

Aligning capital gains tax and income tax rates might r...

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I have this morning [published the fourth in my series of recommended changes](#) to the UK tax system designed to address [the fact that wealth is seriously undertaxed in the UK](#).

In this new recommendation, I suggest that capital gains earned in the UK should be taxed as if they are the top part of a person's income, meaning that income tax rates would be applied to them.



The [summary of this report](#) says:

Brief summary

This note suggests that:

- * The tax owing on capital gains should in the future be taxed as if they represent the top part of the income of the person making those gains in the year that they arise.
- * This proposal is made to end the current situation where capital gains are charged at rates that are very often half those applied to earned income.
- * This change to the tax system would be easy to implement since the tax rate at which a gain is charged does at present require that the income of the taxpayer in the year in which the gain arises already be taken into account.

- * The change in taxation that this proposal creates would be fair from the perspective of horizontal and vertical tax equity^[1].
- * **This change would also eliminate a major tax spillover effect in the UK economy, as a result of which the credibility of the UK's income tax system is undermined by the existence of capital gains tax rates that are usually about half those due on equivalent income.**
- * **There would be a significant reduction in the amount of time wasted on tax avoidance activity in the UK as a result of this change to the overall advantage of society at large as this activity makes no useful contribution to the wellbeing of society as a whole.**
- * **The proposed change is fair because the increase in the wellbeing of a person as a result of an additional pound of wealth is the same whether derived from income or capital gains, meaning that it is appropriate that they be taxed at the same rate.**
- * **The calculated estimated additional sum owing as a result of this change is in excess of £16 billion per annum. In case of potential behavioural changes it is assumed that a lower sum of £12 billion might be raised for the sake of prudence.**

Discussion

For many people, the disparity in tax rates between capital gains and income tax is the most obvious and egregious evidence of bias towards wealth in the UK tax system. This recommendation addresses that issue.

The advantages are clear. A simpler tax system that would be open to significantly less abuse and much reduced rates of tax avoidance would result whilst an obvious tax injustice would have been removed.

It is important to note that the estimated yield is prudent. As [the supporting note shows](#), it could easily amount to £16 billion a year.

Cumulative value of recommendations made

The four recommendations now made as part of the Taxing Wealth Report 2024 would, taking this latest proposal into account, raise total additional tax revenues of approximately £47.7 billion per annum.

Footnotes

^[1] These terms and the nature of tax spillovers are explained here. <https://www.taxresearch.org.uk/Blog/2023/09/07/the-taxing-wealth-report-2024-methodology/>