Office for **Budget Responsibility**

2 April 2026

Supplementary forecast information release

Costing of reducing the capital gains tax relief on qualifying disposals to employee ownership trusts from 100 to 50 per cent

1.1 The OBR is releasing this information following a request for further detail in respect of the costing of reducing the capital gains tax relief on qualifying disposals to employee ownership trusts from 100 to 50 per cent, in our November 2025 *Economic and fiscal outlook*. We will, as far as possible, meet any requests to release supplementary forecast information where this will improve the quality of public debate on the public finances. Our full release policy is available on our website.

1.2 This release briefly describes the measure, sets out the data sources and modelling used to estimate the costing, and discusses the main sources of uncertainty around this central estimate, following the OBR's policy costings process.[1] As set out in the *Charter for Budget Responsibility*, the Government is responsible for producing all policy costings. In the case of tax policies the costings are typically produced by HMRC. The OBR's role is to provide independent scrutiny and certification of whether the Government's policy costings are reasonable and central. This means that the full datasets underpinning tax policy costings are generally held by HMRC. Therefore, requests for access to any datasets not available at the sources referenced in this note should be directed to HMRC.

Policy description

1.3 In the November 2025 Budget, the Government announced a reduction in the capital gains tax (CGT) relief on the qualifying disposals of shares to trustees of employee ownership trusts (EOT) from 100 to 50 per cent. EOTs are a corporate ownership structure whereby a controlling interest in a company is held by the trustees. The measure took effect from 26 November 2025.

Data

1.4 The main data source for this costing is HMRC's 2023 administrative application clearance data, from which estimates of the monetary value of EOTs are made. This is supplemented by data from an independent accounting firm and HMRC's 2025 CGT statistics to estimate parameters such as the total number of EOTs formed and the proportion of gains that are chargeable.

[1] See our *Briefing paper No.6: Policy costings and our forecast*, March 2014.

Modelling

Static costing

1.5 The tax base consists of 'chargeable' gains arising from EOT disposals. To estimate the tax base, the costing uses data from 2023 clearance applications (paragraph 1.4) on the monetary value of companies transitioning to EOTs, which covers an estimated 97 per cent of EOTs created in that year. For EOTs without valuations or not submitting clearances, estimates are derived using averages from the available data. The costing then assumes that 71 per cent of this value represents chargeable gains, consistent with HMRC's 2025 CGT statistics for other CGT-liable assets. It also adjusts for the Annual Exempt Amount (AEA), under which the first £3,000 of an individual's chargeable gains is exempt from CGT and therefore excluded from the tax base. The resulting tax base is projected forward using the CGT forecast growth rate for financial assets (excluding carried interest).

1.6 The static yield is calculated by multiplying the tax base by the change in the effective tax rate resulting from the policy. The costing assumes EOT claimants are higher-rate taxpayers, so the change in the effective tax rate is based on the higher-rate main CGT rate (24 per cent) and the proportion of gains brought into the charge under the measure (50 per cent). A first-year adjustment of 36 per cent is made for 2025-26 to reflect implementation from 26 November 2025.

Behavioural response

1.7 The behavioural responses considered in the costing relate to the range of ways in which business owners are expected to reduce their CGT liabilities in response to the higher effective tax rate on disposals. The main behavioural responses considered in the costing include:

- **Holding assets for a longer period**, for example, until death, emigration, or a later possible reversal of the policy change, such that HMRC never receives the revenue. In other cases, the gain would still be taxed at a later date.
- **Shifting investments into assets** with a lower tax rate, for example, investing more in a pension.
- **Reduced income-to-gains shifting**. There is evidence that some taxpayers structure their affairs to present labour income as a capital gain to benefit from a lower tax rate. With the gap between capital gains tax rates and employment tax rates reduced, this policy reduces the incentive for this behaviour.

1.8 These behaviours are captured via retention elasticities which draw on HMRC analysis of realised gains in the UK in the period from 1998 to 2018, which estimates an elasticity of 4.0 for CGT receipts related to main rate chargeable assets including financial assets.[2,3]

[2] We also considered external evidence, much of it US based, notably Agersnap, O., and O. Zidar, *The tax elasticity of capital gains and revenue-maximising rates*, 2020.
[3] Outturn evidence from previous costings was also used, notably the Entrepreneurs' Relief (ER) abolition.

This is supplemented by multi-criteria decision analysis (MCDA) to adjust the elasticities to reflect differences in behavioural responses between the groups affected by the measure and the population on which the original elasticity estimates were based. To reflect the different motivations for making EOT disposals, the EOT claimant population is separated into two groups:

- **Company owners planning exits for retirement purposes**: these claimants are estimated to comprise 55 per cent of the population and are assumed to be less responsive to the policy change based on HMRC analysis of survey data, with the reduction in relief leading to some individuals holding onto assets for a longer period. The costing adjusts the standard elasticity used down by two-thirds, resulting in an elasticity of 1.33 for this group, informed by the MCDA.

- **Behaviour from other taxpayers**: these claimants are estimated to comprise 45 per cent of the population and are expected to be more responsive to the reduction in the relief based on HMRC analysis of survey data. For this group, a retention elasticity of 3.4 was used. This remains lower than the elasticity implied by HMRC's historical analysis, as the measure reduces one of the ways to reduce tax liability that was available during the period covered by that analysis.

1.9 For both groups, the costing assumes that part of the behavioural response reflects reduced income-to-gains shifting, which increases income tax receipts (as shown in Table 1.3).

Table 1.1: Key Parameters

Parameter	Value	Description
CGT tax rates (per cent)		
Change in EOT relief	100-50	Change in capital gains tax relief on qualifying disposals to employee ownership trusts.
Main rate (higher rate taxpayers)	24	Tax rate on assets excluding residential property and carried interest.[1]
Tax base		
Proportion of gains that are chargeable (per cent)	71	The proportion of gains from disposals to EOTs that are chargeable from HMRC's 2025 CGT statistics.
Chargable gains from EOTs with a valuation in 2023 (£m)	3,018	The amount of chargeable gains from EOTs with valuations from HMRC's 2023 application clearance data.
Chargable gains from EOTs without a valuation in 2023 (£m)	249	The estimated amount of chargeable gains from EOTs without valuations from HMRC's 2023 application clearance data.
Chargable gains from EOTs not submitting clearance applications in 2023 (£m)	112	The estimated amount of chargeable gains from EOTs that did not submit clearance applications from HMRC's 2023 application clearance data.
Number of businesses transitioned to EOTs	542	The number of business that transitioned to EOTs based on data from an independent accounting firm.
Average EOT value (£m)	8.8	The estimated average value of EOTs in 2023.
Static costing		
Share of 2025-26 gains in scope	36	The share of gains in the 2025-26 tax year realised after the announcement of the policy.
Behavioural assumptions		
Proportion of gains made by company owners planning exits for retirement purposes (per cent)	55	The proportion of the population disposing of their assets to EOTs that are company owners planning exits for retirement purposes.
Proportion of gains made by other taxpayers (per cent)	45	The proportion of the population disposing of their assets to EOTs that are other taxpayers.
Retention elasticity (company owners planning exits for retirement purposes)	1.3	The elasticity of realised gains for company owners planning exits for retirement purposes with respect to the share of retained gains.
Retention elasticity (other taxpayers)	3.4	The elasticity of realised gains forother taxpayers with respect to the share of retained gains.
Gains-to-income response share from reducing rate differential (per cent)	12.5	The share of overall behaviour that is assumed to represent CGT shifted into income tax following a 1 percentage point reduction in the gap between IT and CGT tax rates.
Income-to-gains effect attributed to the behavioural response 'holding assets for longer' (per cent)	40	The proportion that holding assets for longer contributes to the knock-on income tax effects. This reduces the income tax effect of 'other taxpayers' by 60 per cent.
Proportion of impact to income tax attributed to savings and dividend income (per cent)	20	The proportion of the gains to income tax arising from the gains-to-income response attributed to savings and dividend income.
Proportion of impact to income tax attributed to NSND self-assessed income (per cent)	64	The proportion of the gains to income tax arising from the gains-to-income response attributed to NSND SA income.
Proportion of impact to income tax attributed to PAYE income	16	The proportion of gains to income tax arising from the gains-to-income response attributed to PAYE income.

[1] From April 2026, carried interest will not be chargeable to CGT as it is moving to the income tax framework.
Source: HMRC, OBR

Table 1.2: OBR determinants used in costing

	Per cent						
	Forecast						
	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
CGT financial assets (excluding carried interest) growth rates	64.4	-1.6	23.4	11.6	10.7	10.2	10.1

Note: The determinant includes the 2024-25 forecast year to reflect the 2023 data used to estimate chargeable gains.
Source: OBR

Final costing

1.10 The central estimate for the costing is an increase in revenue of £1.0 billion by 2030-31, with the behavioural impact reducing the static yield by around 11 per cent. £0.8 billion of yield comes from net CGT, while around £0.2 billion comes from increased income tax. We expect this costing to be roughly in steady state by the end of the forecast period.

Table 1.3: Costing of reducing the capital gains tax relief on EOTs

	£ billion					
	Forecast					
	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Static costing	0.0	-0.2	-0.8	-0.9	-1.0	-1.1
of which:						
CGT	0.0	-0.2	-0.8	-0.9	-1.0	-1.1
Income taxes	0.0	0.0	0.0	0.0	0.0	0.0
Behavioural response	0.0	0.0	0.0	0.1	0.1	0.1
of which:						
CGT	0.0	0.1	0.2	0.2	0.3	0.3
Income taxes	0.0	0.0	-0.2	-0.2	-0.2	-0.2
Post-behavioural costing	**0.0**	**-0.2**	**-0.8**	**-0.8**	**-0.9**	**-1.0**

Note: This table uses the convention that a negative figure means a reduction in PSNB.
Source: HMRC, OBR

1.11 This policy costing was assigned a 'very high' uncertainty rating.[4] This is mainly due to uncertainty over the size of the behavioural response captured in the elasticity judgement. There is also high uncertainty over the data and the modelling, largely reflecting the wider uncertainty in the forecast for CGT financial asset liabilities which underpins the growth rate of the tax base. There are both upside and downside risks, notably the size of the behavioural response.

[4] See the 'Policy costings uncertainty ratings database – November 2025' spreadsheet at OBR, *Policy costings*, November 2025.