

Tax briefing note

Capital gains tax

June 2025

What is it?

Capital gains tax (CGT) is a tax on the gain in value of most assets between purchase and sale.

A personal allowance is deducted from 'chargeable gains', and the rest is then taxed. The allowance was cut in the 2022 autumn statement from £12,300 in 2022-23 to £6,000 in 2023-24 and then £3,000 in 2024-25. It was frozen in 2025-26.

From 1988 to 2008, the rate was the same as the taxpayer's income tax rate. In 2008 it was simplified into a single 18 per cent rate until 2010, when a higher 28 per cent rate was added. The higher rate was paid on gains over the income tax higher rate threshold when taxable income and chargeable gains are combined. So those paying higher rate income tax would pay the higher rate of CGT on all their gains above the CGT personal allowance. In 2016, the rate was reduced to 20 per cent for higher rate taxpayers and 10 per cent for basic rate taxpayers, except for residential property.

In the 2024 spring budget the higher rate on residential property was cut from 28 to 24 per cent. In the autumn budget after the election, the higher rate for other assets was increased from 20 to 24 per cent while the basic rate was increased from 10 to 18 per cent to match the residential property rates, removing the distinction for that asset class. Business asset disposal relief which replaced entrepreneur's relief allows a 14 per cent rate while carried interest is taxed at 32 per cent although the former will rise to 18 per cent in April 2026 when carried interest will be transferred into income tax.

What's the problem with it?

It's a double tax that causes two significant economic problems. First, it weakens the financial incentives to reallocate economic assets when the current owners are no longer the best people to own them. This means, for example, that control of start-ups is retained by founders for too long. Entrepreneurs don't start as many new companies and more mature companies are controlled by people better suited to managing companies in their earliest stages. Secondly, it discourages investment by reducing post-tax returns.

It's tempting to think that setting CGT at the same rate as income tax would make the tax system neutral between income and capital gains, discouraging avoidance. But this is fundamentally and conceptually flawed. Most capital gains are already effectively post-tax. To understand why, imagine you own a company which you founded with no capital. This company now has no prospects of any future activities and has ended trading, but during your ownership its bank balance grew to £100,000. You have two options. One is to wind the company down and the £100,000 surplus would be treated as income. Or you could sell the company to someone else who would have the same options. But no buyer would pay £100,000 because of the tax payable on extracting the cash.

To keep things simple, assume there is only one income tax rate of 40 per cent, one CGT rate of 24 per cent and no allowances. If you took the income, you'd receive £60,000 after tax. If you sold the company, the buyer would only pay at most £60,000 to avoid a loss. Your supposedly 'pre-tax' capital gain would be £60,000 which would then be subject to the 24 per cent capital gains tax. So capital gains are usually already effectively 'post tax'. A further CGT liability of 24 per cent (£14,400) wouldn't equalise the treatment. They're already the same with no CGT.

What should be done?

1. Abolish capital gains tax entirely when possible.
2. In the meantime, scrap the higher 24 per cent rate to simplify the system. This would eliminate the need for business asset disposal relief by extending its 14 per cent rate to all investors and assets.