Why Raising Capital Gains Tax Won't Work

By Daniel Herring

- Many in the Labour Party are calling for the new Prime Minister to raise capital gains tax, and even to equalise it with income tax.

- But the Government's own analysis shows that raising CGT further would cost money, rather than raising it.

- Hiking the higher rate of CGT by 10 points, according to official estimates, would *lower* revenue by £3.6 billion after three years. This is supported by other studies into real-world increases in CGT in other countries.

- CGT is also overwhelmingly paid by a very few people: just 32,000 taxpayers account for 80% of CGT payments. This means that it is particularly vulnerable to those people deciding to leave the country.

- There are more sensible proposals on the table for reforming CGT rather than purely raising it, not least by only taxing gains above inflation, or a given rate of return. But these would make the tax even more dependent on proceeds from a few wealthy individuals.

- Even if the Treasury's estimates are wrong, CGT is a relatively minor tax – raising just £24 billion, or 2% of all revenue – so there is little prospect of generating enough revenue from it to fill the holes in the Government's balance sheet.

How much does CGT raise?

In 2024, amid widespread calls for the new Government to raise capital gains tax, the Centre for Policy Studies published a report explaining why this was a bad idea.[1] We made the point that CGT is often a form of double taxation, taxing investment that has already been subject to other tax (such as income tax). We also showed that it is economically damaging, pushing people to hold on to assets unnecessarily, and that it discourages entrepreneurship.

But there is a simpler explanation for why we were, and are, opposed to its being raised: it will very probably not raise any money.

CGT is applied to the difference between the price you bought an asset for and the price you sell it for. Every person gets a tax-free allowance, known as an annual exempt amount (AEA), which has

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[1] D Herring, 'Capital Losses: Why increasing CGT will deter investment, slow growth and reduce revenue', Centre for Policy Studies (25 October 2024). Link

been £3,000 since 2024-25. There is no adjustment for inflation and CGT does not apply to corporations.

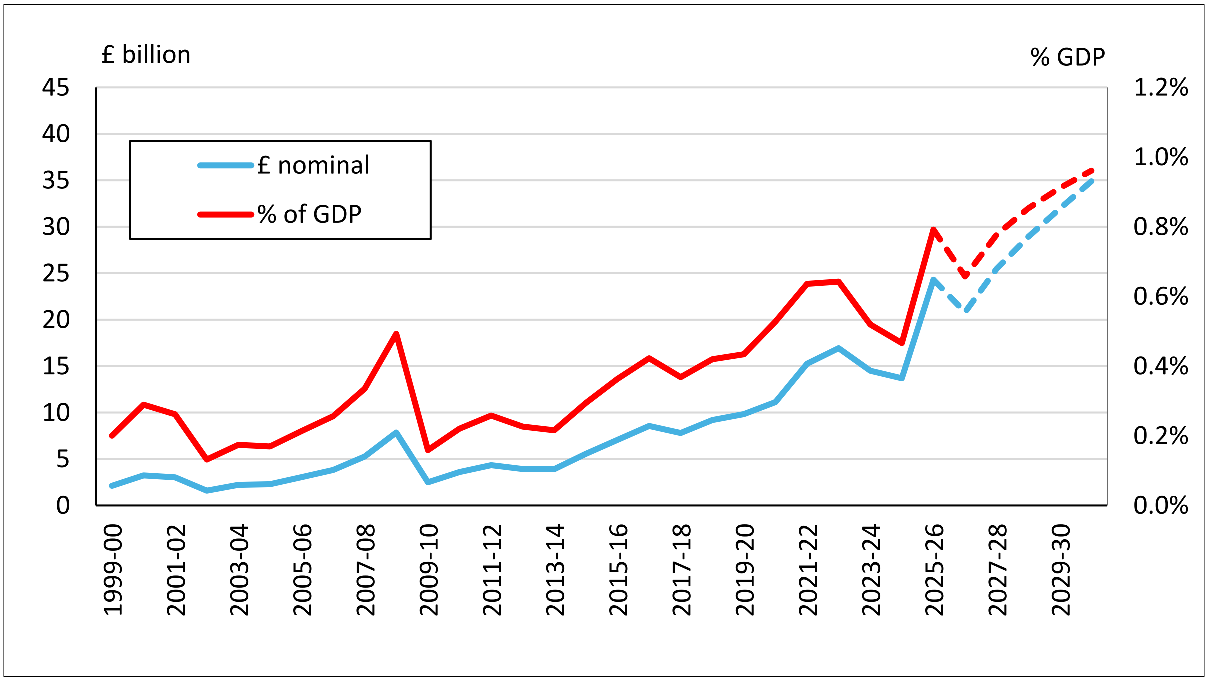
The rate of CGT varies by asset and whether the taxpayer is an individual or a trustee. The rates are (as of 2026-27):[2] 18% and 24% for individuals, 24% for trustees, 24% for personal representatives of someone who has died, and 18% for gains qualifying for Business Asset Disposal Relief or Investors' Relief.

The lower rate is paid by taxpayers who pay the basic rate of income tax. The higher rate is paid by taxpayers who pay a higher rate of income tax.

It is important to stress here that CGT is not a major source of revenue. In 2025-26, it raised £24 billion (2.0% of all government revenue), much less than income tax (£330 billion), National Insurance (£204 billion), and VAT (£182 billion).[3]

However, as the graph below shows, the amount it contributes has grown, both nominally and as a percentage of GDP, from £2.1 billion in 1999-2000 to £24.3 billion in 2025-26.

Capital gains revenue



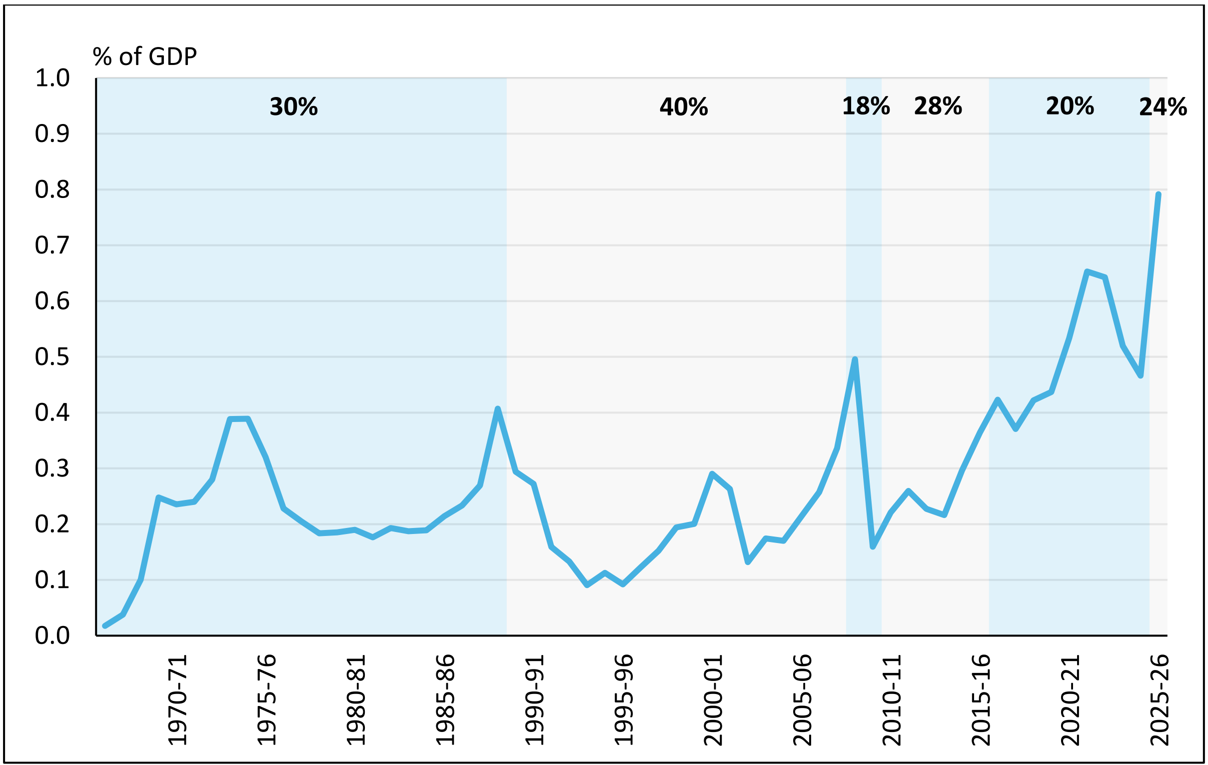
Source: Office for Budget Responsibility, 'Public finances databank – June 2026' (22 June 2026). Link

[2] Gov.uk, 'Capital Gains Tax rates and allowances' (13 April 2026). Link
[3] Office for Budget Responsibility, 'Public finances databank – June 2026' (22 June 2026). Link.

How much would raising CGT bring in?

When we look at the history of CGT in the UK, it is very hard to argue that there is consistent evidence for higher tax rates leading to higher revenues – although there are clearly years where there are large sales of assets in anticipation of future tax rises.

CGT revenue as a percentage of GDP, with headline rates of CGT



Source: OBR, 'Historical public finances database', (20 July 2023), with 2022-23 to 2025-26 updated from 'Public finances databank – June 2026' (22 June 2026). Link; D. Neidle, 'The history of UK capital gains tax in five charts', Tax Policy Associates (10 February 2024). Link

In general, the economic literature agrees that there is a major short-term response to an announced tax rise. That is because, for most assets, it is easy to move the sale forward in time.[4]

The longer-term consequences are less clear. A report by the Congressional Research Service notes the range of elasticities (the percentage change in revenue compared to a 1% change in the rate of tax) is between 0.22 and 0.9 when the CGT rate is 22% and rises to 23%. The starting rate and the size of the rate increase are important here, because the elasticity might change depending on the starting point and whether you want to raise CGT by one percentage point or 10.

[4] For example, see L. Burman and W. Randolph, 'Measuring Permanent Responses to Capital-Gains Tax Changes in Panel Data', The American Economic Review Vol. 84, No. 4 (September 1994), pp. 794-809. Link

The Congressional Research Service's assessment of the literature (based largely on US data) suggests raising the rate will increase revenue, but the amount it can raise is very difficult to estimate.

However, HMRC does produce 'ready reckoner' statistics, which show the estimated effects of illustrative tax changes on tax receipts.[5]

For a small increase in the tax, the estimated effect is positive but small – raising the lower rate of CGT by 1% will raise just £5 million in 2028-29. But a larger rise will lose money; a 10 percentage point rise in the higher rate will cost the Treasury £3.6 billion in 2028-29.

If accurate, this would be disastrous. Not only would a CGT rise distort investment decisions and damage the economy, it would also lose the Government revenue.

HMRC ready reckoner statistics

Capital gains tax policy change	Additional revenue, £ million		
	2026-27	2027-28	2028-29
Increase Business Asset Disposal Relief rate by 1 percentage point	10	135	180
Increase Business Asset Disposal Relief rate by 5 percentage points	40	635	840
Increase lower Capital Gains Tax rate by 1 percentage point	-5	10	5
Increase lower Capital Gains Tax rate by 5 percentage points	-40	20	-10
Increase lower Capital Gains Tax rate by 10 percentage points	-130	-55	-135
Increase higher Capital Gains Tax rate by 1 percentage point	-15	80	-30
Increase higher Capital Gains Tax rate by 5 percentage points	-170	-235	-870
Increase higher Capital Gains Tax rate by 10 percentage points	-540	-2,060	-3,565
Increase Annual Exempt Amount by £500 for individuals & £250 for trusts	0	-35	-30

IG, using analysis of HMRC's published assumptions, has concluded that increasing the CGT rate for additional rate payers – those whose income exceeds £125,140 a year – from 24% to 45% would cost £4.6 billion. An increase from 24% to 40% for higher rate payers would cost £3.2 billion. In total, they estimate that equalising income tax and CGT would cost the Treasury £7.76 billion.[6]

Not everyone agrees with this analysis. The Resolution Foundation argues for aligning CGT rates for shares with dividends tax rates (39.35%) and CGT for property with the tax on wages (so income tax

[5] HMRC, 'Direct effects of illustrative tax changes', (24 June 2025). Link
[6] J Simpson, 'Why Wes Streeting's wealth tax could cost the Treasury £8bn', The Times (29 June 2026). Link

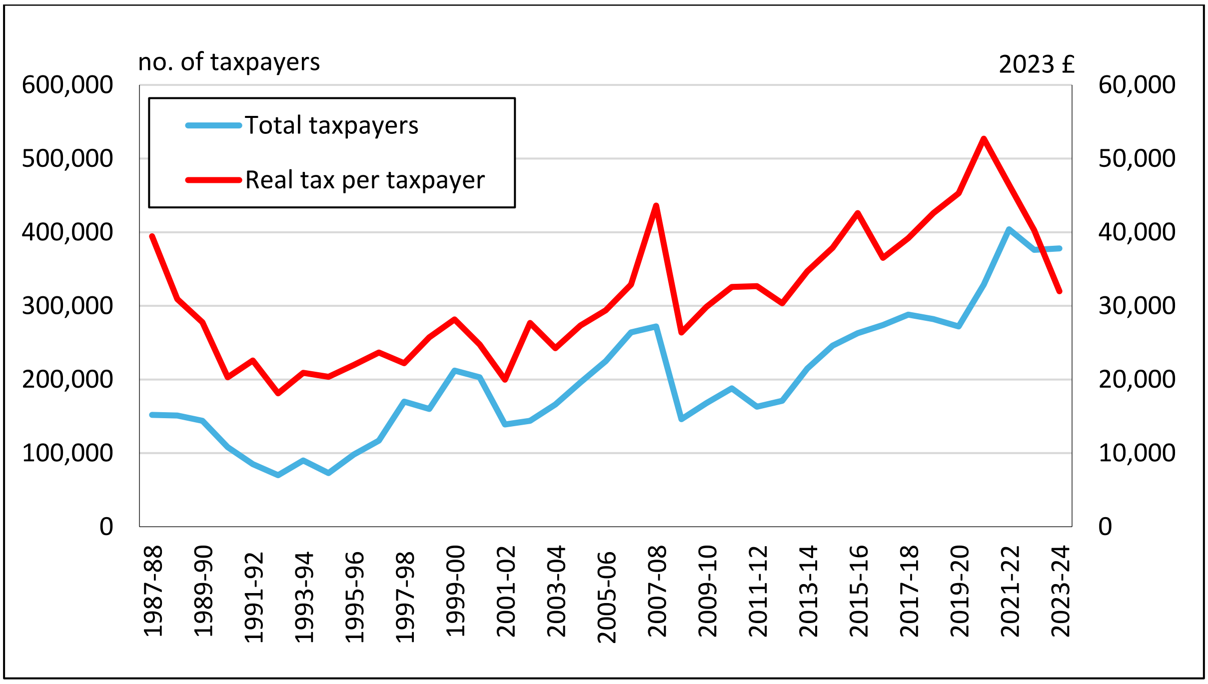
plus National Insurance), albeit alongside the introduction of inflation indexing as discussed below. It estimates that this would raise £8 billion, before accounting for behavioural change.[7]

However, this is a big assumption. Behaviours will certainly change as a result of this policy, and therefore the revenue will definitely be less than £8 billion – not least because CGT is uniquely vulnerable to the departure of a few high earners.

Who pays capital gains tax?

Unlike the big three taxes, CGT is paid by a small number of taxpayers. According to HMRC, in 2023-24 378,000 taxpayers paid £12.1 billion on £65.9 billion of realised gains. Most gains go to individuals, rather than trusts (in 2023-24, individuals paid 95% of all CGT).[8]

Total CGT payers and amount paid per taxpayer (includes trusts & individuals)



Source: HMRC, 'Capital Gains Tax statistics' (24 July 2025) 'Table 1: Estimated number of taxpayers, amounts of gains and tax liabilities by year of disposal'. Link. Adjusted using CPIH inflation (Link)

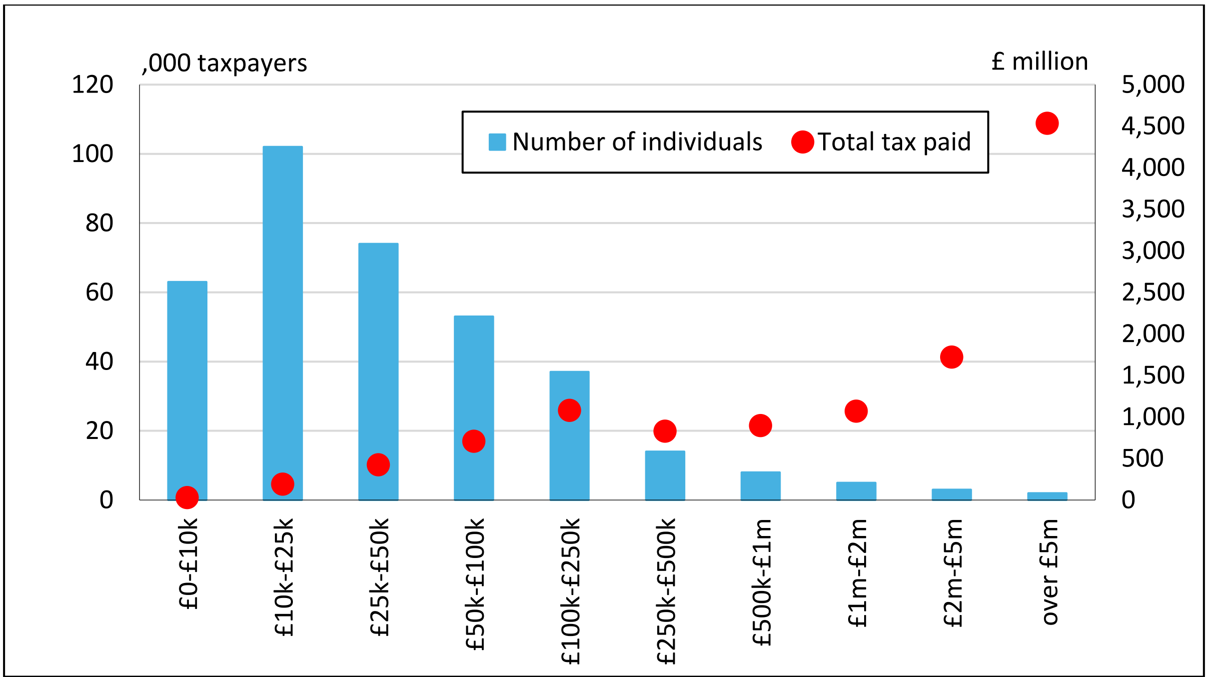
[7] A. Corlett, 'Revenue and reform: What tax changes could – and should – we see in Autumn Budget 2024?' Resolution Foundation (10 September 2024). Link

[8] It's worth noting that HMRC's number for the total CGT paid is less than what the OBR gives (HMRC states recent years are provisional estimates).

The total number of taxpayers and the amount paid per taxpayer have both grown since the 1990s. In 1987-88, 150,000 taxpayers paid, on average, £39,000 in CGT each in today's money. This fell in the 1990s: in 1992-93, 70,000 people paid £18,000 each. But by 2023-24, 378,000 taxpayers were paying an average of £32,000 each.

In truth, however, most CGT is paid by a very small number of people who have very large gains. In the most recent figures, just 5,000 taxpayers – less than 2% of those who pay CGT – had gains of over £2 million apiece and accounted for half of the total CGT paid. Just over 10% of those paying CGT, 32,000 taxpayers, had gains over £250,000 and accounted for 80% of gains.

Number of taxpayers and total CGT paid, by range of capital gain (2023-24)



Source: HMRC, 'Capital Gains Tax statistics' (24 July 2025) 'Table 2.1: Estimated number of taxpayers, amounts of gains and tax liabilities by size of gain'. [*Link*]

The obvious implication of this is that it would only take a relatively small number of people – generally the most mobile and tax-efficient investors and entrepreneurs – to change their behaviour, or indeed to leave the country, for CGT revenues to fall dramatically.

Indeed, were CGT to be equalised, it would leave us with a top rate of 45%, comfortably the highest in the OECD. It is hard to see how this would not result in Britain becoming seen as a deeply hostile place for entrepreneurship and investment.

Capital gains tax rates (with top marginal income tax rate for comparison)

Country	Capital gains tax rate[9]	Top income tax rate
Denmark	42%	56%
Chile	40%	40%
Norway	38%	47%
Netherlands	36%	52%
Finland	34%	57%
France	34%	56%
Ireland	33%	52%
Spain	30%	45%
Israel	30%	50%
Sweden	30%	52%
United States	29%	46%
Latvia	29%	36%
Austria	28%	55%
Canada	27%	54%
Germany	26%	47%
Italy	26%	53%
United Kingdom	24%	47%
Australia	24%	47%
Czech Republic	23%	35%
Estonia	22%	20%
Iceland	22%	46%
Japan	20%	56%
Lithuania	20%	39%
Portugal	20%	58%
Poland	19%	36%
Colombia	15%	39%
Costa Rica	15%	34%
Hungary	15%	34%
Mexico	10%	35%
Belgium	0%	60%
Switzerland	0%	41%
Greece	0%	53%
Korea	0%	52%
Luxembourg	0%	47%
New Zealand	0%	39%
Slovenia	0%	61%
Slovak Republic	0%	35%
Turkey	0%	41%

Source: Tax Foundation, 'International Tax Competitiveness Index 2025' (20 October 2025). Link

[9] Note that where there are multiple rates of CGT, this table is capturing CGT on the sale of listed shares after an extended period of time.

The fairness argument against raising CGT

The main argument in favour of raising CGT is about fairness. If Sally makes £50,000 from selling an asset, and John makes £50,000 from employment, why shouldn't that income be treated the same?

This was the view of Nigel Lawson in his 1988 Budget:

> 'Moreover, at present, with capital gains taxed at 30 per cent for everybody, higher rate taxpayers face a lower – sometimes much lower – rate of tax on gains than on investment income, while basic rate taxpayers face a higher rate of tax on gains than on income. This contrast is hard to justify.
>
> 'I therefore propose a fundamental reform… the indexed gain will be taxed at the income tax rate that would apply if it were the taxpayer's marginal slice of income. In other words, I propose in future to apply the same rate of tax to income and capital gains alike.'[10]

The second, associated argument is for tax neutrality. Ideally, a tax system should treat income and capital gains the same, meaning there is no incentive to package income as gains purely for tax purposes. There have been industries where people transformed their income into a form of capital gain, lowering their tax liability for a gain that is, in reality, employment income.

A different angle on the fairness argument is the impact on inequality. For example, academics at the Centre for the Analysis of Taxation, Arun Advani and Andy Summers, argue that, for the top 1% of taxpayers, the share of income from capital gains is rising.[11] A lower rate of CGT makes the taxation of total remuneration (gains + income) less progressive.

Yet there is a powerful critique of this. If someone invests £1,000, and it rises in value, they will end up with a gain. But where did they get that £1,000 from in the first place? If they earned it as a salary, they will already have been taxed on the money – then, when they invest it, they are taxed on it again, even if its value has actually decreased against inflation.

Furthermore, they have no way of knowing, when they make the investment, whether it will go up or down. Persuading people to invest is how we deploy capital in the economy, and produce economic growth. A capital gains tax takes a risky but essential economic activity, and penalises it.

It's also important to consider how CGT interacts with other parts of the tax system. For example, a failure to take into account the amount of corporation tax already paid when taxing shares would result in a tax rate higher than the top income tax rate.[12] CGT also punishes entrepreneurs when they sell their business: serial entrepreneurs might be tempted to keep running their businesses when it would be better for them to sell it and start a new one, or put off from ever starting a business.[13]

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[10] N. Lawson, 'Budget Statement 1988', (HC Deb 15 March 1988 vol 129 cc1004-6). Link

[11] A. Advani and A. Summers, 'Capital Gains and UK Inequality', CAGE Research Centre working paper no. 465 (May 2020). Link

[12] S. Adam, 'The IFS Green Budget: January 2008 - 10. Capital Gains Tax', Institute for Fiscal Studies (30 January 2008). Link

[13] This is an argument modelled in V. Chari et al, 'Business Start-ups, The Lock-in Effect, and Capital Gains Taxation', Yale Department of Economics Working Paper. Link

The need for indexation

It is often mentioned that Nigel Lawson equalised capital and income taxes. But what is usually ignored is that he introduced an element of indexation: that is to say, gains were only taxed above inflation.

One of the most convincing critiques of CGT – acknowledged even by many economists on the left – is that unless there is an allowance for inflation, the tax will punish nominal rather than real gains.

This critique can be extended to the 'normal return on investment', which 'can be thought of as the return that just compensates savers and investors for the delay in consumption (without any additional compensation for risk-taking), and makes them willing to part with their money.'[14] For an investor, this is the annual return that would make them completely neutral between investing and spending the money today.

If there is no allowance for this normal return, then there would still be a bias against investing, if CGT and income tax rates were equal. But crucially, without an allowance for the normal rate of return, the *current* rate of CGT punishes anyone whose gains are below the normal return.

There is widespread agreement that the UK should deal with this issue by giving an allowance for the normal return, which is unfairly punishing many investors. The Institute for Fiscal Studies (among others) has proposed CGT reform where tax would only be applied above the normal return.[15]

Or take the proposals from Arun Advani, Andy Summers and Andrew Lonsdale, whose tax ideas have been extremely influential within the Labour Party.[16] They propose the following package:

1) Align CGT rates with income tax rates
2) Introduce an investment allowance, exempting the normal rate of return
3) Remove the 'death uplift', where there is no CGT applied when the owner dies and an asset is inherited
4) Introduce an 'exit tax', so that any gains made while in the UK are paid when someone stops being a UK resident (they would also exempt any gains made before someone becomes a UK tax resident)
5) Increase the generosity of capital losses so that you can set them against other income

Using data from tax year 2019-20, they estimate that this package would raise £15.7 billion on a static basis, and £9.6 billion on a dynamic basis. Applying this analysis to 2025-26, they estimate the full package could raise £14.3 billion on a dynamic basis, almost doubling the revenue from the tax.

The authors are respected academics, but we need to apply caution to their analysis. First, the behavioural response is highly uncertain (as they acknowledge). They assume an elasticity of 1 for

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[14] S. Adam & H. Miller, 'Taxing work and investment across legal forms: pathways to well-designed taxes', Institute for Fiscal Studies (26 January 2021) p 66. Link
[15] See: S. Adam et. al, 'Capital gains tax reform', Institute for Fiscal Studies (6 October 2024). Link; T. Clougherty, 'Can we reform Capital Gains Tax to go for growth?', Business Money (2 September 2024). Link
[16] A. Advani et al, 'Reforming Capital Gains Tax: Revenue and Distributional Effects', Centre for Analysis of Taxation (11 October 2024). Link

their central estimate, but provide an estimate where the elasticity is two, which would reduce the additional revenue in 2026 to £5 billion.

But there is a broader point here. As the authors note, most of the gains of around 90% of CGT taxpayers will be below the normal rate of return, meaning they will be better off under these proposals, because after the investment allowance is applied they would be exempt. They might even be able to claim a loss.

However, the very wealthiest who earn the largest gains will be hardest hit – the top 0.1% would be paying more than twice as much CGT under these proposals.[17]

But as we saw earlier, CGT is already a tax almost exclusively on the wealthy – with just 32,000 taxpayers accounting for 80% of revenue, and 5,000 accounting for half. Sharply increasing the amount these people are asked to pay is likely to have strongly disproportionate effects on behaviour – whether that be keeping hold of assets, or simply avoiding the UK as a destination.

There is no good reason to raise CGT

As with many of its other mooted tax increases, Labour is playing a dangerous game with capital gains tax. Along with changes already made under Rachel Reeves, the reasons for staying in the UK for investors, entrepreneurs and job creators are dwindling.

As we have shown in this paper, and its predecessor, a CGT rise will probably raise little revenue in the short run. And in the long term, it could very easily be revenue-negative. More worryingly, it could damage economic growth in the future.

British tax policy has long focused on making marginal changes to find additional amounts of revenue without considering the incentives and coherence across the whole tax system. The CGT rises mooted for a Burnham government would not just be bad for growth, but make this problem even worse.

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[17] A. Advani et al, 'Reforming Capital Gains Tax: Revenue and Distributional Effects', Centre for Analysis of Taxation (11 October 2024). Link. See Table 7a, p 42.