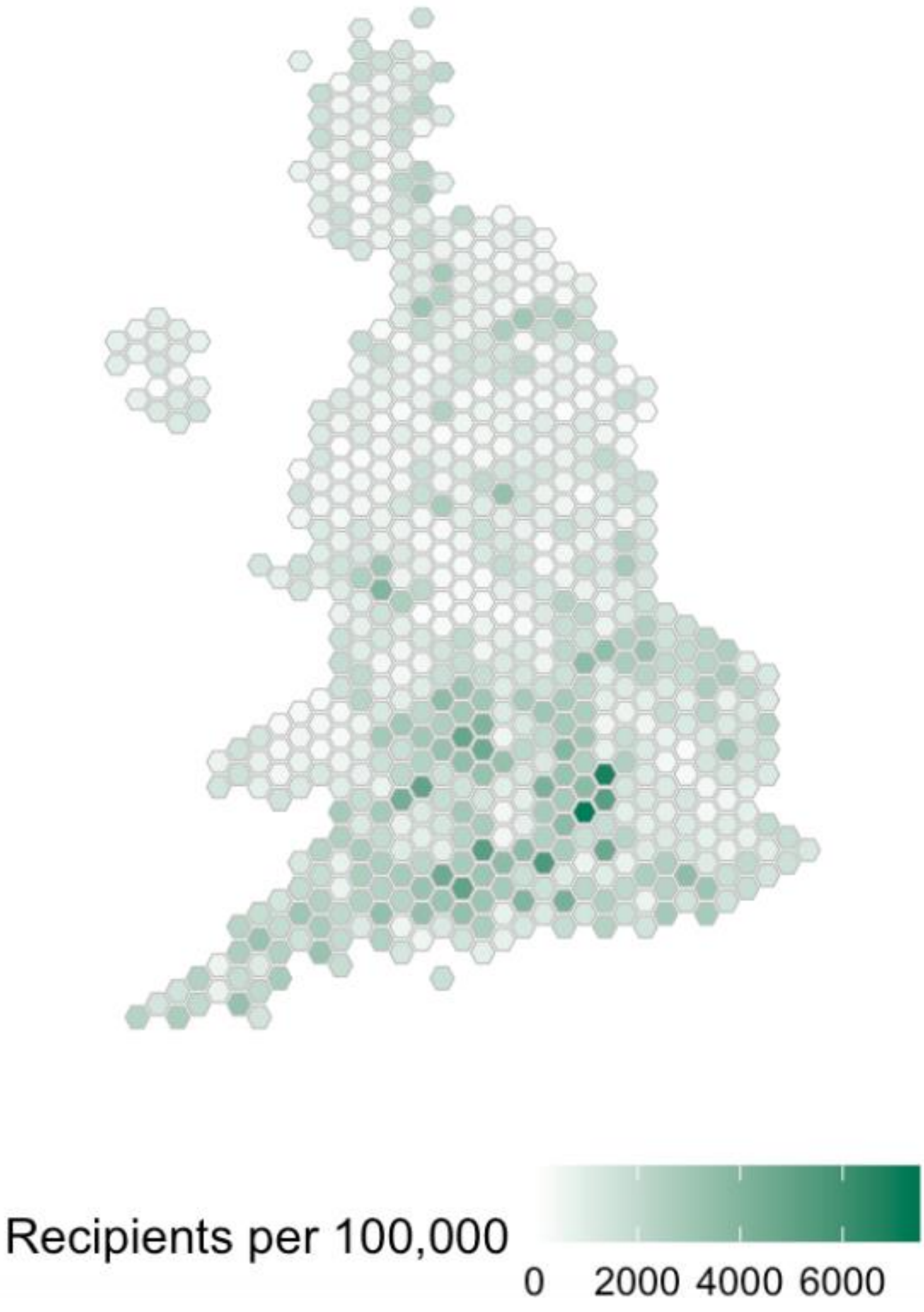
Appendix A: Additional Figures

Figure A1: Recipients of capital gains per 100,000 residents from 2015 to 2019 by parliamentary constituency, all constituencies



Source: Authors' calculations based on HMRC administrative datasets