Funding the Future

Article URL

Published: January 12, 2026, 5:24 pm

I have this morning published the next in my series of proposals that will make up the Taxing Wealth Report 2024.

In this latest note, I suggest that if capital gains tax was to be charged on the final disposal by a person, or their spouse or civil partner, of their main residence and that the gain then subject to tax should be that accumulated throughout their life, then maybe £10 billion of additional tax revenue might be raised per annum even if these properties were then taken out of the charge to inheritance tax.


The summary of this report says:

**Brief Summary**

This note suggests that:

* A capital gains tax charge should be made on the final disposal of a former residential home by a person or their spouse or civil partner.
* This capital gains tax charge would usually arise on the death of a person or on the death of the last surviving member of the marriage or civil partnership of which they were a part, but it could also arise on the merger of households, on a sale before moving into a care home or on disposal of a property before emigrating. A partial charge could also arise on downsizing.
* Residential properties would be taken out of the scope of inheritance tax if this

charge was made.
* This charge would be considerably more equitable and predictable than current inheritance tax charges, which create considerable regional tax injustice.
* The charge is fair: it only arises when a person ceases to have use of their main residence.
* Without suggesting that the tax be hypothecated it is suggested that it is likely that it would be considerably more acceptable if a commitment was made to invest the proceeds in social housing.
* The proceeds that might arise from this suggestion are hard to estimate because the current level of gains of this sort arising on death is not known, not least because capital gains tax is not chargeable on death at present.
* It is known that the exemption of people's main residences from capital gains tax charge is thought by HM Revenue & Customs to cost £35.2 billion of tax foregone each year at present.
* Depending on the rates of capital gains tax chosen (and the Taxing Wealth Report 2024 generally suggests that those in use for capital gains tax are too low and should be subject to an investment income surcharge, which might be waived in this case) the amount of tax that might be raised could vary considerably. However, it would not be unreasonable to think that at least £10 billion of additional revenue could be raised a year, having taken into consideration the loss of inheritance tax on such properties.
* This proposal would require considerable consultation and great care in drafting to ensure that tax justice was delivered.

**Discussion**

Of all the proposals made in the Taxing Wealth Report 2024, this might be the most controversial and so the least likely to happen. It would, however, be inappropriate to ignore the considerable injustices that have arisen for tax and social purposes as a result of the exemption of principal domestic residences from capital gains tax charges since 1965.

That exemption has undoubtedly fuelled inequality in the UK.

It is also now heavily distorting access to the housing market for young people, with many of those able to secure their own homes now only being able to do so because of support provided to them by their parents because they have considerable untaxed capital gains inherent in their own homes.

In effect, this proposal creates a new tax. For that reason, estimates of revenue are hard to make because rates to be charged need not necessarily be consistent with those on other capital gains. However, when HM Revenue & Customs estimates that this exemption costs at least £35.2 billion per annum at present and given that gains on final disposals will, on the basis proposed, be those accumulated during life, it is quite reasonable to think that overall revenues might be at least £10 billion per annum, even after allowing for a loss of inheritance tax revenue.

**Example calculation**

The note that supports this blog post **includes the following example calculation of a capital gain that might be subject to tax if this proposal was to be adopted:**

***Suppose that Jo bought a property in 1972 for £10,000. They sold it for £22,000 in 1982, buying another property for £35,000 at that time. They then moved again in 1993, selling that second property for £89,000 and buying another for £115,000. They then remained resident in the property with their spouse until they died in 2022, their spouse having predeceased them, having left their share in the property to Jo, meaning that the entire gain on the properties owned during life is due by Jo's estate. Jo spent £12,000 on a new kitchen in 2003 and £19,000 on a conservatory in 2007. The property was valued at £485,000 at the time of death.***

***The total capital gain is:***

Charging capital gains tax on a main residence published

| | £ | |
|---|---|---|
| Sales proceeds or value of final property | | |
| Less: cost of final property | 115,000 | |
| Cost of new kitchen | 12,000 | |
| Cost of conservatory | 19,000 | |
| Total cost of final property | | |
| Gain on final property | | |
| | | |
| Add: Gain on first property | | |
| Sales proceeds | 22,000 | |
| Less: cost | 10,000 | |
| Gain on first property | | |
| | | |
| Add: Gain on second property | | |
| Sales proceeds | 89,000 | |
| Less: cost | 35,000 | |
| Gain on first property | | |
| | | |
| Total lifetime gain on main residences: | | |

***This can be rationalised as being the disposal value less the actual sum paid for the properties, which totals £80,000 in all. This is made up of £10,000 for the first property; £13,000 for the second property (being the cost less the proceeds on the first property); and £57,000 on the third property, being £115,000 spent less £89,000 from the proceeds of the previous property, making £26,000, plus £31,000 on improvements.***

***It is suggested that this sum should be subject to capital gains tax on death but that there be no inheritance tax charge on that gain as a result.***

***Cumulative value of recommendations made***

The ***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 £93.7 billion per annum.***