

Social care has to be paid for: charging capital gains ...

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No one knows if they might need social care at some time in their life. I would make no exclusions. It is one of those risks that we all face. There are three ways, in essence, to face this risk.

The first is we ignore it and accept the consequence when it happens. Many would like to do that: they'll live in denial whilst not needing the care. They may not be too happy when their need becomes both real and chronic. Because society at large has decided it cannot face the prospect of those who were negligent to provide for themselves or were unable to do so it has sought to provide social care for all. Ignore the cost for a moment: this is a decision to not see people in need left to suffer. It is an ethical decision and its implication is that society must pay and we cannot rely on individuals to do so.

It can be argued that if society has decided that this is an issue where collective responsibility in the face of an unknown incidence of risk is required then collected resources, collected through the tax system, should be required to pay for social care. This is a collective insurance scheme in effect, with (as in so many other cases) the premium being paid through taxation. This is the second option. The provision is universal. The cost is spread through whatever tax base and at whatever rate the government (and eventually, the electorate) think appropriate. I will return to this below.

The third option is to mix the two, requiring that private resources be used to fund a certain part of social care but with a back stop that limits the contribution any person may make, at which point tax picks up the bill. This is what has been happening in the UK. The Tories plan to do more of it, and involve the private sector financial services sector a great deal more in it as well. The result in their case looks to be pretty spectacularly unjust as far as taxation goes.

I am not a total fan of Adam Smith's four maxims for taxation: I think like some other ideas from 1776 they have needed updating since then, but the Tories are big fans of them. That is good enough reason to use them now. He said tax should be:

- * Equitable, or in other words, each person should pay in accordance with their personal capacity to do so;
- * Certain, or in other words the charge should not be arbitrary;
- * Convenient, meaning the tax should be levied at an appropriate time, and;
- * Efficient, meaning only as much tax as is needed is collected to achieve a goal.

The Tory plan for social care does impose what is, in effect, a personally prescribed tax on those who need social care, which is agreed to be a common good or provision for it would not be needed, and this plan fails all of these tests that Adam Smith laid down. First of all the amount required to be paid is not equitable: the definition is a 100% rate until £100,000 is left. This is a random charge in that case that does not come close to being related to any equitable assessment of capacity to pay, progressivity or other social priority of the sort I described in *The Joy of Tax*.

Second, the charge is obviously uncertain. You only pay if you are in need, which need cannot be predicted.

Third, The tax is levied when you are in need. That is very obviously the wrong time to pay.

And fourth, if as expected, the tax is going to involve rolled up liabilities, private sector interim funding and many other complexities the chance that this tax will be efficient is remote in the extreme.

In other words, the founding father of economics would say this is a bad tax, and he would be right to do so.

What can be done instead? First, the tax must be national and not local. That is obvious: people in less well off areas cannot be expected to bear a disproportionate burden for the cost of social care.

Second, the charge must meet Smith's criteria, and be progressive and match social priorities inherent in other policies. There are a number of ways to do this.

Charging capital gains tax on a house on death would be a way to do this. An allowance for inflation might be made, and of course surviving partners and long term resident carers must be provided for, but the charge is otherwise obvious and just. The rise in house prices is not otherwise taxed and has massive social implications for the young.

A reform of inheritance tax could also be of benefit, but candidly this tax is already too arbitrary and so I doubt the merit of this. I suggest an annual wealth tax instead. This is now possible, largely because automatic information exchange from tax havens now massively reduces the risk of money running away from such a tax.

Or there could be a whole new tax base, meeting this cost and more. Land value tax, to fund local authorities and social care, could work so long as the social care element was apportioned and set nationally.

Of these three, capital gains on private houses on death is by far the most logical. It is certain, equitable, convenient and efficient. It balances the inter-generational contract. It helps tackle the housing problem.

What is not to like? I can see issues with those who moved many times in life: maybe the charge might be restricted in that case to the last 25 years in life (I am thinking out loud here). And of course, sales in the period before death would have to be charged: the seven year rule now in inheritance tax might be considered. But that apart I am struggling to see the problem.

And it would raise revenue. Of that you can be sure.

Thoughts?