**UK Women’s Budget Group**

**Written evidence to the Office for Tax Simplification consultation, August 2020**

**Capital Gains Tax Review**

The UK Women’s Budget Group (WBG) is an independent network of leading academic researchers, policy experts and campaigners that analyses the gendered impact of economic policy on different groups of women and men and promotes alternative policies for a gender equal economy.

WBG welcomes the opportunity to comment on the reform of capital gains tax by the Office of Tax simplification.

This submission provides high-level comments on the principles of Capital Gains Tax (CGT) building on previous work on [gender, equality and taxation](https://wbg.org.uk/analysis/2019-wbg-briefing-tax-and-gender/) by WBG.

CGT needs to be reformed so that it fulfils its original purposes of:

* Taxing capital gains in a similar way to income, since both confer much the same kind of benefit
* Being fair to those earning incomes in other ways and contributing to raising revenue progressively
* Reducing the scope for tax avoidance through exploiting the different tax treatment of capital gains and other forms of “income”.

To do this capital gains need to be taxed similarly to income:

1. Rates need to be equalised, so that real capital gains are taxed at the same rate as income e.g. an individual’s current marginal income tax rates. Having a lower rate for CGT entrenches inequality between the minority who own capital, who also on average have higher incomes, and the majority who do not
2. The annual exempt amount should be greatly reduced or abolished; everyone already receives a personal tax allowance, which could be used against either capital or income.
3. Various other allowances should be completely abolished, notably Entrepreneurs’ Relief, for which there is very little evidence that it stimulates entrepreneurial activity and could raise £90bn over five years[[1]](#footnote-1)
4. The principles of independent taxation should be applied to CGT and exemptions for transfers between spouses should be abolished, except possibly at death
5. The exemption from CGT at death should be reformed along with inheritance tax; this may include some special treatment of widows and widowers at that point
6. Thought should be given as to ways of bringing primary residences into CGT, along with the reform of stamp duty and other aspects of housing taxation.

These proposals are made because:

* those who pay CGT are in general in the better off part of the population e.g. they are twice as likely to pay higher rate income tax as taxpayers generally. On grounds of fairness, they should not be receiving favourable tax treatment over wage earners either in terms of rates or additional allowances. The current approach entrenches wealth inequality and its correlation with income inequality. Capital gains received by those taking home more than £100,000 have almost trebled since 2010 while equivalent incomes from salaries have increased by just 20 per cent[[2]](#footnote-2)
* those paying CGT pay a considerably lower rate of tax than they do in income tax and therefore have an incentive to avoid tax by taking income in that way
* a considerable amount of revenue should be able to be raised from raising CGT rates and preventing it being a means for avoiding paying income tax. This revenue could be used to fund much needed public services.
* as well as contradicting the principles of independent taxation, allowing spouses to transfer assets between themselves free of CGT is also a source of tax avoidance. Capital gains should be allowed to be transferred tax free between spouses only in special circumstances.
* Principal Private Residence Relief distorts the housing market, by making housing an asset that is invested in for its tax advantages beyond its primary function of providing housing services. This provides an incentive for people to purchase or stay in housing beyond their needs, exacerbating the housing shortage. It also diverts investment and lending away from other more productive uses in the rest of the economy.
* Besides having higher incomes[[3]](#footnote-3), men own more capital and are therefore more likely to receive capital gains. The favourable tax treatment of capital gains therefore entrenches gender wealth inequality and its correlation with gender income inequality.
* Polling by YouGov for Oxfam and Tax Justice UK showed that these types of proposals are overwhelmingly popular with the public[[4]](#footnote-4).

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1. https://www.ippr.org/files/2019-09/just-tax-sept19.pdf [↑](#footnote-ref-1)
2. https://www.thetimes.co.uk/article/capital-gains-on-assets-distorting-levels-of-inequality-msm0xgrp8 [↑](#footnote-ref-2)
3. https://www.gov.uk/government/statistics/income-and-tax-by-gender-region-and-country-2010-to-2011 [↑](#footnote-ref-3)
4. https://www.taxjustice.uk/blog/voters-agree-low-tax-lifestyles-enjoyed-by-the-wealthy-need-to-stop [↑](#footnote-ref-4)