Funding the Future

# Capital gains increase income inequality in the UK: the...

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As the Guardian has noted this morning:

*The highest paid 1% of British earners received nearly 17% of all the country's income ahead of the* Covid-19 crisis, according to a study making allowance for the concentration of taxable capital gains among the better off.

Analysis by Warwick University, the London School of Economics and the Resolution Foundation of previously confidential HMRC data showed that the top 1% had a growing and much bigger slice of income than previously thought.

The study said that some taxable capital gains were really sources of income and were heavily concentrated among the well off.

Official data showed that in 2017-18 there were £55bn of taxable capital gains recorded — a more than doubling of the figure five years earlier once inflation was taken into account. The majority of the taxable capital gains (£34bn) were received by 9,000 individuals, who each made gains of £1m or more.

The summary of findings in the actual report (of which I had an advance copy) was:

## Key findings

- **Capital gains are highly concentrated.** Ranking people by their taxable gains, the top 5,000 people receive over half (54%) of all gains. For comparison, the top 5,000 people ranked by income receive just 2% of all income.
- **The vast majority of gains come from business activities** rather than passive investments — increasingly so among those with the highest gains. These gains are often in substitution for labour income.
- **For some, capital gains are regular part of their remuneration**, rather than a rare or once-in-a-lifetime event. A third of those with gains over £20,000 in 2017 also averaged gains over £20,000 in the previous four years.[1]
- **Gains are concentrated amongst those who already have high incomes.** Nine out of ten people who were in the top 1% by total remuneration (including income and gains) were already in the top 1% by income only.
- **Some people receive most of their remuneration in gains**, though many of these individuals have high incomes as well. Among those in the top 0.01% by total remuneration, almost 60% receive at least 90% of their remuneration in gains.
- **The one in ten people who "join" the top 1% when capital gains are included, are older and more likely to be female.** They are also more likely to be business owners and pensioners, rather than employees.
- **The top 1% share rises to 17% when including gains, compared with 14% based on income only.** You would need at least £132,000 to make it into the top 1% by total remuneration — this is £8,000 more than when measuring income only.
- **The effect on those at the very top is even larger.** The average remuneration of those in the top 0.01% (roughly 5,000 individuals) rises from £4.9mil to £8.4mil, increasing their share of all taxable income and gains from 2.2% to 3.6%.
- **The impact of capital gains on UK inequality peaked in 2008**, coinciding with

This, of course, confirms why I have found that the effective tax rate of the best off is much lower than that which appears to be the case based on income alone, which is a finding that underpins the Tax After Coronavirus (TACs) project.

This is good work from Andy Summers at the LSE and Arun Advani at Warwick that helps shatter some of the myths around this issue and makes it very clear that alignment of income tax and capital gains tax rates is essential, as is an investment income surcharge.

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The summary report is here.

The academic report is here.

For those watching on 21 May there is a webinar at 11am UK time on this issue here.