

Capital gains tax is not a wealth tax: it's a ta...

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There is an article in the [Financial Times](#) today under the title:

CGT is a 'stealth wealth tax'

There is a great deal said in the article that is simply polemical, with little evidence base, but the claim in the title is worth considering.

I will use evidence to support my case. The evidence comes from the budget speech of the late Rt Hon Jim Callaghan, then Chancellor of the Exchequer, on 6 April 1965 when introducing capital gains tax. [He said:](#)

First, I begin with tax reform. The failure to tax capital gains is widely regarded, outside as well as inside the [Labour Party](#), as the greatest blot on our existing system of direct taxation. There is little dispute nowadays that capital gains confer much the same kind of benefit on the recipient as taxed earnings more hardily won. Yet earnings pay tax in full while capital gains go free. This is unfair to the wage and salary earner. It has in the past been one of the barriers to the progress of an effective incomes policy, but now my right hon. Friend the First [Secretary of State](#) has carried this policy forward to a point which many did not believe was possible six months ago. This new tax will provide a background of equity and fair play for his work.

Moreover, there is no doubt that the present immunity from tax of capital gains has given a powerful incentive to the skilful manipulator of which he has taken full advantage to avoid tax by various devices which turn what is really taxable income into tax-free capital gains. We shall only make headway against avoidance of this sort when capital gains are also taxed.

He made four key points then.

First, capital gains contribute to income as much as does the reward from work.

Second, it is wrong that this source of income be untaxed, and it is unfair to the wage earner that capital gains be subject to a lower tax rate than work.

Third, capital gains tax is in that case about delivering tax justice (although the term was not known then, as far as I know).

And fourth, capital gains tax was necessary to beat avoidance of income tax.

It follows then the claim in the FT is wrong. CGT is not a tax on wealth. It is a tax on income disguised as an increase in wealth. And there is no stealth about it: the intention of the tax is entirely clear.

The problem has been that the clarity of understanding and purpose implicit in Callaghan's speech has been lost over time. But now capital gains tax is to be subject to a review it needs to be restored.

We could do a lot worse than remind those undertaking the review as to Callaghan's objectives for the tax. They remain as relevant today.