Capital Gains: Distribution, Law and Policy

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Think of a ‘capital gain’...

...what does it look like to you?
FOR SALE
In 2016-17, taxable capital gains totalled £51bil

Source: HMRC CGT Statistics 2016-17, Table 7
Nearly **two-thirds** of taxable capital gains are from the sale of **shares in private businesses**.
Key points

Capital gains are, mostly...

1. Re-packaged income
2. Received by the very rich
3. Taxed at very low rates

(...and it’s all missing from income statistics)
62% of all taxable capital gains go to individuals who realised over £1mil in gains that year

That’s £34bil to 9000 people (less than 0.02% of UK adults, in cross-section)

Source:
HMRC CGT Statistics
2017-18, Table 2
Re-packaging income

1. Employee share schemes
2. Fund manager ‘carried interest’
3. Retained profits (realised on exit)

- Miller, Pope & Smith (2019): Link personal tax records with company accounts and find that retained profits of owner-managers:
  - increase with income
  - increase with age
  - are not associated with increased capital investment
Taxing capital gains

Capital Gains Tax rates:

• 28% on **residential property** and carried interest
• 20% on all **other assets** (including shares)
• 10% with **Entrepreneurs Relief** (+19% Corporation Tax paid on retained profits)

And:

• 0% on all gains below the **Annual Exempt Amount** (£12,000)
• 0% on **main homes**

Reminder: the *basic rate* of tax on employment income is ~46% (20% Income Tax, 12% Employee NICs, 14% Employer NICs)
Total income / capital gains of all individuals who received >£100,000, relative to 2010

Source: author’s calculations using HMRC Personal Incomes and CGT Statistics
Current research

Using HMRC data:

• **Who** receives capital gains, and **how often**?

• What is the **joint distribution** of income and (taxable) capital gains?

• How do **effective tax rates** change across the distribution, once capital gains are included?