

Tax reform of the day: equalise capital gains and incom...

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In my book '[The Joy of Tax](#)' I argued that tax was the single best instrument available to any government to shape the society for which it was responsible.

Any incoming progressive government will face massive social challenges. Leaving aside green issues, the biggest of these will be the income and wealth inequality that is crippling our society and leaving many in poverty.

I've been asked to think about the tax policies such a government should pursue. The aim is to provide a plethora of them, one at a time, starting here. I'm not being detailed. And I'm not costing the proposals. An understanding of MMT suggests that is not necessary. These suggestions are about making the tax system more equitable and just. And that is necessary.

Equalise capital gains and income tax rates

It is quite extraordinary that those with wealth, and who do as a result make capital gains, pay lower rates of tax on those unearned gains than those who have to work for a living pay on their incomes. It is even more extraordinary that those with capital gains get a second annual tax-free allowance over and above that allowance that they, and others, can offset against their earned income. This situation has to change. There are two ways to do this, and both are easy to introduce. The first is to equalise the rates at which income and capital gains are paid by a person. This last happened under Tory governments in the 1980s and 1990s. The second is to substantially reduce the annual capital gains tax allowance. A sum of £2,000 is suggested instead of the current £12,000. This remains more generous than that offered in most countries.