Capital Gains Tax Reform

Finances of the Nation Panel  Feb 11, 2022

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UK debate

- Office of Tax Simplification
  ‘Capital Gains Tax Review, Simplifying by Design’
- November 2020
- 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*
  

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