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Reforming Capital Gains Tax: Revenue and Distributional Effects

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

[1]Centre for the Analysis of Taxation (CenTax), University of Warwick Economics, and Institute for Fiscal Studies

[2]CenTax

[3]CenTax and London School of Economics & Political Science (LSE) Law School

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Executive Summary

Overview

Few UK policies have faced as turbulent a history over recent decades as Capital Gains Tax (CGT). The current CGT regime is the product of a series of contradictory reforms that have rendered the rules needlessly complex, inefficient, and unfair. Laying out a roadmap for much-need change, this report recommends a **comprehensive package of CGT reforms going beyond changes to the tax rate**. We use de-identified tax data accessed via His Majesty's Revenue and Customs (HMRC) to provide estimates of the **revenue and distributional impacts** of these recommendations. Importantly, our policy proposals include changes to the tax base that will shut down opportunities for tax avoidance and improve investment incentives and growth. We emphasise that these measures are essential alongside any increases in the tax rate in order for CGT reform to be effective.

Our policy package

Our package starts by equalising CGT and Income Tax rates, whilst also introducing an 'investment allowance'. This represents a **reinstatement of the system introduced by Chancellor Nigel Lawson** in the 1988 Budget, although with a **more generous investment allowance** than merely inflation. We also propose reforms to **eliminate current 'leaks' in the CGT tax base** arising from death and emigration, and to improve the tax treatment of losses. We outline each of these measures below.

1) Equalise CGT rates with tax rates on income

Differential tax rates on income and gains cause distortions to real economic activity and create strong incentives for tax planning and avoidance. The preferential tax treatment of capital gains leads to both vertical and horizontal inequity in the tax system and has sparked a complex array of anti-avoidance rules to police the boundary between income and gains. Under a system where the tax rates on income and gains are equalised, most of these rules would cease to be necessary, bringing major advantages in simplifying the tax system and making it easier to understand. We recommend equalising CGT rates with Income Tax rates. This entails a rate of 20% (Basic Rate), 40% (Higher Rate) or 45% (Additional Rate) on taxable gains, depending on the taxpayer's Income Tax band after aggregating their income and gains.

2) Introduce an 'investment allowance'

The current CGT system subjects the entire nominal gain to tax. This raises clear concerns on both fairness and efficiency grounds. We propose (re)introducing an investment allowance that is deducted from the tax base when calculating taxable gains. Administratively, the allowance would operate in the same way as Nigel Lawson's 'Indexation Allowance', which applied to disposals by individuals from

1987 until 1998. Our central modelling is based on an allowance for the (risk-free) rate of return, in line with the recommendations of the Institute for Fiscal Studies in the Mirrlees Review, though we also provide estimates using an allowance for inflation.

3) Remove death uplift

There is currently no CGT on assets held until death, as inheritors acquire assets with the base cost 'uplifted' to their market value at that date. This creates a significant incentive to indefinitely defer disposals of assets with substantial accrued gains. It similarly disincentivises additional investment in business assets shortly prior to death, since the credit for that investment is wiped out on death. If CGT rates are equalised with Income Tax rates it is therefore crucial that the existing death uplift is also removed. Our favoured approach is to 'carry over' the original base cost of the asset to the inheritor, such that when eventually sold, the inheritor pays CGT on the full gain since the asset was acquired by the deceased. To address concerns over double taxation, we recommend giving the inheritor a deduction against CGT (on a subsequent disposal) in respect of the IHT already paid on the asset.

4) Rebasing on arrival and deemed disposal on departure (ROA-DDD)

Currently, if individuals emigrate prior to disposing of assets, they can escape UK CGT on the gains they made whilst living in the UK. This results in lost revenue even if the emigration was not directly tax motivated, although there is evidence to suggest that the destinations of individuals holding large business gains are disproportionately low-tax jurisdictions. We recommend the introduction of rebasing on arrival with deemed disposal on departure ('ROA-DDD') for CGT. This policy would ensure that gains made by an individual whilst UK resident are taxed in the UK, even if they subsequently move abroad. It also removes from UK CGT any gains that individuals made before they arrived in the UK, which ensures that the resulting tax treatment is fair and symmetrical.

5) Improve tax treatment of losses

There are currently several restrictions on using capital losses to offset other gains or income. This results in an asymmetry whereby gains on successful investments are taxed in full but losses on unsuccessful investments are not given full relief, which discourages risk-taking and entrepreneurship. We think that reforms to the tax treatment of losses should be subject to consultation and further evidence-gathering to ensure an appropriate balance between economic objectives and administrative feasibility. However, we recommend that some of the revenue generated from the other measures in our package should be set aside to fund a more generous loss regime.

Revenue Estimates

HMRC's official statistics on 'Direct effects of illustrative tax changes' (commonly known as the 'ready reckoner') states that a reform to CGT which increases the top CGT rates by 10pp would *cost* £2bn per year by the third year after implementation (HMRC, 2024). There is **no information in the public domain about how HMRC obtained their estimate**. If the elasticity underlying HMRC's behavioural model is estimated from past reforms to CGT in the UK, **it would not be suitable for analysing the behavioural effects of the package of reforms that we propose** due to large contextual differences. We adopt a different approach that involves taking the best available evidence from the international literature and applying adjustments to account for the specific features of our proposed policy setting.

We estimate that if our policy package is implemented in full it would raise an additional £14bn in total revenues across CGT and Income Tax, over the medium term. This is our *central* estimate: that is, in our view there is equal likelihood that the true revenue could turn out to be higher or lower. It is equivalent to an 88% increase on the £16.2bn CGT base that is currently forecast by the Office for Budget Responsibility for 2025/26. Speculation about CGT reform will already have led to forestalling, which would reduce the tax base and additional revenue in the short-term, so the proportional revenue increase is best thought of as a medium-term effect using the 2025/26 static tax base.

A substantial share of total additional revenue from the reform would come from Income Tax rather than CGT. This is because, once CGT and Income Tax rates are equalised, there will no longer be an incentive to shift income into gains. It follows that over time, people who were previously structuring their remuneration as gains are likely to start receiving more income instead. This does not matter for total tax revenues (when both income and gains are taxed at the same rate) but it means that additional CGT revenues may be substantially less than £14 billion.

Our estimate accounts for behavioural responses, but these are uncertain and sensitive to policy design. Under our worst-case scenario (largest behavioural response) we estimate an additional £9.7bn would be raised by reform, as long as ROA-DDD were implemented. Amongst the UK's international peers, all countries with a higher CGT rate also charge CGT on emigrants. Without this the migration response could be substantial and reduce revenues to below our worst-case estimate.

Distributional effects

Despite raising substantial additional revenue, our proposed policy package would overall create more 'winners' than 'losers'. We estimate that **over half (51%) of CGT payers in 2020 would have been better off under our proposed reforms**, and 7% would be neither better nor worse off. This includes nine out of ten individuals whose largest gains come from residential property, because for this group the effect of the new investment allowance would outweigh the increase in CGT rate. Overall, the reform would **remove 40% of current CGT payers from paying CGT altogether**.

Most (68%) of the additional revenue from our proposed reform comes from the top 0.1% richest taxpayers (based on their total income and gains over five years). The biggest losers from the reform are those who currently obtain large gains but have put little or none of their own capital at risk. This includes **business owners who receive returns on their labour via a company**. To the extent that business owners have invested their own capital in the company, they would benefit from the investment allowance. Genuine risk-taking would be further supported by improvements to the loss regime.

Impacts on growth

Despite a common assumption that raising CGT rates must be 'bad for the economy' there are strong arguments that, overall, our proposed package of reforms would actually be **better for growth and productivity**, while bringing in additional revenue for the government. This **relies crucially on the reforms to the tax base** that we are proposing alongside an increase in rates.

Equalisation of CGT rates with Income Tax would **reduce distortions to people's choices about how to work**, by removing the incentive to repackage labour income as gains via company structures. Introducing an investment allowance for the (risk-free) rate of return would **remove the disincentive to make investments that would have been unprofitable (after tax) under the current system**. Improving the tax treatment of losses so that the government takes its share of the downside as well as upside of risky investments, would **reduce disincentives to risk-taking**.

The fact that gains held until death or emigration are currently exempted from CGT means that individuals have an incentive to hold on to assets longer than is economically efficient. The **removal of uplift at death and introduction of rebasing on arrival and deemed disposal on departure would remove these damaging 'lock-in' effects**. By closing down these major 'leaks' in the tax base, some people would decide it was no longer worth holding on to assets just to save CGT, improving the allocation of capital in the economy.

Introduction

Few UK policies have faced as turbulent a history over recent decades as Capital Gains Tax (CGT). The current CGT regime is the product of a series of contradictory reforms that have rendered the rules needlessly complex, inefficient, and inequitable. The costs of this poor design have also increased substantially over the past decade given the rapid upwards trend in aggregate gains, which rose from £22 billion to £88 billion over the 10-year period from 2013 to 2022.[1] Reforming the taxation of capital gains could remove economic distortions and improve the fairness of the UK tax system while raising substantial revenues.

This report recommends a comprehensive package of reforms going beyond merely changes to the tax rate. We provide estimates of the revenue and distributional impacts of these recommendations using de-identified tax data accessed via His Majesty's Revenue and Customs (HMRC). Importantly, our policy recommendations include changes to the tax base that will shut down opportunities for tax avoidance and improve investment incentives and growth. We emphasise that these measures are essential alongside any increases in the tax rate, in order for CGT reform to be fully effective.

[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.

What is Capital Gains Tax?

Overview

When an individual buys and sells assets as part of their trade, any profits they make are liable to Income Tax. However, if they held the asset for 'investment' rather than trading purposes, any such profits are liable to CGT instead. The distinction between trading and investment is extremely precarious as a matter of tax law. And yet, under our current tax system, the difference in tax treatment is dramatic. Whereas the top rate of Income Tax is currently 45%, most types of gain are taxed at 20% (and can be as low as 10%).

CGT is charged on the difference between the amount that the asset cost to acquire (including the purchase price and certain other allowable expenditure) and the amount it was sold for (or its market value if given away). An accrued but unrealised capital gain is generally not taxed so long as the owner retains the asset. On death – or emigration, if the individual does not return to the UK within six years – any accrued gains are 'forgiven' entirely. Main homes, Individual Savings Accounts (ISAs) and investments in tax-advantaged start-up schemes are also entirely exempt from CGT, regardless of when sold.

Each taxpayer has an 'annual exempt amount' of gains (currently set at £3000), analogous to the Income Tax personal allowance. For most asset types, the CGT rate is either 10% (for basic rate Income Tax payers) or 20% (for higher and additional rate taxpayers).[2] Gains made on residential property or carried interest are taxed at either 18% for basic rate payers, or 24/28% respectively for higher and additional rate taxpayers. 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. Taxpayers selling unlisted shares in a company they have no connection to can 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. Unlike earnings, capital gains also do not attract any national insurance contributions. Moreover, whereas Income Tax is charged on the income that arises to an individual every year, CGT is (generally) only charged once an asset is disposed of, meaning that individuals can defer payment of the tax by holding on to the asset and potentially escape tax altogether if they die or leave the UK prior to making a sale.

[2] In previous work we showed that 70% of capital gains are received by higher and additional rate Income Tax payers (Advani, Lonsdale & Summers, 2024), so the lower rates (10% and 18%) only apply to a small share of taxable gains.

Non-residents and trusts

In general, CGT is only levied on disposals of assets by UK residents. This means that any gains accruing to a UK resident who becomes non-resident prior to disposing of the asset will usually escape UK CGT (unless they return to the UK within six years, under 'Temporary Non-Resident' rules).[3] However, there is an exception in the case of UK land and property, which are subject to UK CGT regardless of the owner's country of residence.

There are separate rules for taxing gains on assets held within a trust. If the trust is UK resident, CGT will usually arise as soon as an asset is disposed of by the trustees (including deemed disposals when the beneficiary becomes absolutely entitled to settled property, and on the end of an interest in possession). This is also the case where the trust is non-resident but settlor-interested.[4] For other non-resident trusts, UK CGT is only due if and when a distribution is made to a UK-resident beneficiary, rather than on the disposal of assets within the trust.[5]

Brief history

There was no tax on capital gains until the introduction of CGT in 1965 by Labour Chancellor James Callaghan.[6] Most gains were originally taxed at a flat rate of 30%, although with substantial tax avoidance opportunities. In the 1988 Budget, Conservative Chancellor Nigel Lawson introduced major reforms to CGT, including equalising CGT rates with Income Tax and introducing an investment allowance for inflation, known as 'Indexation Allowance'. Since then, CGT has been subject to a series of major and contradictory reforms almost every decade. In Table 1, we summarise the main changes since the 1988 Budget.[7] Figure 1 illustrates the evolution of effective CGT rates over this period, for comparison with the top rate of Income Tax.

[3] The temporary non-resident rules only capture taxpayers that return to the UK after less than 6 years of non-residency (TCGA 1992, s 1M).

[4] TCGA 1992, s 86. In this case, the liability is on the settlor rather than the trustees.

[5] TCGA 1992, s 87

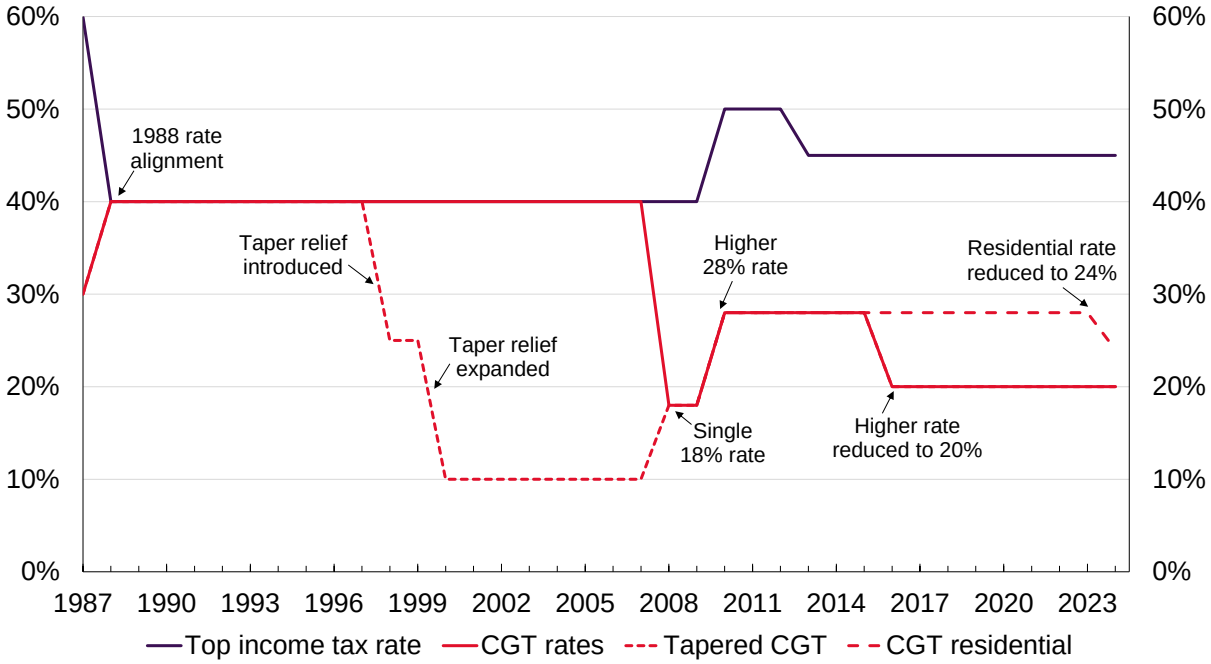
[6] A short-term gains tax was introduced in 1962 targeting speculative gains (shares and securities held for less than 3 months or land held for less than 3 years).

[7] For a detailed discussion of these reforms, see Seely (2010, 2020).

Table 1: Summary of reforms to CGT since 1988

Year	Party (Chancellor)	Reforms
1988	Conservative (Nigel Lawson)	• Equalise CGT and Income Tax rates (top marginal rate of 40%) • Introduce investment allowance for inflation, known as 'Indexation Allowance' • Rebase assets to 1982
1998	Labour (Gordon Brown)	• Replace Indexation Allowance with Taper Relief (for individuals) • From 2003, enhanced Taper Relief resulting in 10% effective CGT rate on business assets held 2+ years • Introduce Temporary Non-Resident Rules taxing gains whilst non-resident if return within six years
2008	Labour (Alistair Darling)	• Remove Taper Relief • Introduce flat 18% CGT rate on all gains • Introduce 'Entrepreneurs Relief' (up to lifetime cap of £1m) resulting in 10% effective CGT rate on qualifying business assets, extended to £2m in 2010
2010	Coalition (George Osborne)	• Increase CGT rate to 28% for Higher/Additional Rate taxpayers • Increase lifetime cap on Entrepreneurs Relief to £5m, then £10m (from 2011)
2016	Conservative (George Osborne)	• Reduce CGT rate to 20% for Higher/Additional Rate taxpayers • Retain 28% rate for residential property and carried interest
2020	Conservative (Rishi Sunak)	• Reduce lifetime cap on Entrepreneurs Relief to £1m, and rename to Business Asset Disposal (BAD) Relief
2024	Conservative (Jeremy Hunt)	• Reduce CGT rate on residential property to 24%

Figure 1: Evolution of CGT rates, 1987-2024



Notes: Tapered rates of CGT shown assuming a 5-year holding period.

Source: Authors' calculations.

Our proposed policy package

We propose a package of measures for reforming CGT that as well as improving the fairness of the tax system – by removing the unequal treatment of income and gains – will help to support growth by reducing existing economic distortions and the current disincentives for real capital investment. Our package starts by equalising CGT and Income Tax rates, whilst also introducing an 'investment allowance'. This represents a reinstatement of the system introduced by Chancellor Nigel Lawson in the 1988 Budget, although the investment allowance could be more generous than merely inflation. We also propose reforms to remove the two main structural 'leaks' in the CGT tax base (death and emigration), and to improve the tax treatment of losses. We outline each of these measures below.

(1) Equalise CGT rates with tax rates on income

Differential tax rates on income and gains cause distortions to real economic activity and create strong incentives for tax planning and avoidance. Although CGT is supposedly a tax on the returns to capital investment, a large share of gains – especially on unlisted shares – actually reflect little to no capital investment by the taxpayer (Advani, Hughson, Inkley, Lonsdale & Summers, 2024). This results partly from tax planning that enables direct repackaging of labour income into gains,[8] and partly from distortions to peoples' choices over how they work.[9] To the extent that individuals choose to work in a form that is less productive simply in order to save tax, this can have negative effects on growth.

The preferential tax treatment of capital gains also leads to both vertical and horizontal inequity in the tax system. Advani, Hughson & Summers (2023) show that low CGT rates are the main driver of declining effective average tax rates (EATRs) at the top of the distribution, meaning that the wealthy benefit from lower tax rates while most taxpayers have no choice but to pay higher income tax rates on their earnings. Moreover, CGT drives most of the disparities in EATRs across individuals at the same level of total remuneration, meaning that two individuals with the same total remuneration currently pay very different tax rates according to where they get that remuneration from.

The current tax system has evolved a complex array of anti-avoidance rules to police the boundary between income and gains.[10] Examples include rules relating to employment-related securities, anti-phoenixing, anti-avoidance on share buybacks, and so on. Many of these rules are highly uncertain in their application.

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[8] For example, retained profits within a personal services company that are later extracted as a capital distribution via a Members Voluntary Liquidation. Since 2016, so-called 'anti-phoenixing' rules have limited the scope for this kind of planning, but it is still feasible for retirees.

[9] For example, an individual choosing to leave employment in a large firm where they were highly productive in order to set up a personal services company where they are less productive but pay lower taxes. See further the discussion under 'Growth' below.

[10] See further Office of Tax Simplification (2020), Ch 3.

Table 2: Effective tax rates by type of income, 2024/25

Type of income	Effective rate (Basic)	Effective rate (Higher)	Effective rate (Additional)
Savings, property & other investments	20%	40%	45%
Dividends (incl CT @ 25%)	31.6%	50.3%	54.5%
Employment (incl Employer & Employee NICs)	36.7%	49%	53.4%
Self-employment / partnership (incl NICs)	26%	42%	47%

Notes: Effective rates account for National Insurance Contributions (NICs) and Corporation Tax (CT) where relevant. Effective dividend rate assumes corporation tax at 25%; for companies with profits less than £50,000, the rate is 19%. Does not account for withdrawal of the personal allowance on incomes over £100,000.

Source: Authors' calculations.

This not (generally) because of poor drafting or design, but fundamentally because they are attempting to define a distinction that lacks economic substance. Under a system where the tax rates on income and gains are aligned, most of these rules would cease to be necessary, bringing major advantages in simplifying the tax system and making it easier to understand.

We recommend equalising CGT rates with tax rates on income. However, there are currently several different effective tax rates on income, depending on the type of income, as illustrated in Table 2 below. Ideally, the tax system would be further reformed to eliminate these disparities so that all forms of income (including gains) were taxed at the same effective rate. This could be achieved in a revenue-neutral way by increasing effective rates on the lowest-taxed forms of income and making offsetting reductions to the rates for higher-taxed forms.[11]

Pending any future reforms that may be needed to account for the impact of National Insurance Contributions and Corporation Tax on effective tax rates across different forms of income and gains, our modelling is based on equalising CGT rates with the statutory rates of Income Tax. This equates to 20% (Basic Rate), 40% (Higher Rate) or 45% (Additional Rate), depending on the taxpayer's Income Tax band after aggregating their taxable income and gains. We apply the same tax rate to all asset types, removing the special rates currently applied to residential property and carried interest.[12] Our model also assumes the abolition of BAD Relief and Investors'

[11] See further Adam & Miller (2021a), p73-78.

[12] For further revenue analysis of reforms to carried interest, see Advani, Gazmuri-Barker, Mahajan, Poux & Summers (2024). In our main CGT model, we model revenue from carried interest together with all other gains. It follows that our revenue estimates in this paper should not be summed with the separate estimates for carried interest in Advani, Gazmuri-Barker, Mahajan, Poux & Summers (2024).

Relief. We assume that Private Residence Relief (the exemption for main homes) would be retained in its current form.

It is often argued that increasing CGT rates would be harmful for growth. We have already mentioned some reasons why bringing tax rates on gains closer to rates on income could actually assist growth, by removing economic distortions that currently create misallocation and reduce productivity. Additionally, two of the measures that we propose below – introducing an investment allowance and improving the tax treatment of capital losses – would have the growth-enhancing effect of removing existing disincentives for genuine capital investment. We provide a more detailed discussion of the indirect effects of our entire package of proposed reforms on the wider economy in the penultimate section of the paper.

(2) Introduce an 'investment allowance'

The current CGT system subjects the entire nominal gain to tax. This raises clear concerns on both equity and efficiency grounds. If an asset's value increases in line with inflation over its holding period, a taxpayer can find themselves liable to pay CGT without experiencing any real increase in their economic wellbeing. This reason is sometimes given to justify lower CGT rates, because it is seen to partly offset the effect of taxing purely inflationary gains. However, granting a lower CGT rate to all gains on this basis is very badly targeted, as it bears no relation to the amount of capital invested, so ends up advantaging those who have made minimal capital investment or merely repackaged their labour income as capital gains.

There are also strong arguments against taxing capital gains that merely reflect the 'risk-free' rate of return—i.e. the interest rate that can be earned from holding safe assets such as government bonds. One way of thinking about the risk-free rate of return is that it simply compensates the saver for the time-value of money. Levying tax on these returns means that individuals who choose to save in order to do their spending later in life end up paying more tax overall than those who choose to spend their money immediately. As a practical matter, the risk-free rate is closely linked to the cost of borrowing. Without an allowance for this cost, investments become less profitable when the cost of borrowing rises, whereas with an allowance, the borrower is directly compensated for the cost of capital. A full explanation of these ideas is developed in Mirrlees et al. (2011) and applied to proposals for reforming the taxation of capital gains in Adam & Miller (2021a).

We propose (re)introducing an investment allowance that is deducted from the tax base when calculating taxable gains.[13] Administratively, the allowance would operate in the same way as Nigel Lawson's 'Indexation Allowance', which applied to disposals by individuals from 1987 until 1998. We model two options for indexing gains: (1) the (risk-free) rate of return measured by the rate of return on medium-term (10yr) government bonds and (2) the rate of inflation measured by the

[13] Where the investment allowance turns a nominal capital gain into a capital loss, this should be available to offset against other gains or income according to the standard rules. For discussion of reforms to the treatment of losses, see policy (5) below.

Consumer Price Index (CPI). Our central modelling is based on an allowance for the (risk-free) rate of return, in line with the recommendations of the Mirrlees Review (Mirrlees et al., 2011).[14]

A key advantage of an investment allowance is that, unlike a lower tax rate on gains, it is specifically targeted at genuine capital investment. Since the index is applied to the amount that the taxpayer originally invested (known as the 'base cost' of the asset), the size of the tax break is scaled directly to the amount of capital that the taxpayer put at risk. It also follows that if the government wished to provide *additional* incentives for capital investment (over and above removing the existing disincentive for saving that is implied by taxing the risk-free rate of return), it should do so by applying a higher indexation rate for the investment allowance, instead of offering lower tax rates on gains.

(3) Remove death uplift

There is currently no CGT on the gains on assets held until death, as inheritors acquire the assets with the benefit of an uplift on the base cost to their market value at that date. Uplift at death therefore effectively exempts all of the gains made on these assets during the deceased's lifetime. This creates a significant incentive to indefinitely defer disposals of assets that are holding large gains, provided that the individual still has enough resources to fund their current standard of living (including potentially by borrowing against the assets). Any reform that increases CGT rates would further increase this deferral incentive. It is therefore crucial that if CGT rates are equalised with Income Tax rates, then the existing death uplift is also removed.

Uplift at death causes both inefficiency and unfairness. It contributes to a misallocation of capital by incentivising taxpayers to hold onto assets that could be used more productively elsewhere. For example, under current rules, a taxpayer who owns shares will be incentivised to keep hold of them until death in order to ensure that historic gains remain tax-free (and on death will be exempted altogether), even where price growth in these shares is now poor, and alternative investment opportunities are better performing. Furthermore, death uplift is also likely to have a regressive impact, as wealthier individuals are typically better able to afford to postpone the disposal of valuable assets until death whilst still maintaining their current standard of living.

There are two possible ways of designing the removal of death uplift. One option is to treat death as a 'deemed disposal' for CGT purposes, such that a CGT charge would arise immediately on death, to be paid out of the deceased's estate. A potential objection to this option is that the CGT charge arising on death would amount to 'double taxation' on top of Inheritance Tax (IHT). We think that this objection is misplaced because CGT and IHT serve different purposes, just as VAT is not 'double taxation' of income that is subsequently used to fund spending.

[14] For modelling of an inflation allowance, see Appendix A.

However, we recognise that the objection has some political potence and so the government may wish to avoid it if possible.

Our favoured option for removing death uplift is instead to 'carry over' the original base cost of the asset to the inheritor, such that when eventually sold, the inheritor pays CGT on the full gain since the asset was acquired by the deceased.[15] This avoids the need for filing and tax payment specifically alongside IHT, unless the administrators choose to sell the asset immediately rather than passing it directly to an inheritor 'in specie'. This was the option favoured by the Office of Tax Simplification (OTS 2020), although they also recommended a rebasing of assets transferred on death, which we do not support. We also emphasise that our support for the 'carry over' option is strictly conditional on combining the reform with deemed disposal on departure for individuals becoming non-resident (as explained below), otherwise there is a substantial risk that the CGT is never paid if the inheritor subsequently moves abroad.[16]

We recognise the case for giving a deduction to account for the interaction between CGT and IHT. Without any deduction, it would become more expensive to pass on an asset at death than to sell the asset just before death and pass on the receipts. In order to obtain neutrality over the timing of disposals, we recommend giving the inheritor a deduction against CGT (on a subsequent disposal) that captures the reduction in size of the net estate implied by the future CGT liability, as this reduction would otherwise not be accounted for in the IHT due. IHT already paid on the asset. There are already circumstances in which such a deduction is granted under current CGT rules,[17] so these could be extended. We strongly prefer this option to giving a deduction against IHT for future CGT, as this entails a risk that a deduction is given in respect of CGT that might not end up being paid (or turns out to be less than the amount of the deduction given).

(4) Rebasing on arrival and deemed disposal on departure (ROA-DDD)

Aside from uplift at death, the other major 'leak' in the current CGT base results from emigration. Currently, individuals avoid UK CGT on any gains that they make whilst living in the UK if they dispose of the assets after becoming non-resident.[18] This results in lost revenue even if the emigration was not directly tax motivated, although there is also evidence to suggest that the destinations of individuals holding large business gains are disproportionately low-tax jurisdictions (Advani, Poux & Summers, 2024a). The UK is unusual amongst major economies (at least outside the EU) in not having any form of exit tax for CGT purposes. Although there

[15] In technical terms, the inheritor would acquire the asset on a 'no gain no loss' basis, which in practice means that the tax on the gain is deferred until a subsequent disposal.

[16] Where the inheritor is non-resident at the time they inherit, we argue that a deemed disposal should be triggered immediately.

[17] TCGA 1992, s260.

[18] Subject to the temporary non-resident rules, as discussed below.

are temporary non-resident (TNR) rules to prevent individuals from 'dumping' gains whilst abroad for a short period, these offer only very limited protection of the CGT base because they only catch individuals who resume UK residence within six years.

We recommend the introduction of rebasing on arrival with deemed disposal on departure ('ROA-DDD') for CGT. This policy would ensure that gains made by an individual whilst UK resident are taxed in the UK, even if they subsequently move abroad. It also removes from UK CGT any gains that individuals made before they arrived in the UK, which ensures that the resulting tax treatment is fair and symmetrical. The policy works by granting new arrivals (or returners) to the UK a 'rebasing' of their assets to the value at the date of arrival, thereby exempting any pre-arrival gains from UK tax. Correspondingly, individuals who leave the UK (i.e. become non-resident for tax purposes) are treated as having disposed of their assets at the end of their final year of residence, thereby bringing into CGT all of the gains that they accrued whilst UK resident even if they have not made an actual disposal of the assets.

We argue that ROA-DDD is the most principled way to deal with the international dimensions of CGT. It follows the simple proposition that the gains a person makes whilst living in the UK should be taxable in the UK. In combination, ROA-DDD applies this principle consistently and fairly to both arrivals and departures. In this sense, the policy is not exclusively an 'exit tax', although it does have this effect for emigrants. The policy is also clearly feasible,[19] since it already operates in both Australia and Canada, amongst other countries.[20] For countries within the EU, effective implementation is made more difficult by legislative restrictions imposed by the principle of free movement. This largely explains why the UK has historically settled on inadequate temporary non-resident rules, but now that the UK has left the EU there is no impediment to following the example of other non-EU countries in implementing a robust ROA-DDD policy.[21]

(5) Improve tax treatment of losses

Broadly, a capital loss occurs where an individual disposes of an asset for less than they bought it for. There are currently several restrictions on using capital losses to offset other gains or income, as well as restrictions on loss relief affecting business losses under the Income Tax. First, capital losses cannot be offset against other forms of income, other than in narrow circumstances, such as disposals of qualifying trading company shares. Second, there are important restrictions on the use of losses against previous years' profits. Capital losses cannot be carried back

[19] In addition to international examples, the UK already operates DDD for companies and trusts: TCGA 1992, s 80 and s 185.

[20] The US, Japan and Norway also all have deemed disposal on departure for CGT purposes. In the US a deemed disposal applies upon relinquishing citizenship, which is equivalent (under the US system of citizenship taxation) to becoming non-resident.

[21] For further discussion of international experience and design details, see Advani, Gazmuri-Barker & Summers (2024).

except in very exceptional cases (e.g. capital loss in year of death),[22] and trading losses can usually only be carried back one year.[23] Third, there are various other provisions within the Income Tax system that ring-fence or cap loss deductions.

Whilst many of these rules were developed to prevent abuse using 'artificial' losses, they also have the effect of denying taxpayers from offsetting genuine economic losses against other sources of income and gains. This results in an asymmetry whereby gains on successful investments are taxed in full, but losses on unsuccessful investments are not given full relief. In other words, the state shares in the upside but not all of the downside from risky investments. This can potentially discourage risk-taking and entrepreneurship, compared with a neutral benchmark under which losses and gains/profits are treated symmetrically (Adam and Miller, 2021a).

We recognise a strong economic case for reforming the tax treatment of losses to move further towards neutrality. Doing so could have important benefits for investment, entrepreneurship and growth. However, we also recognise that perfect symmetry (i.e. unrestricted loss offsetting) poses several administrative challenges and that reforms would need to be designed carefully to avoid abuse. Consequently, we recommend that reforms to the tax treatment of losses should be subject to consultation and further evidence-gathering to ensure an appropriate balance between economic objectives and administrative feasibility. Although for this reason we do not attempt to estimate the costs of specific reforms to losses, we do recommend that some of the revenue generated from the other measures in our package should be set aside to fund a more generous loss regime as part of the package.

[22] One of the benefits of aligning CGT rates with Income Tax rates is that the rationale for ring-fencing capital losses and income losses largely disappears (preventing arbitrage of different tax rates by offsetting capital losses against – more highly taxed – income).

[23] These rules were relaxed during Covid (for the accounting period ending between April 2020 and March 2022) where a 3-year of carry back period was allowed. These rules are also more generous with new businesses: for the first 4 years of a business, loss carry back relief is available for 3 years (ITA 2007, s 72).

How might taxpayers respond?

Any change in tax policy is likely to affect taxpayer behaviour. There are several ways in which taxpayers can respond to changes in CGT rates, including both 'real' changes in behaviour (such as investment, labour supply and migration) and tax planning responses (such as income-shifting and retiming of disposals).[24] It is crucially important to anticipate potential responses in designing effective policies. Many of the historic reforms to CGT since 1988 (outlined in Table 1) have invited numerous opportunities for tax planning, and so it is not surprising that taxpayers have previously found increases in the tax rate relatively easy to avoid. Below, we discuss each of the main types of response to CGT, and how they are mitigated by the package of reforms that we propose.

Migration

First, under our current tax system, individuals can **emigrate** to countries that tax gains at lower rates (or not at all), because – with the exception of UK land and property – UK CGT is only applied to UK-residents. It is reasonable to expect that emigration responses to CGT may be larger than for Income Tax, because realisations are typically infrequent and can represent a large share of lifetime income. Moreover, in the case of business assets, disposals are often associated with a major lifestyle change (e.g. retirement) that may make relocation more appealing. As Advani, Poux and Summers (2024b) show, even at current CGT rates there are substantial losses from the CGT base, and the destinations of leavers suggest that these choices are tax motivated. The fiscal cost from top gainers migrating to avoid CGT can be particularly large because the loss is not only the CGT, but also the other taxes they would have paid in future.[25]

However, emigration responses are not an inevitability: they depend on policy design. If ceasing to be UK resident is treated as a taxable event under CGT, emigration becomes much less attractive. Although we argue for ROA-DDD on a principled basis (see above), it also has the benefit of making emigration less attractive for two reasons. Firstly, deemed disposal on departure introduces an up-front cost to leaving that negates the immediate tax saving that may otherwise motivate a move abroad. Second, the deemed disposal also brings forward the timing of the tax payment compared with the individual staying and retaining the asset. The additional incentive to become non-resident as a result of the increase in CGT rates would therefore be limited to the anticipated tax savings on future gains after departing (which for retirees are likely to be nil), at the expense of paying an upfront CGT charge on already-accrued gains.

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[24] In reality there is not a perfectly sharp distinction between 'real' and 'tax planning' responses: for example, short-term retiming of disposals may be mostly a matter of tax planning, whereas long-term deferrals will tend to have real economic effects as well.

[25] Although Advani, Burgherr & Summers (2023) show that previous high-wealth migrants continue to pay 40% as much tax in the UK even after departure.

ROA-DDD would also have effects on **immigration**,[26] although it is unclear whether these effects would be positive or negative overall. ROA offers new arrivers a rebasing, which – depending on the country they are coming from – may be quite attractive. Our current tax rules facilitate 'self-rebasing' on foreign assets via the remittance basis, but ROA would extend rebasing to UK assets and make it automatic, avoiding the need to incur transaction costs. One might also expect ROA to have more international salience than the self-rebasing options at present. On the other hand, DDD removes the prospect of new arrivals escaping tax on gains accrued whilst UK resident by leaving again, which may be a disincentive to immigrate if the individual expects to make large gains *and* is confident that they could make larger net gains somewhere else. For purposes of the fiscal 'scorecard', any immigration effects would be negligible, as the stock of new immigrants who would be expected to realise gains within the scorecard window is small.

Deferring disposals

Another response is to defer disposals of assets on which there are accrued gains. Under our current tax system, there is an incentive to defer disposals because the tax that would be due on gains accruing each year is effectively loaned to the taxpayer interest-free for as long as the asset is held.[27] The size of this benefit – and consequent economic distortion – would increase if CGT rates were raised without further reforms to the tax base. However, Mirrlees et al. (2011) argue that the introduction of an investment allowance for the risk-free rate of return has the effect of neutralising this so-called **'lock-in effect'** and would actually result in an improvement on the status quo even under higher tax rates.

Beyond the standard lock-in effect, individuals only have an incentive to defer disposals if they believe that they will be able to escape CGT altogether, or pay a lower rate in future, if they hold on to the asset long enough. There are only two circumstances under which such a belief might be justified. The first concerns structural 'leaks' in the tax base, and the second concerns policy instability. Although both of these are likely to have been major factors under previous reforms, we think that they can be all-but-eliminated under the package of reforms that we propose. We discuss each type of deferral incentive below:

(1) **Structural leaks in the tax base** – under the current tax system, uplift at death and the lack of any CGT charge on emigration mean that individuals have a strong incentive to defer disposals indefinitely since if they later die or emigrate then they will escape CGT altogether. By removing both of these leaks in the CGT base, our package eliminates this deferral incentive. As a consequence, we expect that some individuals who are currently holding on to assets in the hope or expectation that they might escape CGT entirely will make earlier disposals.

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[26] Such effects are much harder to measure, although Advani, Poux & Summers (2024a) provide evidence of some immigration effects from tax reforms in France.

[27] See Appendix C for a more detailed discussion of why the deferral benefit arises.

To the extent that this occurs, it should bring some taxable gains forward and thereby increase revenue within the scorecard window.

(2) **Policy instability** – individuals might decide to defer disposals in anticipation of a future government lowering the tax rate and/or reintroducing opportunities to escape CGT altogether (for example, by reinstating death uplift). In a democracy, such an eventuality can obviously never be entirely ruled out. However, holding on to assets for longer than one would ideally like in the hope that reforms *might* be reversed in future is a risky strategy, especially in the first year of a new government. Moreover, if there is a credible possibility that rates might increase further (for example, to properly account for the impact of National Insurance Contributions on other types of income) then deferring disposals could actually backfire.[28]

Forestalling

If there is a strong expectation that CGT will increase in the future then some taxpayers will seek to 'forestall' these changes by bringing forward disposals so that they are taxed under the current tax regime instead. Where the disposal is conditional or reversible, it is possible to counter such forestalling using targeted legislation, as occurred in the March 2020 Budget alongside the reduction in the lifetime cap for Entrepreneurs Relief.[29] However, where the disposal is genuinely unconditional, irreversible and at arms-length, it is likely to be effective in 'banking' the current tax rate. We think it is important to distinguish between two different circumstances in which such (effective) forestalling may occur, as in our view they have quite different implications for the OBR's 'scoring' of the revenue impacts of any reform:

(1) **Forestalling ahead of announcement** – anecdotally, substantial forestalling is now already occurring ahead of the October 2024 Budget, in *anticipation* of reforms to CGT, even though no measures have been announced. This forestalling will affect revenues in 2024/25 (and in subsequent years as a result of a dip in disposals that would otherwise have occurred later), whether or not any reforms to CGT actually happen.[30] In our view, the OBR should incorporate this type of forestalling into their 'baseline' forecast for CGT receipts rather than

[28] i.e. in expectation, there is then no reason to think that uncertainty over future changes in policy should lead to deferring rather than accelerating disposals.

[29] FA 2020 Sch 3, Pt 1, para 3.

[30] For example, the forestalling that occurred ahead of the 2021 Budgets following the 2020 publication of the Office for Tax Simplification's reports into CGT, even though no CGT reforms materialised.

in their costing of policy measures, since it is not causally attributable to the measures themselves.[31]

(2) **Forestalling between announcement and implementation** – if the government decided to announce reforms to CGT but defer their implementation until (for example) the start of the next tax year, this would lead to even heavier forestalling, since affected taxpayers would be faced with the certainty of higher tax rates unless they brought forward disposals. We think that this type of forestalling undoubtedly *should* be incorporated into the OBR's policy costing since the timing of implementation (post-announcement) is a feature of the policy measure. Such forestalling could be avoided by making reforms effective for disposals occurring from the date of announcement, as occurred in the June 2010 Budget.

Overall, we would expect forestalling responses under the first category to be substantial, but only to have a short-term impact on the forecast for CGT receipts, and (as we have argued) no impact on the policy costing of any measures that are actually implemented with immediate effect. If the government decides to announce reforms with delayed implementation, there would be further forestalling leading to large increases in revenue in the very near-term (i.e. 2024/25), offset by larger falls in revenue after the start of the new regime, both of which would need to be factored into the policy costing of the measures. Accordingly, if the government does decide to make reforms to CGT, it should do everything possible to ensure that they are implemented with immediate effect.

Investment

A further set of responses to CGT reform are changes in **investment**. This could happen through three channels: shifting to tax-free assets, changes in the risk-profile of investments, and the overall level of savings and investment. The combined effect of our proposed package of reforms depends on both the higher CGT rate and the introduction of the investment allowance, plus any improvements to the tax treatment of losses. For marginal investments – ones that are profitable but not highly profitable – the impact of the latter two reforms should positively outweigh the increase in tax rate. For investments that are very profitable, the rate increase will have a larger effect, but these investments will necessarily remain highly profitable, so will still take place.

The first investment response is that individuals may shift more of their investment into **assets that are not subject to CGT**. Pensions and ISAs are both standard tax-free savings products that are readily accessible, but there are limits on how much

[31] A more extreme example arises in the context of widespread reporting that individuals are bringing forwards sales of residential property in anticipation of an increase in the CGT rate. If (hypothetically) our proposed package of reforms was implemented, it would actually result in a *reduction* in effective tax rates on residential property gains for most people, owing to the investment allowance: see Figure 4a. In this context, it would clearly be nonsensical to attribute the revenue effects of forestalling to the actual policy measure.

can be invested into these schemes, and it is likely that many individuals will already have optimised their use even under current CGT rates. Individuals may also respond by investing more in their main home (either by buying a more expensive property or spending money on renovations), since any gains in main homes would remain exempt. The other major category of assets that are currently free of CGT are investments into tax-advantaged 'start-up incentive' schemes such as the Enterprise Investment Scheme (EIS), Seed Enterprise Investment Scheme (SEIS), and Venture Capital Trusts, and certain other tax-advantaged schemes such as Share Incentive Plans (SIPs).[32]

An increase in CGT rates is likely to make investment into start-up incentive schemes more appealing, as a way of keeping gains tax-free. If these schemes are effective in encouraging capital allocation towards valuable small enterprises, this could have positive effects on innovation and growth. However, any increase in take-up would increase pressure on ensuring that the schemes actually offer value-for-money (compared with the revenues foregone). Whilst qualitative studies have indicated that start-up incentive schemes do achieve some of their desired effects, there is currently a lack of rigorous quantitative evidence on their value-for-money. The existing caps that apply to limit investment into these schemes could be adjusted (in either direction) depending on the outcomes of such evaluation.

Currently, the main start-up incentive schemes are used by less than 10% of taxpayers with large gains. To assess the likely revenue effects of increased investment into start-up incentive schemes as a result of increases in CGT rates, we can use evidence from past reforms. Advani, Hughson, Lonsdale & Summers (2024) study changes in use of these reliefs, using a 2010 reform which extended the lifetime cap on Entrepreneur's Relief from £2 million to £5 million. They compare individuals disposing of pre-existing companies in the 2010-11 tax year, where some disposals are made just before the reform and others shortly after. The group disposing after the reform had a lower effective tax rate and received a windfall of additional post-tax gains, but did not significantly increase use of these reliefs.

A second response would be **changes in the risk-profile of investments**. In our reform package, there are measures that are likely to adjust the appetite for risk in both directions. The introduction of an investment allowance makes some lower-risk, lower-return investments more attractive where they would previously have been unprofitable as a result of CGT. At the same time, the tax rate on high-risk, high-return investments will be higher as a result of the increase in CGT rates. Both of these factors could be expected to result in a shift in incentives towards lower-risk investments. However, the impact on high-risk investments could be offset to some extent by improvements in the tax treatment of losses, since 'high-risk' (ex ante) implies that the investment may not be successful. As Smith & Miller (2023) argue, reforms to the loss regime are a better way of supporting such investments

[32] Most tax-advantaged share-option schemes (such as Enterprise Management Incentives) provide relief from Income Tax rather than CGT. If CGT rates were equalised with Income Tax rates, then it would be necessary to review these schemes, as their current benefits would be largely negated.

than offering a lower tax rate on the investments that turn out (ex post) to have been successful.

The net direction of any shift in risk profile relative to the status quo will depend on the impact of improvements to the tax treatment of losses relative to higher rates and the introduction of an investment allowance. Whatever the direction of this change, at an individual level it should be welfare-enhancing, because it helps to ensure that individuals are not incentivised to take on more risk than they would otherwise prefer, in order to achieve the same post-tax yield. In any event, it is worth noting that the impact of these changes in incentives on the wider economy is likely to be fairly small in aggregate, since most UK investments come from corporate investors, which will either be entirely tax-exempt (such as pension and insurance funds), or paying tax on gains at the Corporation Tax rate, which would not change as a result of our reforms. Any impact on risk-profile is therefore likely to be most important in the context of small businesses, where much of the investment (if any) comes from the owner-manager themselves.

A final response concerns the **overall level of savings and investment** compared with consumption. On average, the proposed package of reforms would increase the effective average tax rate on gains, although with significant heterogeneity whereby tax increases would tend to fall most heavily on the largest gainers and would actually result in a tax cut for many smaller gainers (see 'Distributional Impacts' below). For those who would be negatively affected, higher effective CGT rates would in general reduce the incentive to save and invest, relative to consuming assets now. However, the available quantitative evidence is that savings rates are not very responsive to taxes (see Advani & Tarrant (2021) for a survey of the evidence). The introduction of an investment allowance for the risk-free rate of return should also ensure that consumption-savings decisions are not distorted (Adam and Miller, 2021b).

Labour supply

Just as increases in Income Tax affect work incentives of employees and the self-employed, increases in CGT will affect **work incentives for owner-managers** of companies.[33] Theoretically this effect could go in either direction. Higher tax rates reduce the return to work, relative to leisure (the 'substitution effect'). On the other hand, they also reduce the level of post-tax resources an individual will have, so individuals may work more to maintain their material standard of living (the 'income effect'). It is an empirical question which of these effects dominates following an increase in taxes on the return to effort, in any given context.

Advani, Hughson, Lonsdale & Summers (2024) find that lower CGT rates on entrepreneurs did not encourage more work by individuals who benefited from an

[33] In theory they can affect work incentives for all individuals, since they affect the benefit of working now to save and invest for later, but most individuals never invest in a form that yields taxable gains (Advani, Lonsdale & Summers, 2024) and even for those who do, this type of effect is negligible in practice (Advani & Tarrant, 2021).

increase in the lifetime cap on Entrepreneurs Relief in 2010. Instead, the main labour supply effect they find is that individuals were *less* likely to remain company directors, and more likely to retire, following a cut in their effective tax rate on gains from their business.

For individuals further from retirement the effect is less clear. In general, the academic evidence suggests that the labour supply effects of capital taxes are small. One source of caution, though, is that CGT is effectively an income tax for owner-managers, and as owner-managers they have more ability to vary their effort flexibly in a way that most employees cannot.

Shifting between income and capital gains

It is well-established that maintaining a large gap between tax rates on capital income and labour income encourages shifting across tax bases, via changes in legal status that facilitate extraction of income in lower-taxed forms such as dividends (Smith, Yagan, Zidar & Zwick, 2022; Miller, Pope & Smith, 2024). Advani, Hughson, Inkley, Lonsdale & Summers (2024) show this is also the case in relation to shifting from income to capital gains. They find that a large share of gains come from disposals where there was little or no capital investment, and that many private businesses have apparent annual rates of return above 100%. They also show causal evidence from a 2016 'anti-phoenixing' reform that some gains are repackaged income:[34] individuals chose to liquidate companies specifically to forestall a reform that did not change tax rates but was intended to make shifting more difficult.

Equalising CGT rates with Income Tax would reduce the current incentive to shift income into gains for tax reasons.[35] It would not eliminate this incentive entirely, due to the remaining disparity between effective tax rates on dividends and earnings, but it is a necessary first step. Individuals could still choose to work in whichever form they thought was most appropriate given their personal and other economic circumstances, but this would no longer be driven by CGT treatment. Similarly, for genuine capital investments, the preference for income returns versus capital growth would be dictated by real economic factors (such as risk appetite and time horizon) rather than the tax impact on the net return. In both cases, this would eliminate a significant economic distortion compared with the current tax system and remove the need for complex anti-avoidance legislation to police the boundary between income and gains.

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[34] s396B and s404A, ITTOIA 2005.

[35] The equalisation that we propose does not take account of the impact of National Insurance Contributions or Corporation Tax on the effective tax rate. Consequently, some incentives for shifting may remain but their magnitude would be much smaller than at present. In most cases, tax-motivated shifting would cease to be worthwhile given the narrower gap between rates.

Tax planning, avoidance and evasion

Raising effective CGT rates would increase the incentive for individuals to engage in tax planning, avoidance or evasion. However, the extent to which these behaviours actually increase would also depend on whether it is possible for individuals to employ these strategies any more than they are already doing at current rates. Our proposals would reduce or eliminate the effectiveness of many of the most common tax planning strategies used at present (involving e.g. deferral or income-shifting), and there are already extensive anti-avoidance rules that should capture more abusive schemes. In relation to evasion, since this is already illegal and ineffective if caught, the main factor affecting this response would be how well existing rules are enforced, which in turn is a function (at least partly) of the resources that the government allocates to HMRC for its compliance activities.

In relation to tax planning, there are currently several tax-preferred options for selling a business that would become more attractive at higher CGT rates. For example, there may be more business disposals structured as share-for-share transactions or with the price as loan notes instead of cash.[36] However, these strategies only succeed in *deferring* CGT liability, they do not provide an exemption. There are several anti-avoidance rules that already target abuse,[37] which the Courts have readily applied.[38] Although deferrals affect the short-term timing of receipts, in steady state they only reduce revenues if the CGT base has 'leaks', meaning that deferred gains end up being exempted altogether. Failing to close the main CGT 'leaks' of death and emigration would make deferral much more beneficial and could result in significant revenue loss. The solution here is not to remove access to such schemes, but to remove the possibility for leaks so that deferrals do not become exemptions.

The incentive for avoidance and evasion would also increase with higher CGT rates, so effective implementation of our proposed reforms should include improvements in measures and resources to close the tax gap. Tax evasion by small business owners could involve use of the firm's resources to fund personal consumption (Leite, 2024). More complex arrangements include stripping value from companies through company 'loans' or 'annuities' (disguised remuneration schemes), the abuse of employee benefit trusts, and so on. These are not effective tax planning strategies as legislation has properly addressed them,[39] but the rules that tackle these schemes need to be properly enforced to be of any use. There is evidence that

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[36] TCGA 1992, s 135 and s 136.

[37] According to TCGA 1992, s 137, the CGT deferral granted to share-for-share transactions or schemes of reconstruction is subject to the transaction being "effected for bona fide commercial reasons" and does have as one of the main purposes the "avoidance of liability to capital gains tax".

[38] See for instance *Snell v HMRC Comrs* [2006] EWHC 3350 (Ch) were the CGT deferral on a share exchange was denied because the taxpayer became non-resident as this was deemed to have been part of tax avoidance scheme. However, also see *Delinian Ltd v HMRC* [2023] EWCA Civ 1281, where the tax avoidance purpose was not found to be one of the main purposes of the transaction.

[39] For example, through the loan charge rules introduced in 2019.

increased spending on compliance activities can pay for itself several times over (Advani, Elming and Shaw, 2023).

How much money would be raised by reform?

Static revenue estimate

We first provide estimates of the revenue effects of our proposed policy package on a 'static' basis – i.e. without accounting for any behavioural response that would affect the amount of revenue collected. We model these effects on the resident individual population only and do not cover CGT from non-residents or trusts. Resident individual taxpayers receive 90% of UK taxable capital gains. The effects of reform would likely be smaller for trusts and non-residents, as they would be less affected by the changes to death uplift or ROA-DDD. Non-residents will also have a higher current effective average tax rate than residents, since their UK taxable gains come exclusively from UK land. The omission of trusts and non-resident individuals is likely to lead us to underestimate total revenue from the reform by around 5%.

Given the lags in our data access via HMRC, our calculations largely draw on microdata from the 2020 tax year. Taking 2020 as the 'base year' for our modelling also allows us to avoid including the short-term impacts of the Covid period in our estimates.[40] Our main contribution in this section is therefore our counterfactual modelling of static 2020 revenues if our policy package had been in place at the time. When we turn to post-behavioural revenue modelling below, however, we do account for changes in projected revenues over time to produce a central estimate for the next (2025/26) tax year.

It is important to emphasise that the breakdown of revenue estimates from our proposed package of reforms depends on the notional order in which they are applied. We apply reforms in the following order: (1) equalise rates; (2) introduce investment allowance; (3) remove death uplift; (4) introduce ROA-DDD. It follows that, for example, our revenue estimate from removing death uplift is the amount obtained when taxing the gains accrued by the deceased at Income Tax rates but with an investment allowance. This sequencing does not matter for our overall revenue estimates for the entire package of reforms that we propose, but we caution that our estimates of the revenue from removing death uplift or ROA-DDD should not be taken in isolation.

[40] Since the tax year ended 5th April 2020, it does include a few weeks of the Covid pandemic (which became widespread in March 2020), but our analysis indicates that this did not have a significant aggregate effect on disposals or gains reported during that period.

Table 3: Summary of static revenue effects, 2019/20

		Equalisation (+ Investment allowance)	+ Death uplift removal	+ ROA-DDD
No investment allowance	Additional revenue	+£15.2bn	+£16.5bn	+£20.8bn
	% change from baseline	139%	151%	191%
Rate of return allowance	Additional revenue	+£11.2bn	+11.9bn	+£15.7bn
	% change from baseline	103%	109%	144%
Inflation allowance	Additional revenue	+£12.3bn	+£13.5bn	+£17.4bn
	% change from baseline	112%	123%	160%

Notes: Baseline revenue is adjusted relative to outturn, to account for the reform to Entrepreneur's Relief (which was renamed to Business Asset Disposal Relief), making the policy context more comparable to the present. A further reform which is not in our baseline is the reduction in the Annual Exempt Amount (AEA): this has brought more taxpayers into CGT, as well as slightly increasing the base for existing taxpayers. We do not account for this here, as it will be factored into the scaling to 2025/26, as part of the growth in the tax base.

Source: Authors' calculations based on HMRC administrative data.

Equalise rates, with investment allowance

We use de-identified tax data from self-assessment tax returns covering the universe of UK taxpayers up to 2020, with data on both taxable incomes and taxable capital gains. We also use the 2020 version of the CGT 'Asset-Level Survey': a representative sample of taxpayers reporting information on the SA108 Capital Gains Tax return, including information on asset types, acquisition costs, disposal values, and acquisition/disposal dates for assets disposed of in that year. By combining the latter dataset with information on taxpayer incomes, we can calculate individual-level CGT liabilities under the baseline policy for taxpayers in our sample and estimate the static effects of both rate equalisation and of introducing an investment allowance.

Currently taxable gains are computed (broadly) as the disposal value minus the acquisition cost, giving the nominal gain. To apply an investment allowance, we uprate the acquisition cost by the cumulative value of the investment allowance over the period the asset was held, before subtracting from the disposal value to calculate the taxable gain. We do this for two possible indices – the (risk-free) rate of return and inflation – and provide revenue estimates for both cases, as well as for equalisation without an allowance. We include a detailed breakdown of our methodology in Appendix B. Where the investment allowance results in a capital loss (notwithstanding that there may still be a nominal gain), we treat this as offsetting the taxpayer's other income or gains in the year.

Our estimated revenue effects of equalising CGT with income tax rates and introducing an investment allowance are provided in Table 3 above. Compared with

the status quo policy, simply equalising rates would increase CGT receipts (on a static basis) by £15.2bn. If an investment allowance was also introduced, we find that these measures would have increased receipts among those liable to pay CGT by an estimated 103% (under a rate of return allowance) or 112% (under an inflation allowance) for 2020. These figures correspond to additional revenues of £11.2 billion and £12.3 billion, respectively, up from a baseline of £10.9 billion.

One important caveat in comparing the relative cost of these allowances is that our calculations are backwards-looking, using data on actual disposals made in 2020. Since then, both inflation and interest rates have risen, with inflation having peaked at over 11%. In the immediate future this would make both allowances more costly. It may also mean that the inflation allowance would be more expensive than a rate of return allowance. Since the relative costs of these allowances will shift over time, the current comparison would not be a good way to choose which is more appropriate. Our recommendation, as described above, is for an investment allowance based on the (risk-free) rate of return, although either index would be a move in the right direction.

Remove death uplift

While important as a backstop to remove the current disincentive to defer disposals until death, removing death uplift will raise its own revenues from expanding the tax base to include the stock of assets that are passed on at death, which currently escape CGT.

Our estimates for this policy draw on inheritance tax (IHT) data from HMRC that contains information on the asset types and values of all estates passed on at death during the 2020 tax year. Since we only observe the total values of these assets, not the underlying capital gains accrued, estimating the revenue implications of this policy is more challenging than for the first two measures in our package. Broadly speaking, our approach matches assets transferred at death to similar assets disposed of by the living population to infer amounts of taxable capital gains in the IHT data. A step-by-step discussion of this modelling is provided in Appendix B.

Our approach implicitly treats death as a deemed disposal, as we do not have information on the holding lengths of inherited assets specifically to measure our preferred alternative of removing death uplift using 'carry over' treatment. In steady state, removing death uplift via deemed disposal or carry over should have the same revenue effects, because either way the gain accruing during the deceased's lifetime will come into CGT eventually. On a static basis, carry-over results in lower revenues in the short-term (compared with deemed disposal), because initially some accrued gains at death will be passed on without an immediate tax charge.[41]

[41] It would be possible to offset this short-term impact by charging CGT on a carry-over basis to inheritors making disposals of assets that were acquired from an estate prior to implementation of the reform. However, for reasons of administrative and political feasibility, this approach seems unlikely.

We are unable to estimate the magnitude of this timing effect because we lack information on the proportion of inherited assets that are immediately disposed of by administrators or the inheritor themselves, and the time profile of disposals by inheritors in subsequent years. Since the difference between deemed disposal and carry-over treatment only matters for the timing of receipts rather than the underlying liability (as it accrues), we do not attempt to adjust for it in our estimates. Additionally, as we discuss further below, behavioural response is likely to bring forward some disposals, as assets which would have benefited from death uplift are now disposed of earlier because the tax benefit has been removed.

We estimate that removing death uplift after introducing rate equalisation with an investment allowance would increase CGT revenues by an additional £0.7 billion under a rate of return allowance, and £1.2 billion under an inflation allowance.[42] These estimates are lower than some previous static revenue estimates of removing death uplift, including those published by HMRC until official estimates were discontinued in 2016. A key reason is that our estimate incorporates the effect of the investment allowance, which more than offsets the higher tax rate in relation to gains on assets passing at death, and results in a net reduction in revenue compared with removing death uplift under the current tax system.

Our death uplift calculations are also likely to be conservative given the strong incentive for taxpayers to hold onto assets with large accrued gains until death. A taxpayer needing to dispose of assets later in life (e.g. due to liquidity concerns) would, all else being equal, opt to sell off assets with the smallest underlying gains to minimise their CGT bill. The matching approach that we use to obtain our static estimate will therefore ascribe a relatively low ratio of gain to disposal value, based on the disposals we currently observe, while those assets for which there is the strongest incentive to hold until death are precisely the ones with a high gain to disposal value. This will likely cause us to underestimate the true gains.

Rebasing on arrival and deemed disposal on departure

Estimating the static revenue effect of introducing ROA-DDD presents several empirical challenges. The most significant is that we do not observe disposals made by non-residents, or their accrued gains on departure from the UK. Measuring the costs of ROA is somewhat more straightforward in the case of actual disposals made by UK residents, but still requires additional steps for individuals who arrive in and depart from the UK without making a disposal. There are further complexities arising from the current application of the non-dom regime, which means that we often do not directly observe disposals made by remittance basis users even whilst UK resident.

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[42] These figures assume that a taxpayer's gains on assets held at death benefit from the 2020 annual exemption amount of £12,000. If this exemption were instead set at £50,000 specifically for gains passed on at death, estimated revenues would amount to £0.6 billion and £1.0 billion, respectively, falling by roughly 20-25% (see Table A3 in Appendix A).

To overcome these challenges as best as possible, we rely on three distinct methodologies catering to different populations and circumstances that would be affected by ROA-DDD. We set out an overview below, and provide a detailed discussion of the modelling approach in Appendix B.

First, we estimate the revenue raised from introducing deemed disposal on departure for emigration by UK nationals. Our approach relies on the fact that the majority of large gains are from disposals of shares in UK companies. We therefore use Companies House data and focus on emigration by major shareholders, as reported in the Persons of Significant Control data. While these data have a number of limitations (detailed in the appendix), they should not be systematically biased in terms of the shareholdings of UK-based businesses for this group. Our approach is highly conservative, as we will miss gains from non-UK businesses and non-business assets, as well as for individuals with shareholdings below the 25% reporting threshold.

Second, we estimate the revenue from DDD for UK-resident foreigners, for assets that have been held without disposal for the entire duration of UK residence (or which were disposed of without reporting to HMRC, under the remittance basis). We use tax data covering the full population of remittance basis users and follow the approach of Advani, Burgherr & Summers (2023) to estimate offshore gains accrued during the period of residence. This equates to net taxable gains after accounting for both ROA and DDD. Our approach is again conservative in that it does not account for foreigners who do not claim the remittance basis but who nevertheless arrive in and depart from the UK without making any taxable disposals of their assets.

Finally, we directly measure the cost of introducing rebasing on arrival for foreigners and returners to the UK who make taxable disposals whilst UK resident. The impact of ROA would be to remove from CGT the portion of gains that accrued pre-arrival. Our estimate uses tax data (including the CGT Asset-Level Survey) to identify all disposals by UK resident immigrants or returners where the holding length exceeds the length of time since the taxpayer's (re)arrival in the UK. We then apportion the total taxable gain reported under current rules linearly over the holding period and compute the share of gains that corresponds to the pre-arrival period.

Overall, we estimate that ROA-DDD would raise (at least) £3.8bn on a static basis, if implemented on top of equalising CGT rates with Income Tax and introducing an investment allowance for the (risk-free) rate of return. This comprises £1bn from deemed disposals on emigration of UK nationals, plus £2.8bn from the combined effect of ROA-DDD on foreigners for their period of UK residence. The cost of introducing ROA for actual disposals is negligible (at most £30 million). This is because under current (and likely future) rules for new arrivals, there are opportunities for 'self-rebasing' which mean that very few people make actual disposals of assets with substantial pre-arrival gains.

Accounting for behavioural responses

Principles and methods

To move from static estimates to final estimates of the revenue that would actually be raised, we need to account for changes in behaviour. Ideally, we would separately estimate each of the possible behavioural responses outlined above. This would allow us to account for changes to these responses under different policy design choices, to measure not just the direct revenue effects but also the indirect effects of responses such as investment decisions, and to account for the fact that some behaviours respond to average tax rates (migration) and others to marginal rates (investment).

Unfortunately, the evidence base on such elasticities is relatively weak, and non-existent in some cases, making such a 'bottom up' approach infeasible. The typical approach taken is therefore 'top down', using an 'aggregate elasticity' for how the total size of the CGT base varies with the 'retention rate' – i.e. the share of gains that an individual gets to keep after tax. We also take this approach, with reference to the best academic evidence on this aggregate elasticity.

When taking this approach, two points are crucial. First, the elasticity used should be as close to a causal elasticity as possible. In other words, it must convincingly identify the *causal* effect of a change in tax treatment on the size of the tax base, separated out from the impact of other factors that might simultaneously have affected taxable gains around the same time as the tax change. This is the same requirement as the usual statistical warning that 'correlation is not causation'. Simply comparing CGT rates with the size of the CGT base over time (e.g. using a regression analysis) is likely to lead to spurious relationships driven by "unrelated macroeconomic trends and asset price fluctuations" (Agersnap & Zidar, 2021).

A first step to improving the simple regression is to add additional co-variates to account for other changes which are taking place around the same time. While this an improvement on the most basic approach, it still faces the major difficulty that some key factors are very hard to measure, such as macroeconomic sentiment, which may influence investment decisions. It is hard to be confident that one has considered (let alone measured accurately) all the factors that might independently have influenced the size of the tax base, including other (non-tax) policy changes.[43]

An enhancement on this approach is to find a suitable 'control group'. Similar to a medical comparison between individuals given a drug and individuals given a placebo, one wants to compare jurisdictions (or groups of individuals) affected by CGT reform to others that are not. Outcomes in the control jurisdiction or group are

[43] In the UK context, one example is the reforms under the Companies Act 2006, which removed some barriers to setting up a company (such as the requirement to appoint a company secretary), making it easier for individuals to self-incorporate.

then used as a counterfactual for the reform being studied, effectively assuming all other factors are similar.

One way of implementing this approach is to compare across countries. However, this can still be problematic: Agersnap and Zidar highlight the problems of this approach using time series data from the US and UK, noting "how precarious this approach is: it yields unstable elasticity estimates that exhibit large variance in non-tax-related country-year shocks and inherits the limitations of cross-country regressions." (Agersnap & Zidar, 2021). They instead compare a large number of tax changes across a range of US states, with the implicit assumption that these will be more comparable and less exposed to a small number of confounding factors.

Ultimately, finding a perfect counterfactual is always difficult. Different approaches require different assumptions, and there is then judgement required as to whether these assumptions are credible.

The second crucial point is that, even conditional on obtaining a credible elasticity via one of the above approaches, this elasticity will be dependent on the nature of the policy context. The elasticity will, for example, be higher for a reform that is easy to avoid than for one which is difficult to avoid. This means we will need to adjust any 'off-the-shelf' elasticity for differences between the context where it was estimated and the policy reforms we propose. The direction of such adjustments is typically clear, but judgement is required as to the magnitude of any change.

HMRC's existing approach to behavioural adjustment

HMRC's official statistics on 'Direct effects of illustrative tax changes' (commonly known as the 'ready reckoner') states that a reform to CGT which increases the top CGT rates by 10pp would *cost* £2bn per year by the third year after implementation (HMRC, 2024).[44] This number has received considerable attention, including a number of press articles.[45] Given the large static revenue from increasing the top rate of CGT by 10pp (in excess of £5bn), this implies that HMRC's behavioural model incorporates a high elasticity, at least for this specific reform.

There is no information in the public domain about the underlying elasticity that HMRC uses which leads to this result, how it is estimated, or what specific behavioural responses are thought to lead to this revenue loss. In the absence of such information, it is difficult for us to evaluate whether or not this number is reasonable on its own terms. We note that HMRC's methodology in the latest version of the Ready Reckoner has been reviewed and approved by the OBR. The OBR engages in a process of continual review, so could change its assessment if new evidence or alternative methodologies were presented to it, whether from inside or outside government.

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[44] For this purpose, 'top CGT rates' includes the main rate applicable to Higher Rate taxpayers, the residential property rate, and the carried interest rate.

[45] See, for example, Beckford (2024) and Wallace & Chan (2024).

What we can say confidently is that if the elasticity underlying HMRC's behavioural model is estimated from past reforms to CGT in the UK, it would not be suitable for analysing the behavioural effects of the package of reforms that we propose. This is because past reforms have left open the ability to avoid CGT by leaving the UK or holding until death,[46] and have historically also affected the incentive for income-shifting under conditions where income and gains are taxed at different rates. Capturing the 'cross-base' effect on Income Tax is even more difficult than estimating the effect on the CGT base, and yet clearly it is the overall revenue effect that matters for public finances.

Taking these factors together, and leaving aside any issues to do with methodology, we do not think that the elasticity implied by HMRC's ready reckoner would be a sound basis for estimating the behavioural response to our proposed package of reforms. Consequently, we adopt a different approach, as we explain below.

Our approach to behavioural adjustment

There are no existing causal estimates of the elasticity of capital gains to CGT rates in the UK, and only a limited number of estimates from the international literature. Applying the principles and our review of the methods adopted in the international literature, as discussed above, in our view the best available evidence on the (causal) direct fiscal effects of increases in effective CGT rates comes from Agersnap and Zidar (2021, A&Z) and Lavecchia and Tazhitdinova (2024, L&T). We begin by using elasticity estimates from these papers, and then suggest adjustments to account for differences in policy context between the US and Canada (respectively) and the UK under our proposed package of reforms.

Agersnap and Zidar

A&Z use state level changes in tax rates in the US over almost four decades to estimate the elasticity of capital gains with respect to the retention rate. Their study incorporates over 500 state-level tax rate changes, including 128 changes that exceed 1pp. They use these to calculate an elasticity with respect to the national (federal) CGT rate by first removing the effects of inter-state migration, since the latter do not affect federal CGT liability.

The reforms they use sometimes occur alongside other tax changes, so they introduce controls for these. Focusing on the elasticities estimated including these controls, they estimate an overall elasticity with respect to the retention rate of 1.0, over a 10 year horizon. The elasticity 3-5 years after the reform is estimated at 1.6, and at 1.40 at 6-8 years later, suggesting an elasticity close to 1.5 at 5 years.

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[46] To the best of our knowledge, pre-1997 UK tax data are also not available in digitised form. This means the 1988 reforms by then-Chancellor Nigel Lawson, which are the closest available in terms of equalising marginal tax rates and introducing an indexation allowance, are also not available for study. This highlights the value now of retaining anonymised administrative data for good policymaking in the future.

Alternatively, they provide elasticity estimates without controlling for other changes but separating CGT rate changes into small and large reforms. Restricting their sample to tax rate changes larger than 1pp, they find an average elasticity of 1.48 over a 10 year horizon, with the elasticity declining over the time since the reform. Interpolating, the elasticity at 5 years is closer to 2 under this specification.

One notable finding from A&Z's study is that the elasticity is lower for larger tax changes. One explanation is that the CGT-paying population likely contains some individuals who are heavily tax-optimising and will respond to even very small changes in tax rates, and others who are less sensitive and only respond (if at all) to large changes.

Given the magnitude of the tax rate increase that we are proposing under our package of reforms, A&Z's estimates for 'large changes' are more appropriate, although we note that even this group of changes in A&Z includes all changes larger than 1pp, which is still relatively small. If A&Z's finding that elasticities are lower for larger tax changes holds for even bigger increases in the tax rate (such as we are proposing), this would lead to A&Z's estimates being too large for our context, although we do not attempt any adjustment for this.

Lavecchia and Tazhitdinova

L&T use reforms in Canada to the lifetime allowance for capital gains. Instead of comparing across jurisdictions (like A&Z), they compare across similar groups of individuals that were affected and unaffected by the reform. Specifically, they compare individuals who had used up their allowance before the reform to individuals who had outstanding allowance that was lost under the reform. The latter face an increase in tax rate, while the former do not. The change in the effective tax rate was much larger than the reforms presented in A&Z, amounting to an average increase of 26pp. This is closer to the scale of our reform, although larger gainers are less affected by the reform because the allowance would only have covered a small share of the total realisations they expected to have.

L&T estimate an elasticity of capital gains with respect to the retention rate of 1.8 for large gainers in the first year after reform, but by three years later the elasticity falls to zero. It is also estimated at zero five years later.[47] The higher elasticities in the short-term may be driven by responses such as retiming that are effectively one-off. The fact that L&T find no (net) behavioural effect on the CGT rate at all three and five years after the reform is more surprising, but still offers some reassurance that behavioural responses over this time horizon were not large.

Contextual differences

Relative to relying on evidence from historic UK reforms, these estimates have several advantages for our purposes, owing to the similarities between the policy contexts of the US and Canada and our proposed CGT regime. Most importantly, in relation to migration effects, the US taxes worldwide capital gains for citizens and

[47] For small gainers the elasticity is larger in the short term, but negative after three years.

permanent residents, which greatly limits the ability to avoid taxes by leaving the country (as taxpayers must first pay a deemed disposal charge as part of renouncing their citizenship). Canada already has ROA-DDD in place. The US and Canadian contexts therefore largely shut down the margin for emigration, which is comparable to our proposed policy package under DDD.

There are two major differences between our policy package and the context in which these elasticities were estimated.[48] The first is that the US still has uplift at death. The elasticity reported by A&Z therefore includes some non-realisation of gains that will come from deferring realisations until death, to escape CGT. Since our recommended policy shuts down this margin of avoidance, A&Z's elasticity will be too high for our purposes and must be adjusted downwards, to some extent.

Second, both the US and Canada had a gap between Income Tax and effective CGT rates, which encourages shifting between tax bases. Since the elasticities estimated by A&Z and L&T both only measure the CGT base, they do not capture revenue that is shifted into other bases (e.g. Income Tax), yet still received by government. Equalisation as we propose should reduce income shifting into gains and increase the share of remuneration taken as income. These off-the-shelf elasticity estimates would not account for this growth in Income Tax liabilities, and simply consider it as revenue lost. Given that we are interested in the overall revenue effects of our suggested reform, and not just its impacts on CGT receipts, we will want to further adjust A&Z's elasticity estimate downwards to account for these cross-base effects.

Elasticity choice

As a starting point, we take an elasticity of capital gains with respect to the retention rate of around 1.5. This comes from the A&Z five-year elasticity with controls. However, our removal of death uplift and the negation of income-shifting (since income and gains are taxed at the same rate) will mean that the actual behavioural elasticity under our proposed package of reforms should be substantially lower than in the policy settings under which the A&Z elasticity was estimated. Deferral of disposals due to death uplift, and cross-base effects resulting from income-shifting, plausibly account for a large share of A&Z's aggregate elasticity, although it is hard to say exactly how much.[49]

Taking all of this into account, the central elasticity estimate that we use for the medium term (five-year) effect of our proposed package of reforms is 1.0. Although this is significantly lower than the behavioural elasticity implied by HMRC's ready reckoner, it is informed by the best available international evidence on causal elasticities for changes in CGT rates and adjusted (as far possible) for our specific policy proposals. We also note that a recent review by Sarin et al. (2022) casts

[48] Table B1 in Appendix B provides a fuller comparison.

[49] In the UK, death uplift is known to be a substantial leak in the CGT base, and many tax advisors emphasise its importance (OTS, 2020). There is also clear evidence that a large share of gains come from private business assets for which there is little underlying investment, indicating the effect of income-shifting (Advani, Hughson, Lonsdale & Summers, 2024).

significant doubt on the higher elasticities obtained in earlier studies, which are based on simple regressions rather than the quasi-experimental approaches adopted by A&Z and L&T.

However, we acknowledge considerable uncertainty around our central elasticity estimate of 1.0. For transparency, we therefore also show the post-behavioural revenue effects of our proposed package of reforms under higher and lower elasticities. We consider elasticities up to 2: the five-year elasticity for large CGT changes estimated without controlling for other tax changes by A&Z, unmodified by reductions for death uplift and cross-base shifting. We also consider elasticities as low as 0.5, approaching the five-year estimate of L&T. We also strongly emphasise that our elasticity estimate is contingent on the full adoption of our proposed package of reforms, including the two measures required to close down existing structural leaks in the tax base resulting from death and emigration. A reform that lacked these base-broadening measures would surely result in a higher behavioural elasticity (implying lower revenues) than we have estimated.

Post-behavioural revenue estimate

Counterfactual revenue for 2019/20

On a static basis, we estimate that our proposed policy package with an investment allowance for the (risk-free) rate of return would have raised £15.7 billion of additional CGT revenue in 2020. Under an inflation allowance, this estimate is £17.4 billion. As noted above, however, our final revenue estimates must account for any reduction to the tax base resulting from behavioural responses to the reform.

To do this, we apply our central elasticity of 1.0 to the static revenue estimate from the first step in our reform, i.e. equalisation of CGT rates with the Income Tax rate plus an investment allowance. We do not apply any elasticity to our static estimates for the removal of death uplift or ROA-DDD. This is because the effect of behavioural responses to these two reforms is mainly to shift taxable gains out of the 'death' and 'departure' CGT bases specifically, and into the main CGT base, by bringing forwards disposals that would previously have been deferred in order to remain tax exempt. This notionally reduces the post-behavioural revenue of these specific reforms but, correspondingly, increases revenue from the other reforms. The net elasticity with respect to the total CGT base from removal of death uplift and ROA-DDD is therefore assumed to be zero.[50]

Applying this approach, we obtain a post-behavioural revenue estimate of £9.6 billion in additional revenue for 2020 (up 88% from baseline) under an investment allowance for the (risk-free) rate of return, and £11.6 billion (up 106% from baseline) under an inflation allowance.

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[50] Our assumption of no net behavioural response to ROA-DDD is conservative, because if the policy results in an increase in the stock of wealthy individuals resident in the UK (via reductions in net emigration rates) then this will tend to increase future CGT and Income Tax receipts as a result of these additional years of residence.

Table 4: Post-behavioural revenue estimates of our policy package under different investment allowances, 2019/20

	Static tax base	Dynamic tax base	Dynamic tax revenue	Additional revenue	% change from baseline
No investment allowance	£73.6bn	£57.2bn	£24.7bn	£13.8bn	126%
Rate of return allowance	£61.0bn	£46.7bn	£20.6bn	£9.6bn	88%
Inflation allowance	£65.4bn	£48.9bn	£22.5bn	£11.6bn	106%

Notes: Static tax base is the total value of taxable capital gains under the reformed tax base, before accounting for any behavioural responses. Dynamic tax base is the post-behavioural tax base. Dynamic tax revenue is total revenue that would be raised after accounting for behavioural responses. Additional revenue is the increase in tax revenue relative to the status quo, and % change from baseline shows the additional as a share of the status quo.

Source: Authors' calculations based on HMRC administrative data.

Projected revenue for 2025/26

While our estimates use the 2020 tax year as our baseline, aggregate capital gains have grown significantly in the short period since then. To provide figures that are more relevant for the next fiscal year, we apply our estimated post-behavioural revenue effects in percent terms to the Office for Budget Responsibility's 2025/26 CGT revenue forecast. Their model, which predicts aggregate CGT receipts by accounting for expected growth in equity prices, housing prices, and housing transactions, forecasts total CGT revenue of £16.2 billion for the 2025/26 tax year (assuming no policy change). If our proposed policy package was to increase total revenues by 88% – our central estimate using 2020 as a baseline – this would equate to £14.3 billion in additional CGT receipts in 2025/26.

This admittedly crude projection requires several caveats. First and most importantly, our projected revenue for 2025/26 does not seek to account for short-term behavioural responses affecting the precise timing of receipts across the OBR's 'scorecard window'.[51] Instead, our projection is best understood as an estimate of the medium-term effect (five years after reform) of our proposed policy package, but uprated to account for the fact that it was produced using data from 2020 when aggregate gains were lower.

Second, for base-broadening measures that bring new gains into CGT, our projection assumes similar growth in total receipts from tax year 2020 to 2026. In other words, gains on assets transferred at death, and on assets held by taxpayers

[51] As we argued above, the revenue effects of forestalling ahead of announcement of any reform should be included in the OBR's baseline forecast rather than its policy costings. Even so, there are likely to be other short-term behavioural responses affecting revenue in 2025/26 that we have not directly accounted for.

who leave the UK, are assumed to increase at the same rate as gains realised during the lifetime of UK resident taxpayers.

Third, our 2020 static revenue estimate does not account for either the growth in the tax base resulting from the subsequent reduction in the annual exempt amount, or for gains by trusts or non-resident individuals. The way in which we scale for growth in the tax base using OBR forecasts effectively incorporates the reduction in the AEA (so no further adjustment is required) but does not account for revenues from trusts and non-residents. As we note above, accounting for these would add approximately 5% additional revenue to our estimate.

Finally, there is inevitably considerable variability in the OBR's CGT revenue projections, and the estimates produced for a given period can be subject to revision over successive forecasts.

Table 5: Post-behavioural revenue estimates of our policy package under different investment allowances, 2025/26 projections

	Dynamic tax revenue	Additional revenue	% change from baseline
No investment allowance	£36.7bn	£20.5bn	126%
Rate of return allowance	£30.6bn	£14.3bn	88%
Inflation allowance	£33.5bn	£17.3bn	106%

Notes: Dynamic tax revenue is total revenue that would be raised after accounting for behavioural responses. Additional revenue is the increase in tax revenue relative to the status quo, and % change from baseline shows the additional as a share of the status quo. These estimates do not account for CGT from trusts and non-resident individuals.

Source: Authors' calculations based on HMRC administrative data.

In order to document the sensitivity of our results to alternative assumptions about the level of behavioural response, we repeat our post-behavioural estimates for 2025/26 for a range of alternative elasticities and summarise these results in Table 6 below. This immediately highlights how sensitive the revenue estimates are to the specific elasticity used: a difference of 0.1 in the elasticity changes the revenue estimate by around £1 billion.

Despite this uncertainty, even under an elasticity of 1.5 – roughly the estimate taken from the best available international evidence before we carry out any downwards adjustments to account for the specific features of our proposed policy package – we estimate a 59% increase in CGT revenues under an investment allowance for the (risk-free) rate of return and a 72% increase under an inflation allowance. Even at an elasticity of 2, the reform continues to raise revenue, although only around one third of the revenue that we estimate using our central elasticity.

Table 6: Dynamic revenue estimates of our policy package under different elasticity assumptions, 2026

	No investment allowance		Rate of return allowance		Inflation allowance	
Elasticity	Additional revenue	% change from baseline	Additional revenue	% change from baseline	Additional revenue	% change from baseline
2.0	£10.0bn	61	£5.0bn	31	£6.0bn	37
1.9	£11.0bn	68	£5.9bn	36	£7.1bn	44
1.8	£12.1bn	74	£6.8bn	42	£8.3bn	51
1.7	£13.1bn	81	£7.8bn	48	£9.4bn	58
1.6	£14.2bn	87	£8.7bn	54	£10.5bn	65
1.5	£15.2bn	94	£9.7bn	59	£11.6bn	72
1.4	£16.3bn	100	£10.6bn	65	£12.8bn	79
1.3	£17.3bn	107	£11.5bn	71	£13.9bn	86
1.2	£18.4bn	113	£12.5bn	77	£15.0bn	93
1.1	£19.4bn	120	£13.4bn	82	£16.2bn	99
1	£20.5bn	126	£14.3bn	88	£17.3bn	106
0.9	£21.5bn	132	£15.3bn	94	£18.4bn	113
0.8	£22.6bn	139	£16.2bn	100	£19.5bn	120
0.7	£23.6bn	145	£17.1bn	105	£20.7bn	127
0.6	£24.7bn	152	£18.1bn	111	£21.8bn	134
0.5	£25.7bn	158	£19.0bn	117	£22.9bn	141

Notes: Additional revenue is the increase in tax revenue relative to the status quo, and % change from baseline shows the additional as a share of the status quo.

Source: Authors' calculations based on HMRC administrative data.

Distributional effects

We next consider the distributional effects of equalising CGT rates with Income Tax rates plus an investment allowance on the current population of CGT payers. We first show where in the distribution of total remuneration (income plus gains) the additional (static) revenue from these reforms arises, and the share of individuals who are better off ("winners") and worse off ("losers") from reform.[52] We then show breakdowns by geography, and by source of gain. Finally, we separately present the distributional effect of the removal of death uplift, within the wealth distribution of estates passed on at death.

Although we cannot show the distributional effects of ROA-DDD directly using tax data, the costs of deemed disposal on departure would be highly concentrated within the top 0.1%. This is because, as Advani, Poux and Summers (2024b) show, the top 10 emigrants represent almost three-quarters of the total value of the DDD

[52] Although behavioural responses mean less actual revenue is raised, from a welfare standpoint the static effect is the cost to the individual, which they can then (partially) mitigate by having to make choices other than the one they originally preferred.

gains that we observe. Aside from the direct distributional implications of this finding, it also demonstrates that ROA-DDD could be implemented with a very high filing threshold (thereby removing the vast majority of emigrants from its scope) with minimal impact on revenues.

Impact of equalisation with an investment allowance

Despite the large increase in headline CGT rates, our proposed policy package would overall create more 'winners' than 'losers', because the weight of tax contributions would be shifted across different individuals. We estimate that 51% of CGT taxpayers in 2020 would have been better off under equalisation with an investment allowance for the (risk-free) rate of return (155,000 people), while 42% would have been worse off (127,000 people). For 21,000 people (7%), the change to their tax liability would be less than £100 in either direction.

Across the distribution of remuneration

To show the distributional impact of our proposed reform, we rank all UK taxpayers according to the average of their total remuneration received over the 5-year period from 2016 to 2020. Looking over an extended window helps smooth our measure of remuneration by accounting for the fact that some taxpayers with capital gains receive them irregularly. We then assign taxpayers to quantile groups and determine how the revenue implications of our proposed policies would be felt across these segments of the population.

Our results are shown in Table 7a below. Given the high concentration of capital gains, it is unsurprising that the effects of equalising CGT with Income Tax rates predominantly fall on taxpayers at the top of the distribution. On a static basis, 60% of additional revenue raised from equalising rates (without introducing an investment allowance) would come from the top 0.1% of taxpayers, compared with just 0.02% from taxpayers in the bottom half.

Separating out the effects of equalising rates from the effects of introducing an investment allowance reveals a key result: both types of investment allowance (whether for inflation or the (risk-free) rate of return) are more beneficial for taxpayers at the bottom of the distribution than those at the top. This finding is consistent with the idea that a large portion of the capital gains made at the top do not reflect returns to capital that the taxpayer themselves has put at risk but are actually returns to labour (or spillovers from third-party investment) that end up being taxed as gains. In cases where there is relatively little up-front investment, the introduction of an investment allowance will have limited impact.

A key benefit of the investment allowance which drives the results at the bottom of the distribution is that many taxpayers would be removed from CGT liability altogether under our policy package, since the investment allowance deduction would reduce their taxable gain to nil (or less than the Annual Exempt Amount). Moving from equalisation (with no allowance) to equalisation with a rate of return allowance reduces the estimated number of CGT payers by over 100,000 people (a 40% reduction) in 2020, from roughly 245,000 to 145,000. Under equalisation with an inflation allowance, the number of individuals with a CGT liability would fall to roughly 165,000.

Table 7a: Static distributional estimates of rate equalisation with/without investment allowances, 2020 tax year

Total remuneration (5-yr average)	Baseline Revenue	% change from baseline		
		Equalisation (no allowance)	Equalisation + rate of return allowance	Equalisation + inflation allowance
Bottom 50%	£0.01bn	30%	-68%	-69%
50th - 60th percentile	£0.02bn	47%	-30%	-23%
60th - 70th percentile	£0.03bn	44%	-48%	-35%
70th - 80th percentile	£0.05bn	52%	-26%	-15%
80th - 90th percentile	£0.16bn	56%	-34%	-17%
90th - 99th percentile	£1.19bn	119%	31%	52%
99th - 99.5th percentile	£0.59bn	177%	109%	126%
99.5th - 99.9th percentile	£1.93bn	183%	139%	153%
Top 0.1%	£6.95bn	130%	110%	115%

Notes: Table shows revenue under the status quo, and increases in that revenue as modelled under equalisation and various allowance regimes, across the distribution of total remuneration (i.e. income plus capital gains).

Source: Authors' calculations based on HMRC administrative data.

Table 7b: Static distributional estimates of amounts paid under rate equalisation with/without investment allowances, 2020 tax year

Total remuneration (5-yr average)	Baseline		Equalisation + Investment allowance (NRR)	
	(Share with taxable gains)	(Average taxable gain for gainers)	(Share with taxable gains)	(Average taxable gain for gainers)
Bottom 50%	0.03%	£9,100	0.01%	£8,300
50th - 60th percentile	0.19%	£14,100	0.09%	£14,500
60th - 70th percentile	0.21%	£18,600	0.09%	£15,100
70th - 80th percentile	0.33%	£18,400	0.18%	£16,700
80th - 90th percentile	0.72%	£25,800	0.36%	£23,000
90th - 99th percentile	2.62%	£60,500	1.48%	£65,100
99th - 99.5th percentile	8.92%	£178,300	6.36%	£190,400
99.5th - 99.9th percentile	13.7%	£475,600	10.4%	£532,000
Top 0.1%	32.0%	£2,361,000	25.9%	£2,673,000

Notes: Table shows share of taxpayers who have capital gains and average taxable gain, under the status quo and as modelled under equalisation with an investment allowance, across the distribution of total remuneration (i.e. income plus capital gains).

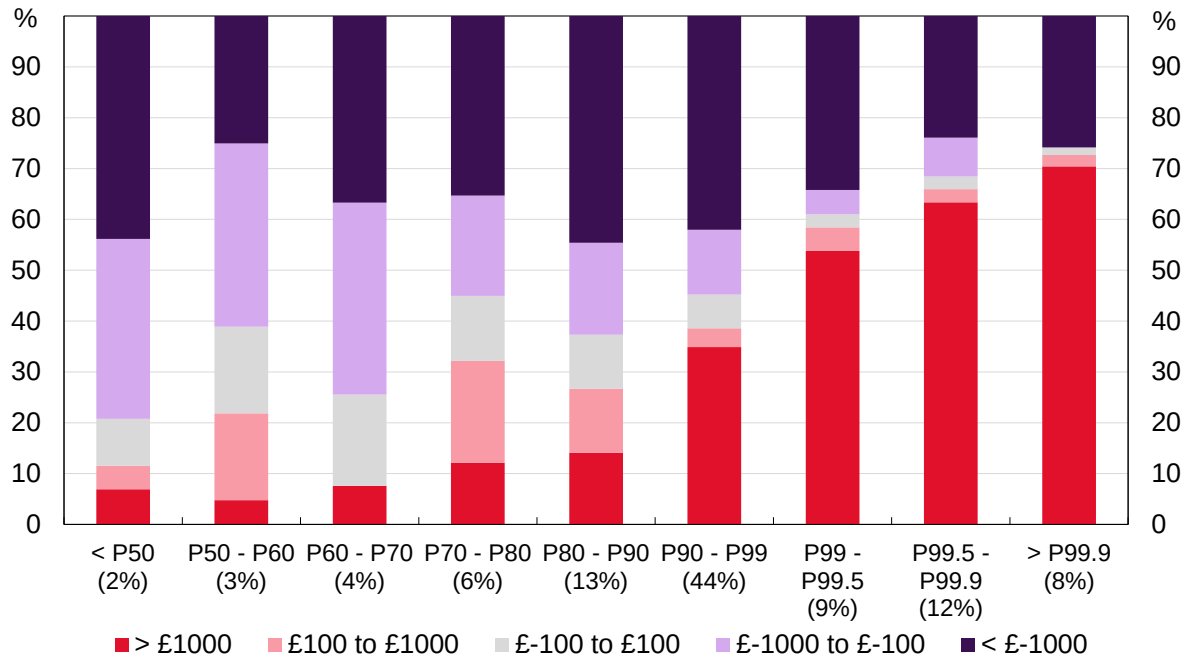
Source: Authors' calculations based on HMRC administrative data.

The effect of equalising CGT rates with Income Tax rates and adding an investment allowance for the (risk-free) rate of return across the distribution of remuneration tends to increase the tax liabilities of people at the top while decreasing the tax liabilities of those further down.

Figure 2a shows that, of taxpayers with total remuneration below the 70th percentile (9% of all those affected by the reform), only 13% would see their tax liability increase by at least £100 after the reform, and 6% would pay at least £1000 more. On the other hand, 71% would pay at least £100 less and 35% pay at least £1000 less.

By contrast, amongst those in the top 1% by total remuneration (who make up 28% of those affected by the reform), 65% would pay at least £100 more (and 62% would pay £1000 more), while 32% would pay at least £100 less (and 28% at least £1000 less).

Figure 2a: Winners and losers, by change in tax liability, by total remuneration

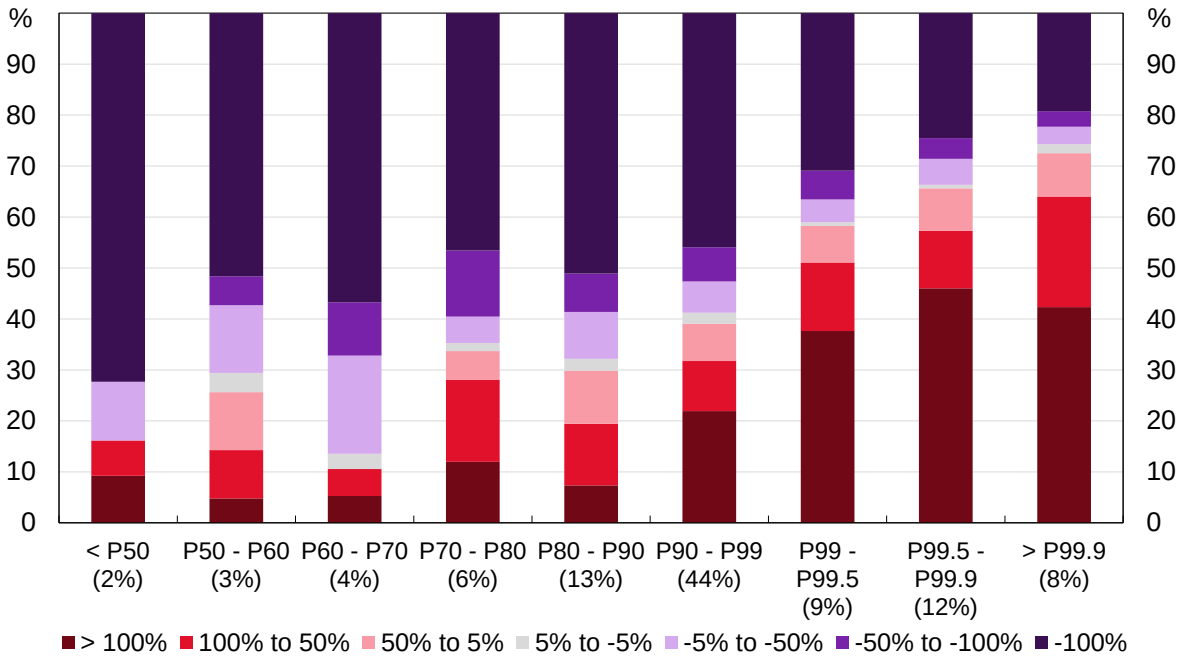


Notes: Figure compares tax liability under the status quo to tax liability modelled under equalisation and an investment allowance for the (risk-free) rate of return, across Capital Gains taxpayers in 2020. Individuals are grouped by their position in the distribution of total remuneration (income plus capital gains) and further by the impact of the modelled reform: an individual in the >£1000 group would be expected to pay more than £1000 *more* in CGT under the modelled regime (i.e. stands to 'lose out' from the reform'), while an individual in the £-1000 to £-100 group would be expected to pay up to £1000 *less* (i.e. a 'winner' from the reform). Figures in brackets on X axis show number of people in group, as a share of all those affected.

Source: Authors' calculations based on HMRC administrative data.

These absolute differences might not be informative at the very top, however: a difference of only £1000 is unlikely to be material to someone paying millions in Capital Gains Tax. Figure 2b shows the effect of the same reform, but with the same individuals now grouped according to the *percentage* change in their tax liability. Again, this shows clearly that the reform is somewhat redistributive from those at the top of the distribution towards those at the bottom.

Figure 2b: Winners and losers, by percentage change in tax liability, by total remuneration



Notes: Figure compares tax liability under the status quo to tax liability modelled under equalisation and an investment allowance for the (risk-free) rate of return, across Capital Gains taxpayers in 2020. Individuals are grouped by their position in the distribution of total remuneration (income plus capital gains) and further by the impact of the modelled reform: an individual in the >£100% group would be expected to pay more than 100% *more* in CGT under the modelled regime (i.e. stands to 'lose out' from the reform'), while an individual in the -100% to -50% group would be expected to see their tax bill at least halved (i.e. a 'winner' from the reform). Figures in brackets on X axis show number of people in group, as a share of all those affected.

Source: Authors' calculations based on HMRC administrative data.

Across the regions of UK

We also present static estimates of the distributional effects of equalising rates with an investment allowance across geographic regions to identify which parts of the UK would be most affected by CGT reform. In previous work, we showed that UK capital gains are highly skewed towards taxpayers living in the south east of England, including London (Advani, Lonsdale & Summers, 2024). For instance, per-capita capital gains were more than 4x higher in London than in less-prosperous parts of the country such as Wales, the North East, and Northern Ireland. Consistent with this result, we find London stands to face the largest absolute increase in CGT liabilities from our policy package under either of the investment allowance options. However, looking at the proportional change, London sees the lowest increase.

Table 8: Static distributional estimates of increase to revenues with rate equalisation with/without investment allowances by UK region, 2020 tax year

	Baseline	% change from baseline		
		Equalisation (no allowance)	Equalisation + inflation allowance	Equalisation + rate of return allowance
London	£3.0bn	123%	90%	98%
South East	£2.4bn	139%	102%	111%
East of England	£1.1bn	137%	98%	108%
North West	£0.9bn	146%	118%	126%
South West	£0.8bn	144%	89%	106%
West Midlands	£0.6bn	151%	118%	127%
Yorkshire and the Humber	£0.6bn	152%	121%	130%
East Midlands	£0.6bn	151%	110%	124%
Scotland	£0.5bn	160%	119%	130%
Wales	£0.2bn	148%	105%	115%
North East	£0.2bn	163%	125%	139%
Northern Ireland	£0.2bn	154%	129%	134%

Notes: Table shows revenue under the status quo, and increases in that revenue as modelled under equalisation and various allowance regimes, across the distribution of total remuneration (i.e. income plus capital gains).

Source: Authors' calculations based on HMRC administrative data.

Figure 3 shows that the effect of the reform is fairly consistent across regions, with if anything a slight tendency to increase tax liabilities in areas with more CGT receipts and CGT payers than in areas with less. For example, 19% of CGT payers live in London, and pay 28% of Capital Gains Tax. Of these taxpayers, 52% would see their tax liability increase by at least £100 after the reform, and 43% would pay at least £1000 more; on the other hand, 43% would pay at least £100 less and 31% pay at least £1000 less. By contrast, CGT payers in Scotland, Wales, and Northern Ireland combined make up 11% of affected taxpayers and currently pay 7% of CGT. 31% of these taxpayers would pay at least £100 more (and 25% would pay £1000 more), while 60% would pay at least £100 less (and 36% at least £1000 less).

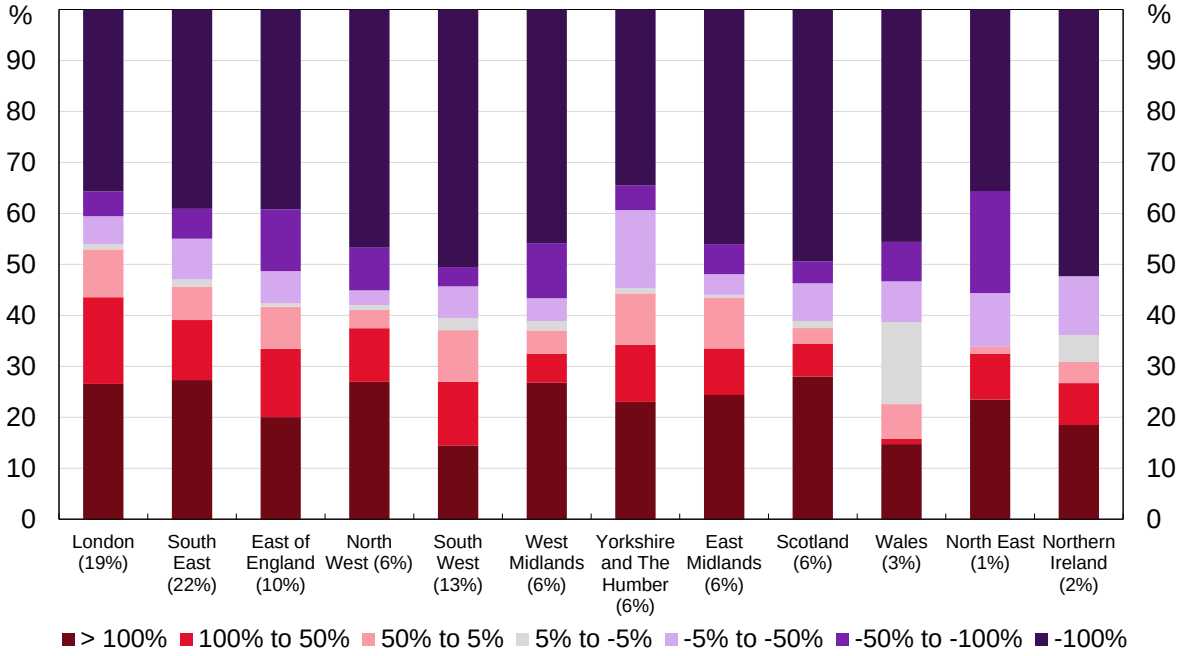
Figure 3a: Winners and losers, by change in tax liability, by region

Notes: Figure compares tax liability under the status quo to tax liability modelled under equalisation and an investment allowance for the (risk-free) rate of return, across Capital Gains taxpayers in 2020. Individuals are grouped by their region of residence and further by the impact of the modelled reform: an individual in the >£1000 group would be expected to pay more than £1000 *more* in CGT under the modelled regime (i.e. stands to 'lose out' from the reform'), while an individual in the £-1000 to £-100 group would be expected to pay up to £1000 *less* (i.e. a 'winner' from the reform). Regions are ranked by current CGT revenues; figures in brackets on X axis show number of people in group, as a share of all those affected.

Source: Authors' calculations based on HMRC administrative data.

Figure 3b shows the effects according to the percentage change in tax liability. Again, the impact is fairly consistent across regions, but with a slightly less balanced share of winners and losers in areas with more capital gains.

Figure 3b: Winners and losers, by percentage change in tax liability, by region



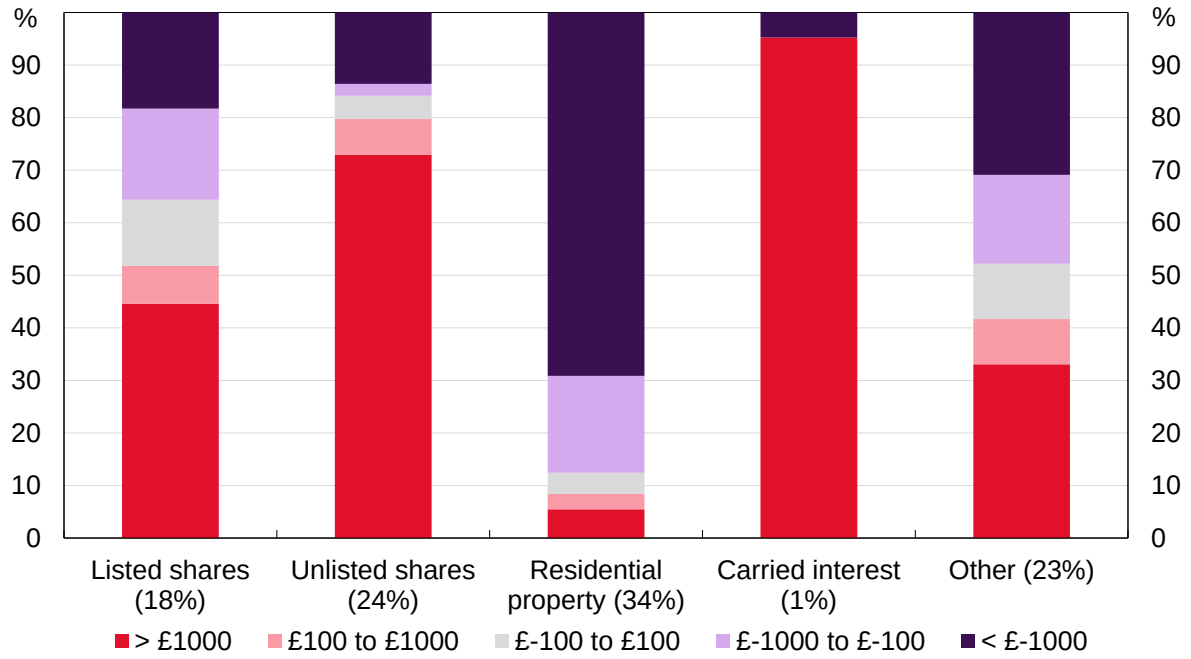
Notes: Figure compares tax liability under the status quo to tax liability modelled under equalisation and an investment allowance for the (risk-free) rate of return, across Capital Gains taxpayers in 2020. Individuals are grouped by their region of residence and further by the impact of the modelled reform: an individual in the >£100% group would be expected to pay more than 100% *more* in CGT under the modelled regime (i.e. stands to 'lose out' from the reform'), while an individual in the -100% to -50% group would be expected to see their tax bill at least halved (i.e. a 'winner' from the reform). Regions are ranked by current CGT revenues; figures in brackets on X axis show number of people in group, as a share of all those affected.

Source: Authors' calculations based on HMRC administrative data.

By source of gain

Figure 4 shows that nine out of ten individuals whose largest gains come from residential property would be better off under our proposed regime. The effect of equalising CGT rates with Income Tax with an investment allowance tends to most negatively affect those whose assets come from business ownership. Over half of CGT payers whose largest gains come from listed or unlisted shares or carried interest (who together make up 43% of affected taxpayers) would pay at least £100 more in CGT. In the case of carried interest, 95% would pay more than £1000 more.

Figure 4a: Winners and losers, by change in tax liability, by main type of asset

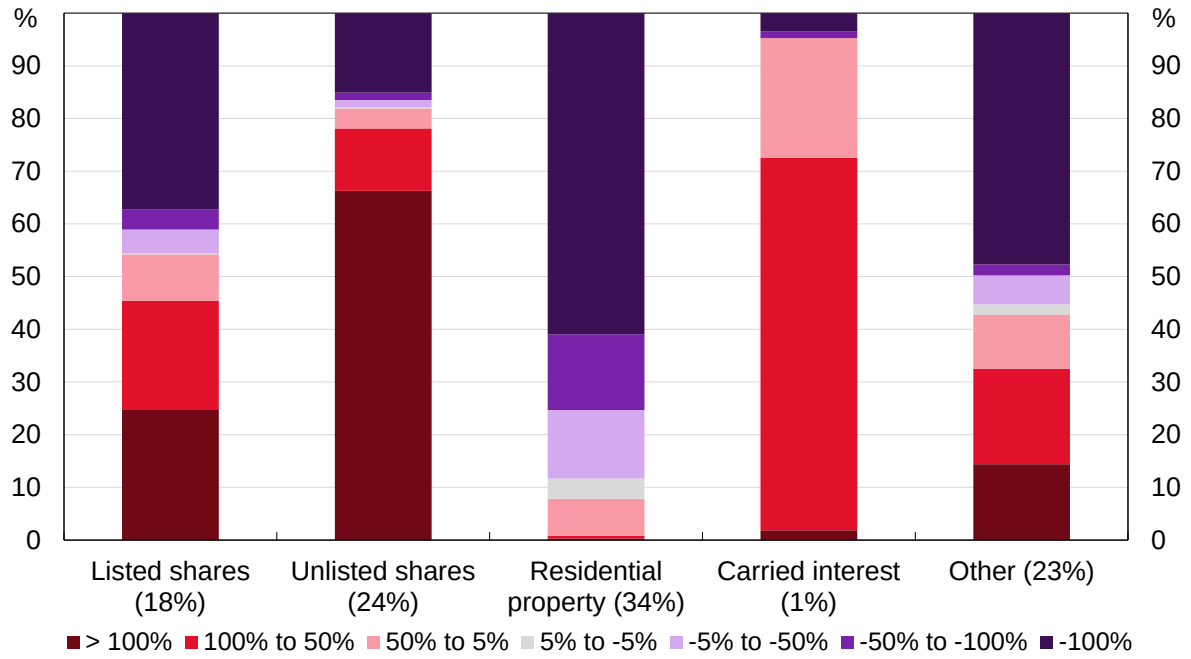


Notes: Figure compares tax liability under the status quo to tax liability modelled under equalisation and an investment allowance for the (risk-free) rate of return, across Capital Gains taxpayers in 2020. Individuals are grouped according to which of their assets is associated with the largest gain, and further by the impact of the modelled reform: an individual in the >£1000 group would be expected to pay more than £1000 *more* in CGT under the modelled regime (i.e. stands to 'lose out' from the reform'), while an individual in the £-1000 to £-100 group would be expected to pay up to £1000 *less* (i.e. a 'winner' from the reform). Figures in brackets on X axis show number of people in group, as a share of all those affected.

Source: Authors' calculations based on HMRC administrative data.

In terms of the percentage change in tax liability, there is a more visible difference between listed and unlisted share ownership. Those who own listed shares and are better off tend to have relatively large proportional gains – in many cases having their entire CGT bill reduced to zero - while those who are worse off have smaller proportional losses. For unlisted shares the losses are proportionally large, precisely because most individuals in this group have put little or no capital at risk themselves, and are largely earning returns from their labour (or in some cases, spillovers from third-party investment), but benefiting from lower CGT rates.

Figure 4b Winners and losers, by percentage change in tax liability, by main type of asset



Notes: Figure compares tax liability under the status quo to tax liability modelled under equalisation and an investment allowance for the (risk-free) rate of return, across Capital Gains taxpayers in 2020. Individuals are grouped according to which of their assets is associated with the largest gain, and further by the impact of the modelled reform: an individual in the >£100% group would be expected to pay more than 100% *more* in CGT under the modelled regime (i.e. stands to 'lose out' from the reform'), while an individual in the -100% to -50% group would be expected to see their tax bill at least halved (i.e. a 'winner' from the reform). Figures in brackets on X axis show number of people in group, as a share of all those affected.

Source: Authors' calculations based on HMRC administrative data.

Stylised examples

To help illustrate the impact of our policy package on different types of CGT payer, we provide three stylised examples of individuals receiving capital gains from: 1) rental property, 2) stock market investments, and 3) a personal service company. For simplicity, we consider that all three taxpayers realised a nominal gain of £100,000. We assume in each case that the assets were held for 5 years, and we assume realistic base costs of £400,000 (rental property), £200,000 (stock market investments), and £0 (personal services company), respectively. We apply our investment allowance using the risk-free rate of return from September 2019 to August 2024 (11.2% in total). We assume in each case that the individual is a Higher Rate taxpayer and that this rate applies to all of their taxable gains.

1) Rental property

Under the current system, applying the 24% rate applicable to residential property gains, an additional residential property acquired for £400,000 and sold for £500,000 gain would face a CGT liability of £23,280. Our proposed investment allowance would reduce the taxable gain to £55,182 instead of £100,000. Applying a 40% CGT rate to this taxable gain results in a CGT liability of £20,873. This is a tax saving of £2,407 compared with the status quo.

2) Investments in the stock market

Under the current system, applying the 20% rate applicable to Higher Rate taxpayers, listed shares acquired for £200,000 and sold for £300,000 would face a CGT liability of £19,400. Our proposed investment allowance would reduce the taxable gain to £77,591 instead of £100,000. Applying a 40% CGT rate results in a CGT liability of £29,836. This is a tax increase of £10,436 compared with the status quo.

3) Personal service company

Companies that are set up by individuals to provide their own services (known as 'Personal Service Companies') are typically set up at no (or negligible) base cost. If £100,000 of net profits are retained in the company and the company is subsequently liquidated or sold, the distribution is currently treated for tax purposes as a capital gain.[53] Under the current system, applying the 10% rate applicable to gains qualifying for Business Asset Disposal Relief, unlisted shares acquired for no (or negligible) cost and disposed of for £100,000 in sale or liquidation would face a CGT lliability

[53] Subject to anti-phoenixing rules. See further Advani, Hughson, Inkley, Lonsdale & Summers, 2024.

of £9,700. Our proposed investment allowance has no effect when the asset has zero base cost (since there is nothing to index). Applying a 40% CGT rate results in a CGT liability of £38,800. This is an increase in tax of £29,100 compared with the status quo.

Impact of death uplift removal across the distribution of wealth

We estimate the distributional effect of removing death uplift using Inheritance Tax data. Linking these data to incomes immediately post-death is unlikely to provide a good measure of where in the income distribution someone was in life. Consequently, we examine the distributional impact of death uplift removal across the distribution of wealth among the deceased.

Ranking individuals by estate size, we find that very few small estates would be affected by CGT under this policy (Table 9). With a rate of return allowance, less than 5% of estates in the bottom three-quarters of the population would have assets covered by CGT. But among the top quarter there is a larger effect, rising to almost half of estates in the top 10%.

Despite being 500x fewer in number, estates in the top 0.1% would pay over 8x more CGT on death than those in the bottom 50% under a rate of return allowance. On a per-estate basis, this implies an average CGT bill that is more than 4000x higher for estates in the top 0.1% than for those in the bottom half of the distribution.

As we explain further above, our preferred policy design for removing death uplift via 'carry over' means that this reform would not require filing and tax payment by estates unless assets were being disposed of anyway as part of the administration of the estate. Instead, filing and payment of tax would take place whenever inheritors ultimate chose to sell the assets.

Table 9: Static distributional estimates of removing death uplift, 2020 tax year (£12,000 annual exemption amount)

Size of estate	Equalisation + rate of return allowance		Equalisation + inflation allowance	
	Revenue	Share of estates paying CGT	Revenue	Share of estates paying CGT
Bottom 50%	£0.02bn	3.2%	£0.04bn	4.7%
50th - 60th percentile	£0.01bn	5.4%	£0.02bn	8.0%
60th - 70th percentile	£0.01bn	4.9%	£0.02bn	7.5%
70th - 80th percentile	£0.02bn	10.2%	£0.04bn	14.3%
80th - 90th percentile	£0.04bn	19.5%	£0.07bn	24.9%
90th - 99th percentile	£0.30bn	46.4%	£0.48bn	58.6%
99th - 99.5th percentile	£0.07bn	62.3%	£0.11bn	83.7%
99.5th - 99.9th percentile	£0.11bn	63.0%	£0.18bn	85.4%
Top 0.1%	£0.16bn	66.3%	£0.26bn	84.6%

Notes: Table shows share of estates which would pay CGT, and amount of revenue as modelled under equalisation with an investment allowance, across the distribution of estate size. Revenue estimate accounts for IHT base deduction equal to amount of CGT liability, which would be implemented in practice as a credit against CGT on subsequent disposal by inheritor.

Source: Authors' calculations based on HMRC administrative data.

Indirect effects / impact on growth

The Government has set 'growth' as one of its key missions. It is therefore important to evaluate the impact of our proposed package of reforms against that objective. Moreover, the OBR is tasked with assessing the 'indirect effects' of policy measures on the wider economy, and so would need to take a view on the impacts of a major reform to CGT such as the one that we propose.

Despite a common assumption that raising CGT rates must be 'bad for growth' – and that therefore policymakers face a trade-off between raising revenue and the impacts on the wider economy – the picture is more nuanced. There are strong arguments that, overall, our proposed package of reforms would actually be growth-enhancing, in addition to bringing in additional funds for the government.

We have already explained several economic distortions caused by the current disparity between CGT rates and Income Tax rates:

(1) Perhaps most importantly, the disparity in rates distorts people's choices over how to work, incentivising them to self-incorporate to provide their services even if they would be more productive working as an employee in a larger business. Raising CGT rates – even absent other reforms – would tend to reduce this distortion, and thereby has the potential to improve productivity.

(2) The disparity also creates strong incentives for income-shifting, including the use of convoluted legal arrangements driven by the objective of minimising tax rather than serving any useful economic purpose. A classic example is the widespread use of Members Voluntary Liquidations to extract retained profits at CGT rates in order to avoid paying Income Tax on dividends.[54]

(3) The lower tax rate on gains relative to dividends can also distort corporate decisions. For example, the use of share buy-backs (instead of returning value to shareholders via dividends) yields a higher post-tax return for UK resident shareholders, who face lower CGT rates (instead of dividend rates) on the resulting increase in share price. Again, it is not helpful to 'growth' for economic decisions to be distorted by the tax implications in this way.

All of these economic distortions would be eliminated by the equalisation of CGT rates with Income Tax rates, as proposed under the first step of our package. However, it is reasonable to object that increasing CGT rates – in the absence of other measures – would simultaneously exacerbate some other existing distortions. That is why our proposed package includes other measures – in particular the investment allowance and improvements to the tax treatment of losses – that are intended to offset these potentially negative impacts on growth.

[54] Despite the 2016 anti-phoenixing reforms, this strategy is still effective for individuals who are anticipating retirement or retraining.

As emphasised by the Mirrlees Review (Mirrlees et al. 2011) and subsequent reviews of CGT by researchers from the Institute for Fiscal Studies (see, for example, Adam & Miller, 2021a), the introduction of an investment allowance for the risk-free rate of return removes the current disincentive to save, which would otherwise be exacerbated by an increase in CGT rates. This investment allowance is a much more targeted way of offering support to savers, because, unlike a differential tax rate, it is automatically scaled to the amount of capital actually invested (Smith & Miller, 2024). Evidence from Advani, Hughson, Lonsdale & Summers (2024) also indicates that lower CGT rates are not effective at stimulating additional productive investment.

We also note that the two measures that we propose to eliminate structural 'leaks' in the existing CGT base – on death and emigration – could have positive economic impacts. The removal of death uplift eliminates a current distortion whereby individuals hold on to assets longer than is optimal in order to obtain a CGT benefit, which would result in the more efficient allocation of capital. It also removes the incentive to delay additional investment in private businesses until after the business is passed on at death, to ensure the credit for the investment is available to the inheritor. The net effects of ROA-DDD are likely to be positive in terms of attracting and retaining successful business owners (and other wealthy individuals) in the UK. Although not primarily motivated by 'growth', these reforms could therefore both have positive indirect effects on the UK economy.

A reasonable concern about raising CGT rates, even with an investment allowance, is that under current rules regarding losses this would increase the asymmetry in risk-taking by investors and entrepreneurs, because the government would capture more of the upside from successful investments whilst not shouldering the downside of failed investments. This is the reason for the final element of our proposed policy package, in which we recommend that some of the revenue from the other four measures should be hypothecated towards making the current tax treatment of losses more generous. As Miller & Smith (2024) argue, this is a much more targeted way of supporting risk-taking ex ante, rather than only rewarding successful investments ex post.

Of course, there may also be a wider concern that generally higher tax rates are a disincentive to work overall. However, the net effect of an increase in CGT rates depends on the interaction of 'income' and 'substitution' effects (as discussed further above). In the context of CGT on business owners in particular, the direction of this effect is not obvious. While lower CGT rates may incentivise business owners to work harder, windfalls in take-home gains may also induce early retirement (as found by Advani, Hughson, Lonsdale & Summers, 2024). Moreover, one must always weigh the work effects of a given reform (in this case, to CGT) against the work effects of likely alternatives (for example, increases in other major taxes such as Income Tax or National Insurance Contributions).

Conclusion

In its current form, Capital Gains Tax is regressive, inefficient, and made excessively complex by the need to vigorously police the boundary between taxable income and gains. The package of reforms that we propose could simultaneously alleviate all of these problems while raising substantial revenue.

Under our current tax system, gains are very concentrated among the well-off and taxed at low rates. Equalisation of the CGT rate with Income Tax rates would remove this regressivity. Introducing an investment allowance results in a tax cut for individuals compared with the status quo, so that those in the bottom 90% by total remuneration are on average better off as a result of our proposed package of reforms. Whilst most people will never pay CGT, even among CGT payers a majority (51%) are better off under our reforms, and a further 7% are no worse off.

Equalisation of rates would also reduce distortions to people's choices about how to work, by removing the incentive to repackage labour income as gains via company structures. This would tend to increase productivity, and ultimately be good for growth. Introducing an investment allowance would strengthen the productivity effect, by removing the taxation of borrowing costs. Particularly when interest rates are high, the value of this allowance for potential investors is substantial. Reform of loss reliefs to make the treatment of losses more symmetrical would also improve investment incentives.

Removing uplift at death and introducing rebasing on arrival and deemed disposal on departure both substantially broaden the tax base. This brings in additional revenue directly, making up around a quarter of the static revenue estimate from the combined reforms. Even more importantly, these reforms reduce the ability of taxpayers to avoid CGT altogether, making the system fairer and reducing the loss from behavioural responses.

Taken together, our central estimate is that our proposed package of reforms would raise £14bn in 2025/26. This amounts to almost doubling the total revenue from CGT and is roughly equivalent to adding 2p to all rates of Income Tax. Although our estimate is sensitive to assumptions about the behavioural response, around which there is significant uncertainty, it is nevertheless our *central* estimate: that is, in our view there is equal likelihood that the true revenue could turn out to be higher, rather than lower.

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Appendix A: Static revenue estimates under alternative policies

Here we provide (static) revenue estimates under alternative policy assumptions. These include 1) equalising CGT rates with Income Tax rates plus employee National Insurance Contributions (NICs), shown in Table A1, and 2) aligning CGT rates with Dividend Tax rates for shares and with Income Tax rates for other asset types, shown in Table A2.

Table A1: Static revenue estimates, equalising CGT rates with Income Tax Rates + Employee NICs

		Equalisation including NICs (+ investment allowance)	+ Death uplift removal	+ ROA-DDD
No investment allowance	Additional revenue	+£16.5bn	+£18.0bn	+£22.5bn
	Total revenue	£27.4bn	£28.9bn	£33.4bn
	% change from baseline	151%	165%	206%
Rate of return allowance	Additional revenue	+£12.3bn	+£13.1bn	+£17.1bn
	Total revenue	£23.2bn	£24.0bn	£28.0bn
	% change from baseline	112%	120%	156%
Inflation allowance	Additional revenue	+£13.4bn	+£14.7bn	+£18.9bn
	Total revenue	£24.3bn	£25.6bn	£29.8bn
	% change from baseline	123%	135%	173%

Notes: Baseline revenue is adjusted relative to outturn, to account for the reform to Entrepreneur's Relief (which was renamed to Business Asset Disposal Relief), making the policy context more comparable to the present. A further reform which is not in our baseline is the reduction in the Annual Exempt Amount (AEA): this has brought more taxpayers into CGT, as well as slightly increasing the base for existing taxpayers.

Source: Authors' calculations based on HMRC administrative data.

Table A2: Static revenue estimates, equalising CGT rates with Income Tax Rates for non-shares and Dividend rates for shares

		Equalisation with Income/Dividend Tax (+ investment allowance)	+ Death uplift removal	+ ROA-DDD
No investment allowance	Additional revenue	+£12.3bn	+£13.6bn	+£17.3bn
	Total revenue	£23.3bn	£24.5bn	£28.2bn
	% change from baseline	113%	124%	158%
Rate of return allowance	Additional revenue	+£8.8bn	+£9.4bn	+£12.7bn
	Total revenue	£19.7bn	£20.3bn	£23.6bn
	% change from baseline	80%	86%	116%
Inflation allowance	Additional revenue	+£9.8bn	+£10.8bn	+£14.3bn
	Total revenue	£20.7bn	£21.8bn	£25.2bn
	% change from baseline	89%	99%	131%

Notes: Baseline revenue is adjusted relative to outturn, to account for the reform to Entrepreneur's Relief (which was renamed to Business Asset Disposal Relief), making the policy context more comparable to the present. A further reform which is not in our baseline is the reduction in the Annual Exempt Amount (AEA): this has brought more taxpayers into CGT, as well as slightly increasing the base for existing taxpayers.

Source: Authors' calculations based on HMRC administrative data.

Another policy option that is sometimes floated is to allow executors selling assets passed on at death to have a higher exempt amount in respect of gains from the estate. A higher exemption at death could be justified on practical terms given that it would prevent a large number of estates from being brought into paying small amounts of CGT. We nevertheless do not recommend this approach since it would reintroduce timing distortions in asset holdings: there remains some additional benefit to holding assets until death, and for assets passed at death there is additionally some benefit to selling immediately rather than passing on (though purchase by the would-be inheritor could offset this). Nevertheless, we show results for this option assuming it is fully taken up, to give a sense for the revenue and distributional implications.

Specifically, we consider the revenue effects of removing uplift at death under a £50,000 death exemption amount rather than the standard Annual Exempt Amount for 2020. Table A3 compares revenue estimates from removing death uplift with the standard and higher allowance for each combination of CGT rates and investment allowance that we've modelled.

Table A3: Static revenue estimates of removing death uplift with different AEA amounts, under different rate schedules and investment allowances

		Equalisation with Income Tax	Equalisation with Income Tax + Employee NICs	Equalisation with Income Tax (non-shares) + Dividend tax (shares)	Number of estates paying CGT on death
Rate of return allowance	Normal AEA	£0.73bn	£0.80bn	£0.63bn	21950
	£50k AEA	£0.56bn	£0.60bn	£0.49bn	10300
Inflation allowance	Normal AEA	£1.21bn	£1.31bn	£1.08bn	29400
	£50k AEA	£0.97bn	£1.03bn	£0.87bn	15350

Notes: Baseline revenue is adjusted relative to outturn, to account for the reform to Entrepreneur's Relief (which was renamed to Business Asset Disposal Relief), making the policy context more comparable to the present. A further reform which is not in our baseline is the reduction in the Annual Exempt Amount (AEA): this has brought more taxpayers into CGT, as well as slightly increasing the base for existing taxpayers.

Source: Authors' calculations based on HMRC administrative data.

We also provide static distributional estimates of removing death uplift under a £50,000 exemption amount, rather than the £12,000 exemption used in the prior table (and which applied to gains in 2020). As before, we assume that all estates choose to take this option: from a distributional perspective this is reasonable, since individuals cannot be worse off by being given this option. We showed previously that this slightly reduced revenues. For instance, with a rate of return allowance revenue from assets held at death would fall from £0.7 billion under the £12,000 exemption to £0.6 billion under the £50,000 exemption.

The distributional impacts of the higher allowance are substantial, as a large share of estates with lower wealth would no longer be liable to pay CGT. In the bottom half of the distribution, the number of estates with taxable gains decreases between the low and high exemption amount by a factor of roughly 6 under a rate of return allowance, and 4 under an inflation allowance. A higher exemption at death would ensure that less wealthy estates are not brought into paying low amounts of CGT. This increases the progressivity of this policy with minimal effect on revenues. However, as we highlighted when discussing policy options, this comes with additional administrative cost and reduces the growth benefits of reform by distorting the timing of disposals.

Table 10: Static distributional estimates of removing death uplift, 2020 tax year (£50,000 annual exemption amount)

Size of estate	Equalisation + rate of return allowance		Equalisation + inflation allowance	
	Revenue	Share of estates paying CGT	Revenue	Share of estates paying CGT
Bottom 50%	£0.003bn	0.5%	£0.01bn	1.2%
50th - 60th percentile	£0.002bn	1.7%	£0.01bn	3.3%
60th - 70th percentile	£0.002bn	1.6%	£0.01bn	2.9%
70th - 80th percentile	£0.01bn	3.0%	£0.02bn	5.3%
80th - 90th percentile	£0.02bn	6.8%	£0.03bn	10.6%
90th - 99th percentile	£0.21bn	30.4%	£0.36bn	40.6%
99th - 99.5th percentile	£0.06bn	58.1%	£0.10bn	78.0%
99.5th - 99.9th percentile	£0.10bn	59.6%	£0.17bn	83.1%
Top 0.1%	£0.16bn	65.9%	£0.26bn	83.7%

Notes: Table shows share of estates which would pay CGT and amount of revenue as modelled under equalisation with an investment allowance, across the distribution of estate size. Revenue estimate accounts for IHT base deduction equal to amount of CGT liability, which would be implemented in practice as a credit against CGT on subsequent disposal by inheritor.

Source: Authors' calculations based on HMRC administrative data.

Appendix B: Methodology

In this section we expand on the methodological assumptions underlying our modelling, both to increase the transparency of our estimates and to help other analysts carry out similar work in the future. We discuss general assumptions related to the data processing as well as policy-specific modelling decisions for each of the revenue estimates produced in the main text.

Methodology: static estimates

Measurement

Some of the taxpayers present in the asset-level survey have missing acquisition dates for their assets. In these cases, we impute acquisition dates by first matching assets with a pool of similar disposals from similar taxpayers with recorded information on holding periods in the data, then randomly assigning a value from one of the matched assets in this pool. Specifically, we:

1) Group assets in the data according to the type of asset (using a granular classification in the data, which breaks down disposals into roughly 20 different asset types) and the taxpayer's level of capital gains. This grouping produces cells of similar disposals where some observations have recorded acquisition dates and some do not.
2) For assets without observed acquisition dates, randomly assign an acquisition date from the pool of assets within each cell that do have this information recorded.
3) In the small number of cases where there is not a suitable match of assets with/without acquisition dates in a cell, broaden the matching criteria by grouping on a less-granular asset classification in the data and repeating the same process as above.

Equalise rates, with investment allowance

1) Using the Asset-Level Survey, uprate asset base costs to account for the relevant investment allowance.
    a. For the rate of return allowance, we grow assets' base costs in accordance with the risk-free return that would have been obtained from investing in 10-year UK government bonds over their holding periods, exempting any "normal" gains from CGT.
    b. For the inflation allowance, we multiply the base cost by the growth in CPI from each asset's acquisition date to its disposal date, thus removing the inflationary component of capital gains from the scope of taxation.
2) Calculate post-allowance taxable gains at the individual level, using the adjusted base costs and aggregating across all disposals made by a given taxpayer.
3) Using information on taxpayers' incomes, add taxable capital gains to their Income Tax calculation and isolate the contribution of capital gains to overall revenues.

4) Compare the revenues obtained from capital gains in this setting to a taxpayer's CGT liability under the baseline policy to measure the individual-level effect of reform, and sum revenues across taxpayers to produce aggregate estimates.

Remove death uplift

1) Start with a representative sample of CGT disposals for 2020 from the Asset-Level Survey and group disposals made by living taxpayers according to asset type, value, and taxpayer age.
2) Within each of these categories, calculate the mean holding length and the ratio of aggregate base costs to aggregate disposal values.
3) Restrict the IHT data to assets that can incur a taxable capital gain (omitting assets such as cash and bank accounts)[55] and map each asset category in the IHT data to a category from step 1) according to the same three criteria (asset type, value, and taxpayer age).
4) Impute the average holding length from the matched category onto each IHT asset and use the ratio of base cost to disposal value to back out the implied base cost, given the value of the asset at death.
5) Apply the relevant investment allowance (using the imputed base cost and holding length) to work out an estate's total taxable capital gains at death, then calculate revenues from taxing these gains under equalisation (assuming the full annual exemption amount applies)
6) Account for interaction between CGT and IHT. Our empirical approach effectively treats the CGT liability on gains accruing up until death as a deduction from the chargeable estate for IHT purposes.

ROA-DDD

ROA

1) Limit representative sample of CGT payers to immigrants and UK-born taxpayers who have spent time outside of the UK.
2) Further restrict sample to disposals of assets that were either: 1) acquired prior to arrival in the UK (for immigrants), or 2) held during a period of non-residency (for return migrants). We drop assets without reported holding lengths and will later re-weight our estimates by the share of these observations.
3) Multiply each asset's capital gain (after implying the investment allowance) by the share of its holding length spent outside of the UK, to approximate gains accrued while a UK non-resident.
4) Apply the top marginal income tax rate to gains accrued as a non-resident to produce an upper-bound revenue estimate for this policy.

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[55] We also remove assets transferred to spouses, as these would be taxed upon the death of the second spouse.

DDD for native population

1) Take two snapshots of the Persons of Significant Control (PSC) Register maintained by Companies House, which are 12 months apart.
    - Note: Companies House does not publish historical bulk PSC data so we rely on our own snapshots (downloaded April 11th 2023 and April 29th 2024).
2) Identify major shareholders who switched from UK residence to non-UK residence between snapshots.
3) Use balance sheet information (from BVD Orbis database) combined with reported shareholding percentage (from PSC Register) to estimate shareholding value.
    - Note: balance sheet information is a lower bound for open market value.
    - Our central estimate of the holding value is the mean between upper and lower bound of ownership share (reported in intervals in the PSC Register) at the individual level.
4) Estimate taxable gains on the deemed disposal of these shareholdings using weighted average 'gain ratio' (capital gain as a percentage of the disposal value) for large business disposals from tax data.

DDD for foreigner population

1) Estimate total capital gains accrued during period of residence for foreign population (including non-doms).
    - All foreigners with large gains are likely to use the (hugely favourable) remittance basis, meaning that they do not have to report unremitted income and gains. This amount is estimated in a three-step process (from Advani, Burgherr & Summers 2023):
        I. Lower-bound estimate is a minimum amount of income and gains they must have to make it worth claiming remittance basis for those currently claiming.
        II. Improve lower bound by predicting who is likely to claim in future.
        III. Improve estimate further by imputing the unreported income + gains, using observed income and gains for similar individuals who don't have access to non-dom regime.
2) Compute total taxes payable on those accrued gains, by construction equal to ROA-DDD.
3) Sum gains accrued (across their periods of residency) by all leavers in a given year.
4) Remove the gains that have been realised, to avoid double-counting gains.

Methodology: behavioural estimate

Difference between our policy context and existing elasticities

Table B1: Comparison of scope for behavioural response between A&Z (US), L&T (Canada) and under our proposed policy package

Type	Response	A&Z context (US)	L&T context (Canada)	Our policy package
Migration	Migration	Expat DDD	ROA-DDD	ROA-DDD
Retiming	Forestalling	✓	✓	✓
	Policy instability	✓	✓	✓
	Deferral to death	✓	×	×
Cross-base	Income Tax	✓	✓	× (because equalised)
Investment	Tax-free assets	✓ (similar to UK)	✓ (similar to UK)	✓
	Lock-in effect	✓	✓	× (because NRR allowance)
	Risk-taking	✓	✓	× (because NRR allowance & loss reform)
Other	Savings rate	✓	✓	✓
	Labour supply	✓	✓	✓
	Tax planning, avoidance & evasion	✓	✓	✓

Dynamic tax revenue estimate calculations

1) Calculate effective retention rate (ERR) on economic profit from capital gains before the reform, not including the death uplift or deemed disposal tax bases. The economic profit from capital gains is the total disposal value less the base cost uprated for the rate of return (which is the outside option an investor otherwise had). The ERR is the economic profit less the total tax paid, as a share of the economic profit. Under the status quo, the ERR is less than (1 – tax rate), because currently we apply the tax rate not only to the profit but also to the cost of borrowing.
2) Calculate the post-reform ERR. The economic profit is computed in the same way, but aggregate tax revenue will be different.
3) Compute the percentage change in the ERR as a result of reform: this is the first stage effect.
4) Select a preferred elasticity. We begin with an elasticity from Agersnap and Zidar (2021), and then also consider a range of lower elasticities because features of the policy reform should reduce behavioural responses to the reform.
5) Estimate the post-behavioural tax base as:
   initial base x (1 - elasticity x % change in retention rate)
6) Add the static tax base from death uplift and ROA-DDD. For explanation of why we do not apply any elasticity to our static estimates for the removal of death uplift or ROA-DDD, see main text 'post-behavioural revenue estimate'.
7) Estimate the revenue by applying the post-reform effective average tax rate to the tax base from 6).

Appendix C: Additional analysis

Tax deferral benefit

If CGT rates were equalised with taxes on income from work, there would still be an inherent benefit to paying CGT on the disposal of an asset rather than on an annual basis when gains accrue. This point is best illustrated by considering the case of an owner-manager faced with the choice of either 1) paying themselves salary of dividends (on which they would pay Income Tax each year), or 2) retaining earnings in their firm and receiving this money as a capital gain upon the eventual sale of their business.

By deferring their tax payment until realising a capital gain, the taxpayer implicitly receives an interest free loan from the government each year that is equal to the tax bill they would have been required to pay if receiving remuneration in the form of income. Although these payments are owed to the government at a future date, the taxpayer benefits from possession of this sum until the point of disposal. The taxpayer effectively receives an interest-free loan of this sum from the government, instead of incurring interest at the available market rate.

The monetary value of the CGT deferral benefit is equal to the interest that would accrue if the taxpayer borrowed an equivalent amount of money each year until they eventually disposed of their asset.

Equalising CGT with income tax rates while continuing to tax gains on realisation basis therefore still implies a favourable treatment of capital gains in the UK tax system, although given the administrative and liquidity costs this is still preferrable to taxation of gains on accrual.

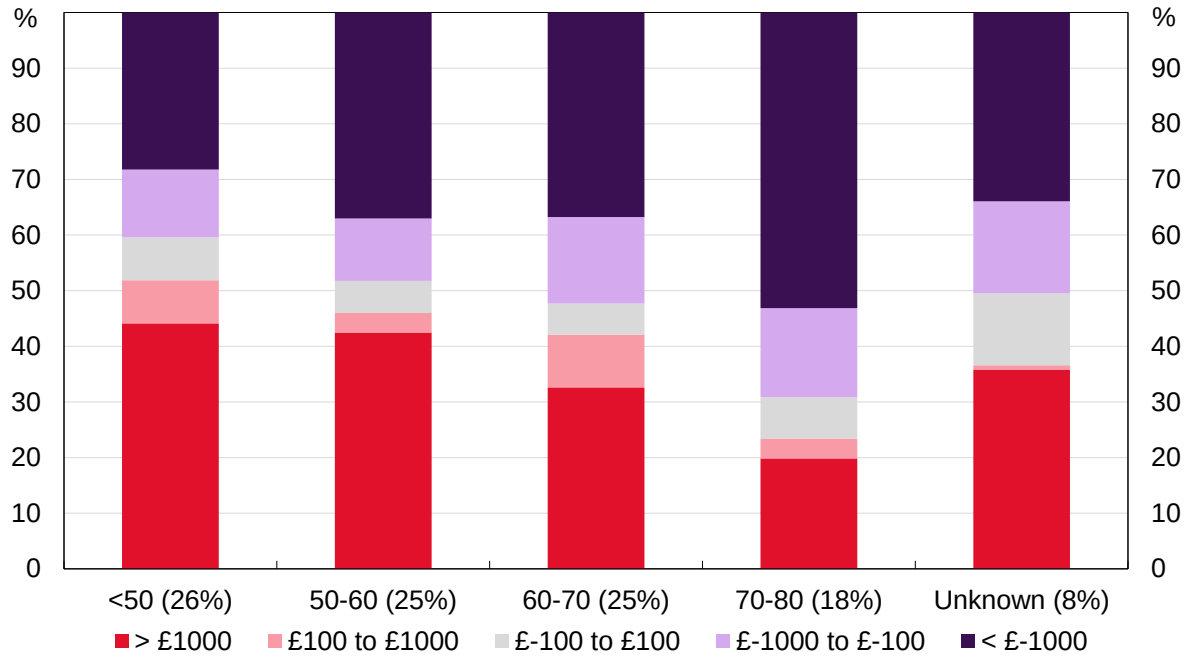
Distributional effects

By age

The effect of equalising CGT and adding an investment allowance for the rate of return across the age distribution is to increase tax liabilities of younger and middle-aged people compared to that of older people.

Figure C1a shows that, of people aged under 50 who are affected by the reform, 52% have a tax liability which is higher by at least £100 after the reform, and 44% will pay at least £1000 more; on the other hand, 40% pay at least £100 less and 28% pay at least £1000 less. By contrast, combining those aged 60-80, only 34% will pay at least £100 more, while 59% will pay at least £100 less. This is because older individuals with capital gains tend to have long-held assets, so benefit more from the investment allowance.

Figure C1a: Winners and losers, by change in tax liability, by age range

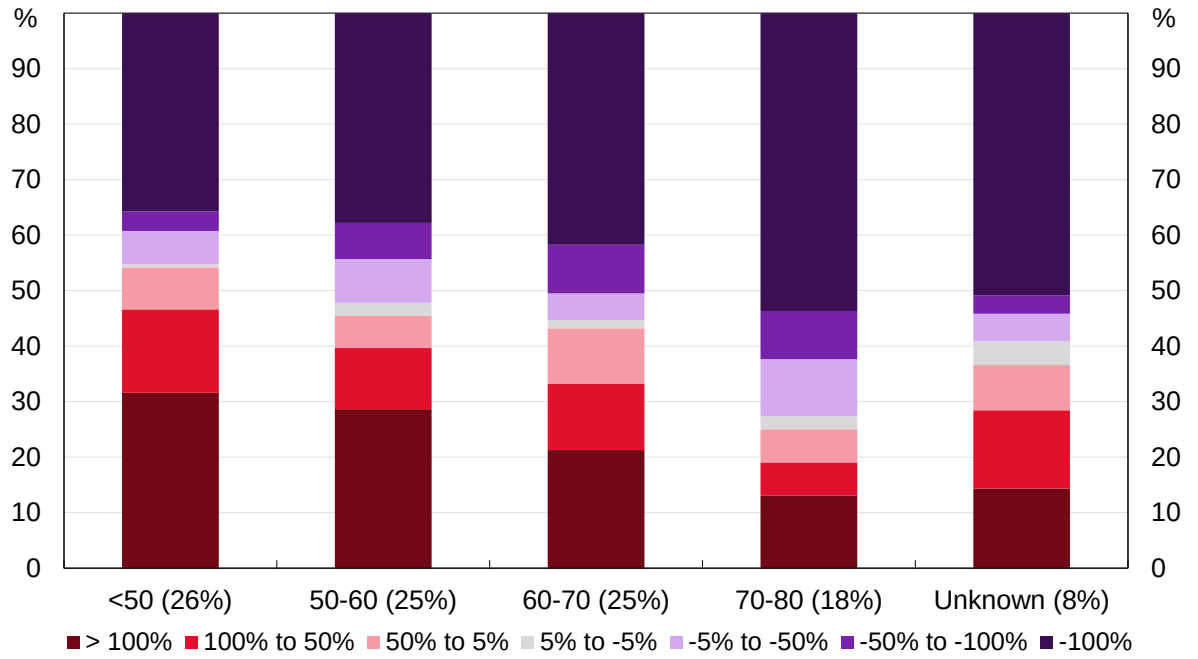


Notes: Figure compares tax liability under the status quo to tax liability modelled under equalisation and an investment allowance for the (risk-free) rate of return, across Capital Gains taxpayers in 2020. Individuals are grouped by age (less than 50, 50 to less than 60, etc) and further by the impact of the modelled reform: an individual in the >£1000 group would be expected to pay more than £1000 *more* in CGT under the modelled regime (i.e. stands to 'lose out' from the reform'), while an individual in the £-1000 to £-100 group would be expected to pay up to £1000 *less* (i.e. a 'winner' from the reform). Figures in brackets on X axis show number of people in group, as a share of all those affected.

Source: Authors' calculations based on HMRC administrative data.

The absolute differences are not necessarily informative: a difference of £1000 may not be material to someone paying millions in Capital Gains Tax. Figure C1b shows the effect of the same reform, but with the same individuals now grouped according to the percentage change in their tax liability. Once again, the reform is somewhat redistributive from younger and middle-aged taxpayers to older taxpayers.

Figure C1b: Winners and losers, by percentage change in tax liability, by age range



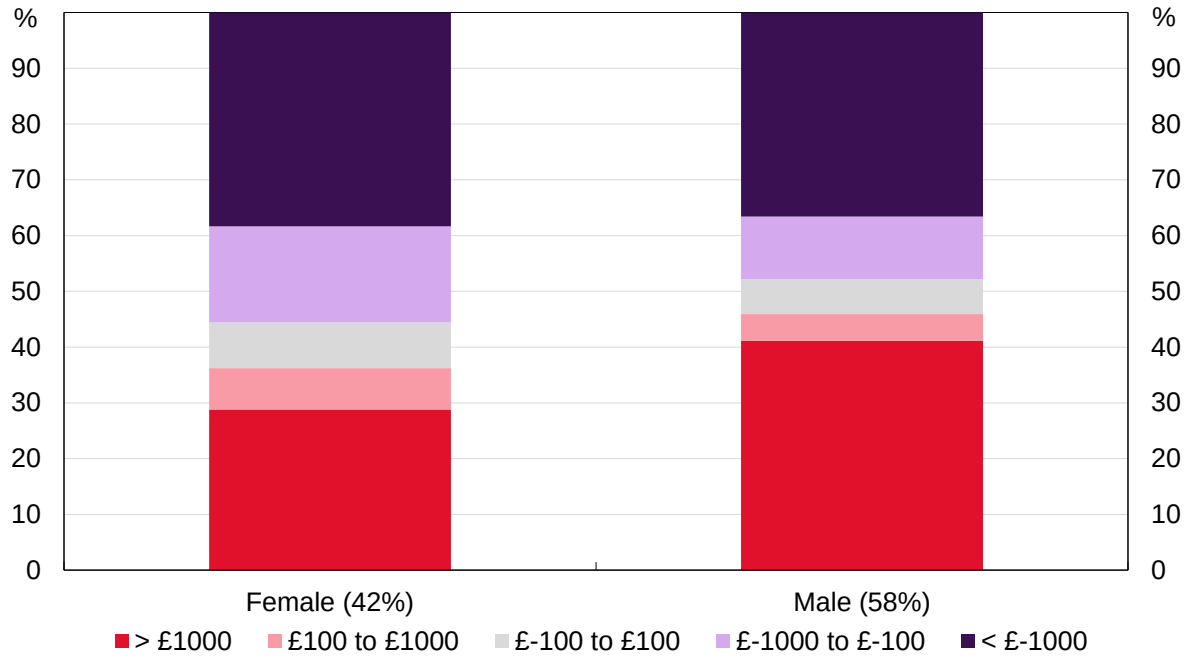
Notes: Figure compares tax liability under the status quo to tax liability modelled under equalisation and an investment allowance for the (risk-free) rate of return, across Capital Gains taxpayers in 2020. Individuals are grouped by age (less than 50, 50 to less than 60, etc) and further by the impact of the modelled reform: an individual in the >£100% group would be expected to pay more than 100% *more* in CGT under the modelled regime (i.e. stands to 'lose out' from the reform'), while an individual in the -100% to -50% group would be expected to see their tax bill at least halved (i.e. a 'winner' from the reform). Figures in brackets on X axis show number of people in group, as a share of all those affected.

Source: Authors' calculations based on HMRC administrative data.

By sex

The modelled reform has only a slight redistributive effect from male to female taxpayers. Figure C2a shows that 36% of female Capital Gains taxpayers would pay a tax liability by at least £100 after the reform, while 55% pay at least £100 less. Amongst male taxpayers, 46% will pay at least £100 more, and 48% will pay at least £100 less. In general this highlights how finely balanced the reform is in terms of winners and losers, with slightly more people better off than worse off.

Figure C2a: Winners and losers, by change in tax liability, by sex

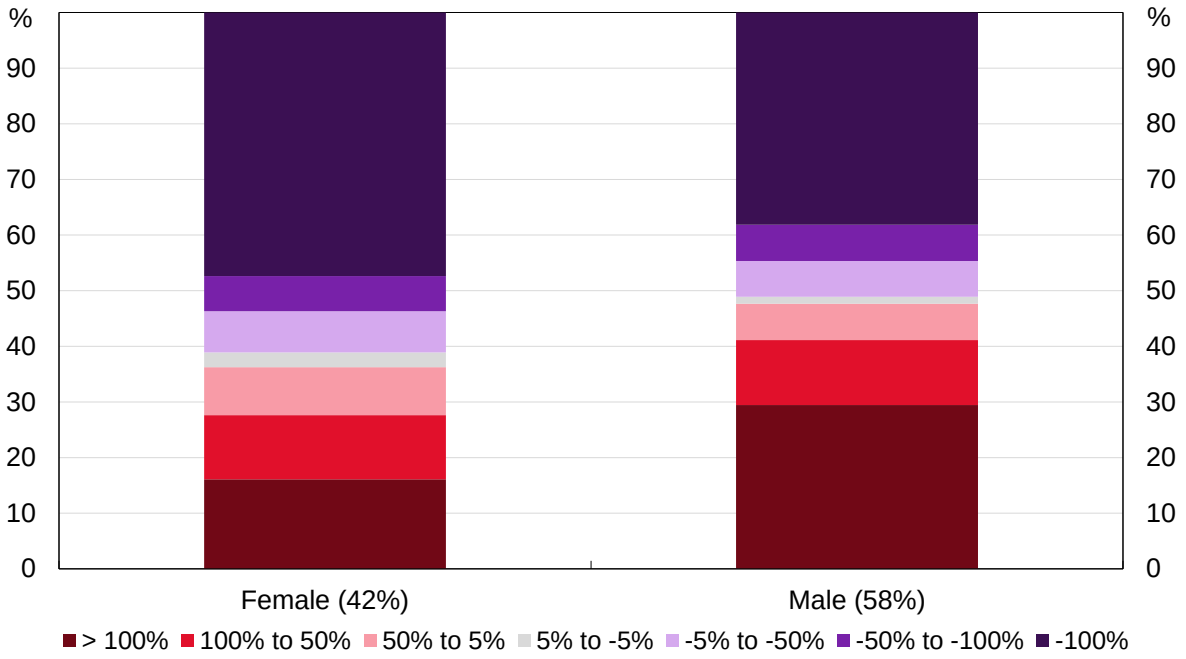


Notes: Figure compares tax liability under the status quo to tax liability modelled under equalisation and an investment allowance for the (risk-free) rate of return, across Capital Gains taxpayers in 2020. Individuals are grouped by reported sex and further by the impact of the modelled reform: an individual in the >£1000 group would be expected to pay more than £1000 *more* in CGT under the modelled regime (i.e. stands to 'lose out' from the reform'), while an individual in the £-1000 to £-100 group would be expected to pay up to £1000 *less* (i.e. a 'winner' from the reform). Figures in brackets on X axis show number of people in group, as a share of all those affected.

Source: Authors' calculations based on HMRC administrative data.

By percentage change in tax liability, the reform appears somewhat more redistributive from male to female taxpayers (Figure C2b).

Figure C2b: Winners and losers, by percentage change in tax liability, by sex



Notes: Figure compares tax liability under the status quo to tax liability modelled under equalisation and an investment allowance for the (risk-free) rate of return, across Capital Gains taxpayers in 2020. Individuals are grouped by reported sex and further by the impact of the modelled reform: an individual in the >£100% group would be expected to pay more than 100% *more* in CGT under the modelled regime (i.e. stands to 'lose out' from the reform'), while an individual in the -100% to -50% group would be expected to see their tax bill at least halved (i.e. a 'winner' from the reform). Figures in brackets on X axis show number of people in group, as a share of all those affected.

Source: Authors' calculations based on HMRC administrative data.