



Capital Gains Tax Reform

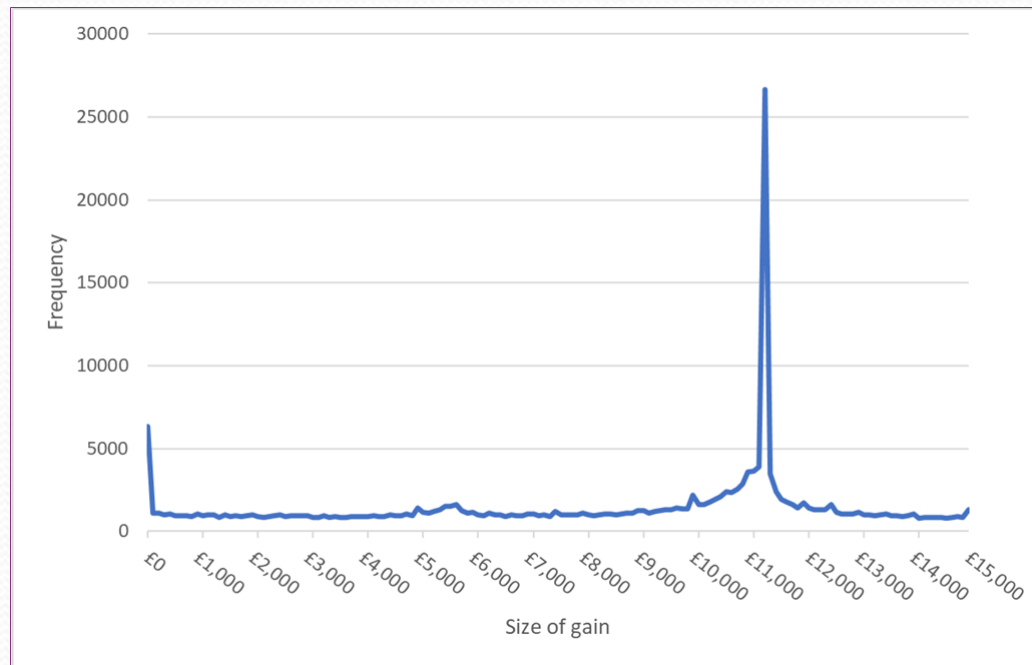
Finances of the Nation Panel Feb 11, 2022

Judith Freedman

UK debate

- Office of Tax Simplification
‘Capital Gains Tax Review, Simplifying by Design’
- November 2020
- <https://www.gov.uk/government/publications/ots-capital-gains-tax-review-simplifying-by-design>
- Multiple rates not aligned with income tax
- Boundary Distortions
- Reliefs (including uplift on death) and thresholds including annual exempt amount)

Frequency of net gains up to £15,000 for tax year 2017-18- Bunching at annual threshold (Source: OTS)



UK action

- No action taken as yet. Why?
- 2020: CGT £9.8 billion
- 2020: Income tax £193.6 billion

- Chancellor need £14 billion- which will he pick to increase?

Perceptions, Psychology and Politics

- Capital gains perceived as *wealth* not income, and put into a separate ‘mental account’

eg Liscow and Fox-*The Psychology of Taxing Capital Income: Evidence from a Survey Experiment on the Realization Rule*

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3848064

- Others argue on ability to pay and vertical equity grounds that capital accretions should be taxed **more heavily** than income from employment which is earned.

(Because most capital accretions go to those who already have wealth
(Advani and Summers – *Capital Gains and Hidden Inequality*)

https://warwick.ac.uk/fac/soc/economics/research/centres/cage/news/03-06-20-advantage_magazine_summer/article-6/