Funding the Future

Capital gains tax revenues make the case for the Taxing...

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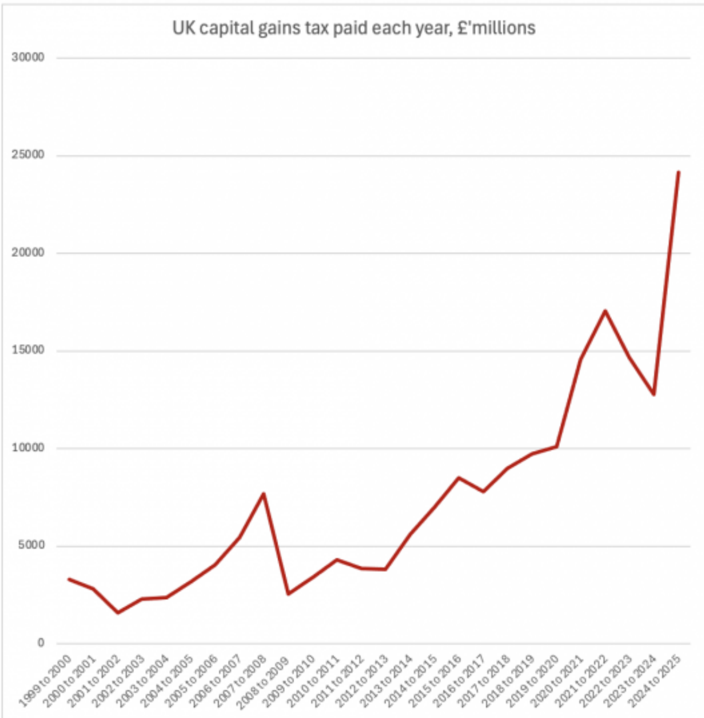
The naysayers about my Taxing Wealth Report have always said that some of my suggestions, such as equalising the tax rates on income and capital gains, would not deliver the level of income that I suggested. I have never believed them. I always thought I had underestimated yields. That has always been my style.

New data from HM Revenue and Customs suggests that I am right, and that those who are proposing a wealth tax instead of taxing income and gains from wealth more, which was the basis of my approach in that report, are wrong.

This is the chart for revenues raised from capital gains tax for all tax years ending this century, including that to 5 April 2025, for which data has just been published, somewhat late in the day.



Rachel Reeves increased capital gains taxes between 2023/24 and 2024/25. The tax rate for basic rate taxpayers increased from 10% to 18% and for higher rate taxpayers from 20% to a baffling 24%, neither of which changes made any sense at all, most especially when most capital gains are generated by higher rate taxpayers.

Tax allowances were also halved from £6,000 per annum to £3,000 per annum.

The impact upon revenue was dramatic. Tax revenue in 2023/24 was £12.7 billion, and in 2024/25 was £24.2 billion.

The first thing to note was that the revenue increase was almost exactly what I predicted for equalising income tax and capital gains tax rates, so the level of increase is, in fact, quite surprising, being more than I would have expected.

The second thing to notice is that this yield is, by itself, more than many people estimate an annual wealth tax might supply.

In that case, the pragmatic question has to be why are we looking at the complications of a wealth tax when changes to the existing tax system of the sort that I have proposed in the Taxing Wealth Report, which I suggested were capable of delivering additional revenue of up to £90 billion a year, of which this capital gains tax adjustment was just one, might be so much more effective?

I am not saying that we do not need a wealth tax. What I have always said is that if we want to raise more revenue from those with wealth, a wealth tax is the best option available after all the others that I have proposed have been used.

I think that my case is now made.

There is a final point to note. All those on the right wing who claimed that there would be a dramatic Laffer curve effect as a consequence of this change might need to eat some humble pie. There was not. At the tax rates being used here, and at those that would be used if income tax rates were to be applied, there would be no such impact, which is an argument that I have presented many times, including in person in debate with Arthur Laffer.

Again, let’s assume that the case is proven.

In that case, when will Labour deliver the other changes I proposed?