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Taxing income and wealth the same

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Capital gains

Capital gains are the profits from selling an asset someone owns, such as a business, shares, property or art. The gain is profit: in most cases it's the difference between what the asset was bought for and the price it was sold at.

How are capital gains taxed?

Capital gains are usually taxed at a much lower rate than income from working for a living. For most things, the tax is 10% for basic rate income taxpayers and 20% for higher rate taxpayers. This compares to income tax rates of 20%, 40% and 45%. There are slightly higher rates for property that isn't a person's home.

Tax giveaways

There are very generous tax reliefs, which can cut the total bill even further, or wipe it out altogether. Taxpayers wealthy enough to own the kind of asset to which capital gains tax applies get to benefit from an additional £12,000 of tax free allowance on top of their income tax allowance. This is not the end of it. Further exemptions that support this low tax lifestyle include the so called 'entrepreneurs relief', which has been dubbed the UK's 'worst tax break', and costs the public £2.4bn a year. The government's [own research has shown little evidence it encourages new investment](#).

Why does capital gains tax need to change?

A cushy low tax lifestyle is open to wealthy people who transform their earnings from income to capital gains. It means that [hedge fund managers](#) can pay a lower tax rate than their cleaners. A classic approach is for someone to form a company, make money and then sell it when it's still laden with cash instead of paying themselves a salary. This can turn income into capital gains with the help of specialist lawyers and accountants. It is deeply unfair on people who go out to work for a living to pay higher tax rates than those who earn their money from a pot of wealth. The current approach entrenches inequality as it is the already wealthy who stand to benefit the most.

We need to take a leaf from Thatcher's book

Capital gains should be taxed at the same level as income tax. According to the [IPPR think tank](#) this would raise £90bn over five years. The last time the two rates were equalised was under Margaret Thatcher. The government should also scrap most of the exemptions and reliefs that currently distort the system. Then we might have a fairer tax system overall.