



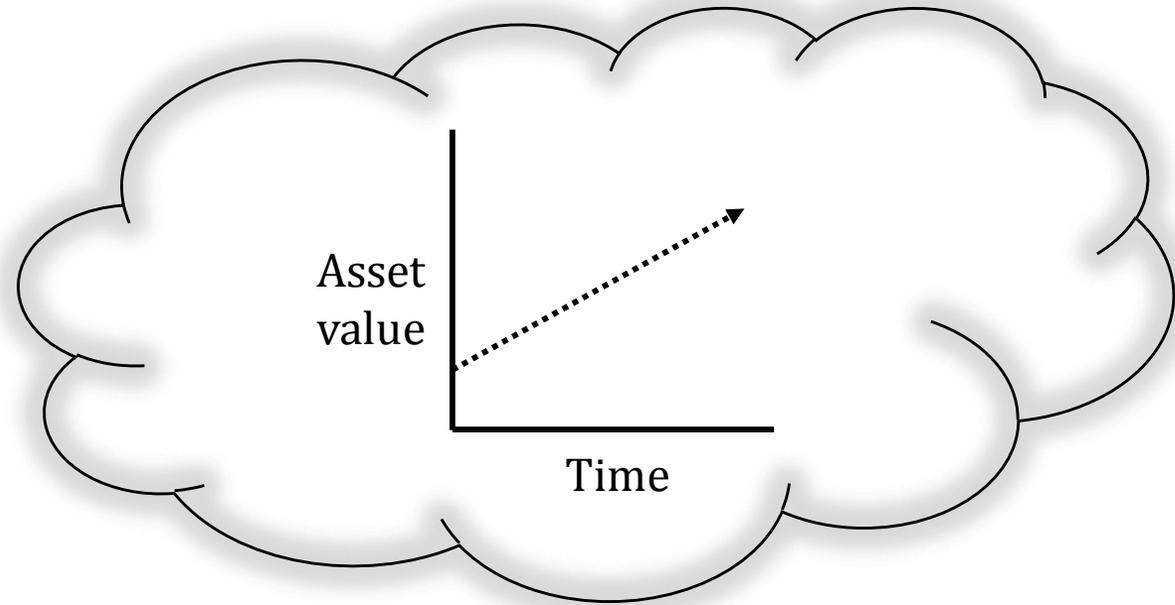
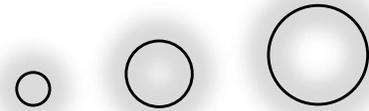
# Capital Gains: Distribution, Law and Policy

**LSE** Law

**LSE** International  
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# Think of a 'capital gain'...



...what does it look like to you?



**FOR SALE**



**FOR SALE**

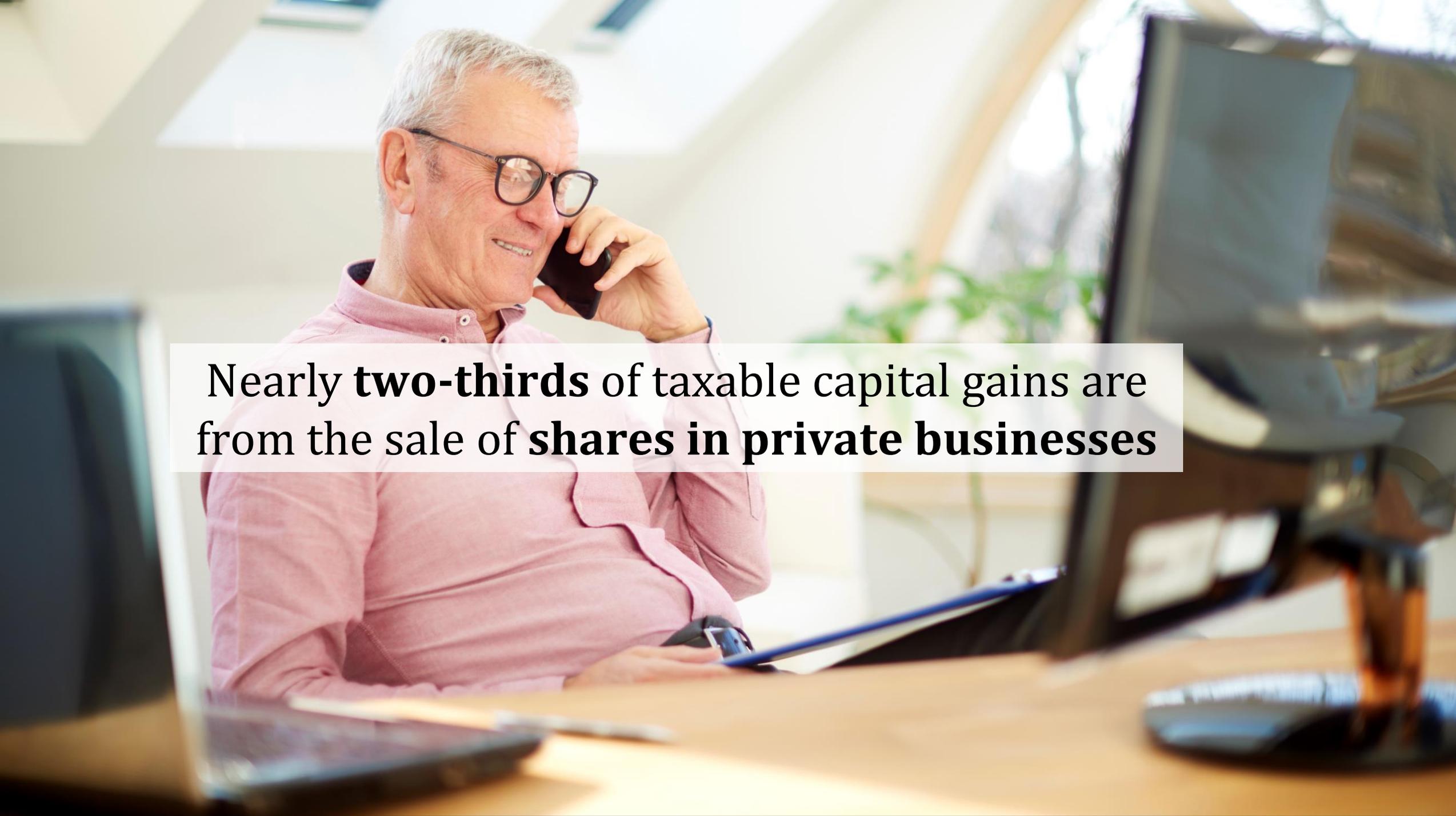


**FOR SALE**



In 2016-17,  
*taxable* capital  
gains totalled  
**£51bil**

Source:  
HMRC CGT Statistics  
2016-17, Table 7

A middle-aged man with grey hair and glasses, wearing a pink button-down shirt, is sitting at a desk in an office. He is smiling and talking on a black mobile phone held to his ear. In front of him is a laptop. To his right is a large computer monitor. The background shows a bright office space with a window and some greenery.

Nearly **two-thirds** of taxable capital gains are from the sale of **shares in private businesses**

## **Key points**

Capital gains are, mostly...

**1. Re-packaged income**

**2. Received by the very rich**

**3. Taxed at very low rates**

(...and it's all missing from income statistics)

**62%** of all taxable capital gains go to individuals who realised **over £1mil** *in gains* that year

That's £34bil to 9000 people  
(less than 0.02% of UK adults, in cross-section)

Source:  
HMRC CGT Statistics  
2017-18, Table 2

# Re-packaging income

1. Employee share schemes
2. Fund manager 'carried interest'
3. **Retained profits (realised on exit)**

- Miller, Pope & Smith (2019): Link personal tax records with company accounts and find that retained profits of owner-managers:
  - **increase with income**
  - **increase with age**
  - **are not associated with increased capital investment**

# Taxing capital gains

**Reminder:** the *basic rate* of tax on employment income is ~46% (20% Income Tax, 12% Employee NICs, 14% Employer NICs)

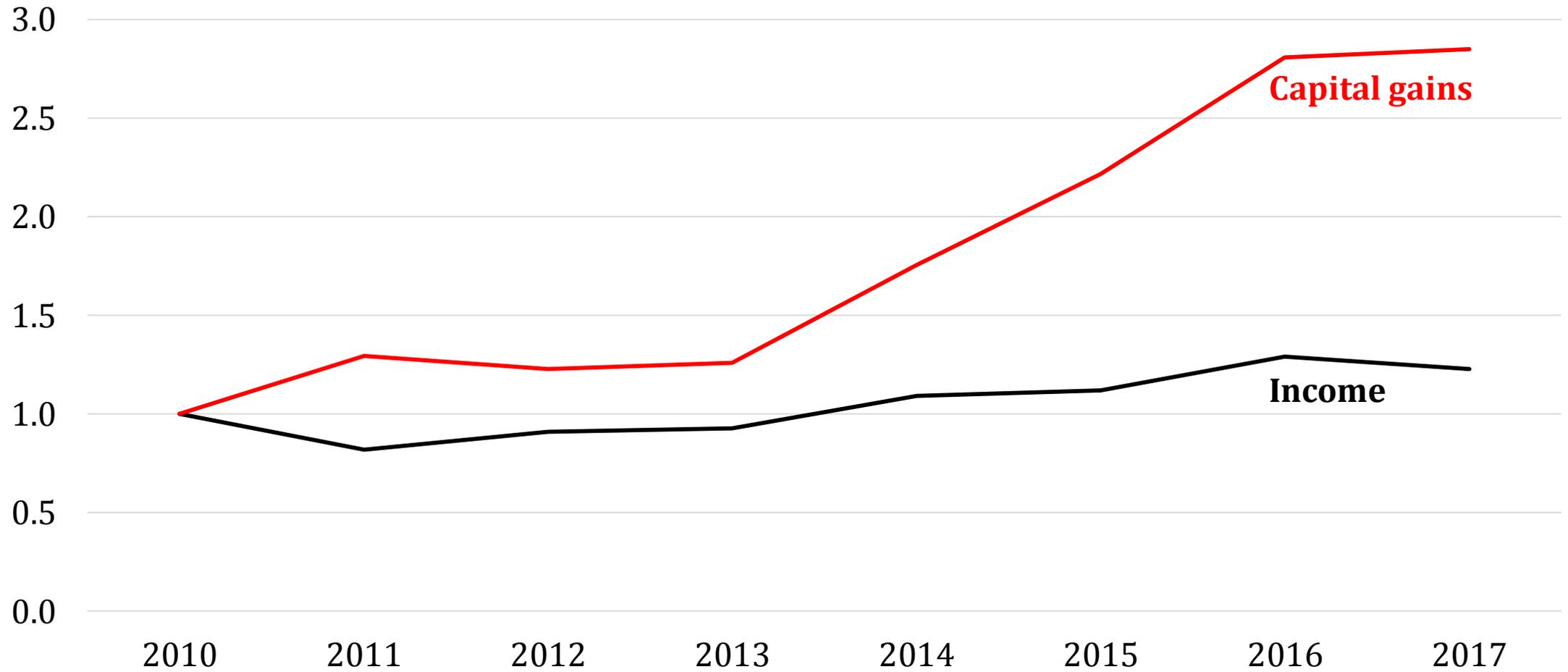
## Capital Gains Tax rates:

- **28%** on **residential property** and carried interest
- **20%** on all **other assets** (including shares)
- **10%** with **Entrepreneurs Relief** (+19% Corporation Tax paid on retained profits)

## And:

- **0%** on all gains below the **Annual Exempt Amount** (£12,000)
- **0%** on **main homes**

**Total income / capital gains of all individuals who  
received >£100,000, relative to 2010**



Source: author's calculations using HMRC Personal Incomes and CGT Statistics

# Current research

Using HMRC data:

- **Who** receives capital gains, and **how often**?
- What is the **joint distribution** of income and (taxable) capital gains?
- How do **effective tax rates** change across the distribution, once capital gains are included?

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