

Capital gains tax on houses - again

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I returned to the subject of [capital gains tax on people's homes](#) yesterday, knowing well that of all the proposals I made in the Taxing Wealth Report 2024, this was the one that proved least popular when I put it out in the first draft. Despite that, I felt it appropriate to include it in the final report and to raise the subject again.

The fundamental reason for doing so is that the capital gains tax exemption on people's homes is now creating enormous divisions within our society because of the massive wealth divide that home ownership is now creating in our country. This is being repeated amongst younger generations, depending upon their parent's good fortune. I see no way to overcome this growing division without the use of taxation, and inheritance tax captures far too few of these gains for it to have a meaningful impact.

The objections come in several forms. The first, not generally specified, but I feel implicit in some of the comments, is a distaste for this in general. I accept that others do not share my belief, but I think that a tax on these gains is now essential.

Some commentators objected because of the impact on social mobility. They had clearly neither read the report nor listened to the video that I have produced because the whole reason for making the charge I propose on either death or last use of a property by its owners is to avoid the impact on social mobility. The charge that I suggest would almost always arise on death, or in old age when the property was no longer needed, or on emigration. It would be very rare in other circumstances, but in any of these situations, the funds to make payment would be available without any impact on social mobility, meaning that this objection is not relevant.

Thereafter, the objections appear to very largely be on administrative grounds. I think these objections fall into two parts.

One is the suggestion that records of purchases and sales over life would not be available, and I recognise that this is plausible, although I would be very surprised if most people make so many purchases and sales of homes that they cannot recall what they bought and sold them for, whilst standard allowances for costs of transactions,

including legal fees and stamp charges, could be made without difficulty to overcome that issue.

Alternatively, in the absolute absence of data, I propose the use of an index basis for taxation instead, with the value of a property finally disposed of being compared to the value of a similar property in the place in which it is located and in the share in which it is owned in the year that a property might have been first acquired by the person now making the disposal as a substitute basis evaluation. Again, if evidence of the number of moves that have taken place in the meantime without evidence of precise transaction costs having been made available could be provided, then a claim for appropriate estimated transaction costs might be added. Compared to most other taxation charges, this is, frankly, no big deal and well within the scope of normal taxation advisors to calculate, probably in a few minutes.

As for those who separate, capital gains taxes are almost invariably an issue addressed at this point because such a charge can arise on separation. There are also, invariably, agreements as to how property ownership and associated liabilities are to be shared. The likelihood is that in these situations records will exist, but again, in their absence, an index basis could provide an alternative to overcome any such difficulty.

Let me provide an example. Suppose X and Y buy a property for £100,000. Three years later, they sold it for £120,000 and bought another one for £150,000. They then separate a little while later. X agrees to pay Y £60,000 for the equity in the property. Y then buys a new property using those funds. So, X has, after this, an interest of £50,000 from the first property and an additional £15,000 (£150,000 new cost less £100,000 original cost, less £20,000 gain, all divided by two) from the second property. X then adds £60,000 to their base cost by buying out Y, giving a total base cost of £125,000 at that point.

Meanwhile, Y also had a base cost of £65,000 at separation. Presuming the £60,000 was all gain, this base cost is not changed by the disposal, and so long as they reinvest in a new property, no tax is due. Instead, they take the £65,000 and any difference between the £60,000 and the sum invested in a new property into their next property. So, if they spent £80,000 on the new property, their base cost would rise by £20,000 as £60,000 of that was rolled over gain. If they spent £40,000 extra on the new property they would reduce their base cost by £20,000 as this sum would not have been reinvested. This last point is important for downsizing. I cannot see the complication in this.

But whatever happens, no one would need to prepare documentation unless they thought they would get a better outcome than the indexation option would provide.

So, these points having been made, what are the remaining objections?

Or, alternatively, what are the better options?

Or are we simply to accept that this inequality should continue because politicians do not have the courage to address it, leaving us in a deeply divided society?

As a footnote, I had a look at the reactions on YouTube to this video. The majority of the videos that we are posting relating to tax are getting approval ratings of 99%. This one has not. Its approval rating is about 90%. That, of course, is not persuasive, nor does it necessarily represent the population as a whole, but it does suggest that there is an awareness of this issue and the need to address it, and I find that encouraging.

Comments are genuinely welcome, because I may not have put forward the best solution to this problem. I recognise that possibility. But, if I have failed, it does not mean that the problem goes away.