Policy Brief

Business owners who emigrate: Evidence from Companies House records

October 2024

Authors
Arun Advani
Cesar Poux
Andy Summers

Business owners who emigrate: Evidence from Companies House records

Arun Advani,[1] Cesar Poux[2] and Andy Summers[3]

[1]Centre for the Analysis of Taxation (CenTax), University of Warwick Economics, and Institute for Fiscal Studies

[2]CenTax and Paris School of Economics

[3]CenTax and LSE Law

Published by

Centre for the Analysis of Taxation

centax.org.uk

This research was funded by the Economic and Social Research Council (ESRC) through the 'Taxing the Super Rich' Research Grant (ES/W012650/1). CenTax receives core funding from abrdn Financial Fairness Trust and the Thirty Percy Foundation. The authors' thank Sebastian Gazmuri-Barker and Andrew Lonsdale for research assistance. Correspondence to a.advani.1@warwick.ac.uk and a.d.summers@lse.ac.uk

The UK is unusual amongst international peers in not levying any tax on people who leave the country after making substantial capital gains whilst living here. Although there are anti-avoidance rules covering individuals who move abroad for a short period to dispose of assets and then return, anyone emigrating permanently (or leaving for more than five years) can currently take all of their unrealised gains with them fully tax-free. This results in a major 'leak' in the Capital Gains Tax (CGT) base and leads to a loss of revenue even if they did not leave specifically for tax purposes. There is a long list of high-profile business-owners who built their businesses in the UK but who now live abroad and will pay no UK tax when they sell (Neidle, 2023).

This longstanding leak in the UK's CGT base has recently come under renewed scrutiny due to fears of a 'mass exodus' by wealthy individuals if the tax rises predicted in the upcoming Budget materialise. The available evidence from the UK and internationally suggests that this risk is exaggerated:[1] looking at past reforms, tax-induced migration has typically turned out to be a lot lower than media reports and industry spokespeople predicted at the time. However, some people plainly do leave to save taxes, and it is legitimate to point out that the response to increases in Capital Gains Tax or Inheritance Tax would be more uncertain than for previous reforms. This provides a further reason to look again at how the UK taxes (or fails to tax) people who leave.

In this Policy Brief, we provide the first quantitative evidence on UK nationals who leave the UK after building a UK business, studying where they went and how much CGT revenue is potentially lost.[2] We use Companies House data to examine all cases of major shareholders in UK companies who switched residence during the twelve-month period from April 2023 to April 2024.[3] Using information on destination countries, we look whether leavers' migration decisions may have been tax motivated. By combining balance sheet information for the companies with the reported shareholding percentage from Companies House, we estimate the total value of unrealised gains held by leavers and consequently the tax at stake.

Amongst UK nationals who leave the UK with major shareholdings in a UK company, we find a net outflow of at least £5.1bn in shareholding value, leading to at least £500 million in foregone CGT revenue. Leavers disproportionately go to countries that are zero-tax for CGT purposes (more than three quarters by shareholding value), suggesting that their migration may be tax-motivated. Gains amongst leavers are also extraordinarily concentrated: over the twelve-month period that we studied, around three quarters (74%) of the total shareholding

---

[1] For a review of the international evidence, see Kleven et al (2020). For evidence from the UK, see Advani, Burgherr & Summers (2023); Advani, Poux & Summers (2024) and Friedman, Gronwald, Summers & Taylor (2024).

[2] For full details of our methodology, see Appendix A.

[3] 'Major shareholding' refers to a shareholding over 25%, requiring the shareholder to register as a Person of Significant Control (PSC). Our reliance on PSC data inevitably excludes gains on smaller shareholdings and gains on other types of assets (including foreign companies), meaning that we underestimate total gains/revenue-loss from this group.

© CenTax

value was attributable to just 10 individuals. These facts strongly suggest that the UK's current policy of exempting gains from taxation when people leave is in need of review.

In the final section of the Brief, we outline our recommendation that the UK should follow the approach of Australia and Canada by levying a 'deemed disposal on departure' (DDD) for people who leave the UK, accompanied by 'rebasing on arrival' (ROA) for people arriving in the UK who have made gains whilst living abroad. We argue that in combination, this policy ('ROA-DDD') would be a much fairer way to tax gains because it ensures that people would always pay UK tax on gains that they make whilst living here, but not on any gains they made whilst living abroad. In two separate (forthcoming) papers, we provide further details on the technical design of this policy, and how much revenue it would raise in total.[4]

Substantial revenue is lost to people leaving

Between April 2023 and April 2024, 2,400 UK nationals with major shareholdings in UK businesses left the UK. The total value of their shareholdings, across nearly 2,800 companies, was worth at least £6.8bn, based on the book value of the underlying companies. Over the same period, 1,300 individuals with shareholdings in already existing UK businesses came to the UK. The *net* outflow was at least £5.1bn in shareholding value, on which gains went untaxed. If we assume that half of the total shareholding value represents taxable gains (Advani, Hughson, Lonsdale and Summer, 2024), this implies that at least £2.5bn in gains from UK-natives leave the UK untaxed. At current CGT rates, this has a **revenue cost of at least £500m**.

These numbers are likely to substantially underestimate the total value of capital gains leaving the UK untaxed, since:

- we do not capture gains on shareholdings below 25%;
- we do not capture gains on non-UK shareholdings;
- the book value used for the company – taken from the value of assets held on company balance sheets – underestimates the market value of the company, which includes intangibles such as goodwill, that make up an important part of the market value of most large companies;
- we do not capture gains on non-business assets;[5]
- these figures are only based on departures by UK nationals.

Of the many sources of underestimation in these figures, a major one is the value of capital gains going to foreigners leaving the UK. Baseline migration for this group is much larger than for UK nationals, and foreigners make up a large share of top wealth and top income (Advani, Koenig, Pessina and Summers, 2024). In

[4] Technical design is presented in Advani, Gazmuri-Barker and Summers (2024). Full revenue estimates from a 'rebasing on arrival, deemed disposal on departure' reform is presented in Advani, Lonsdale and Summers (2024).

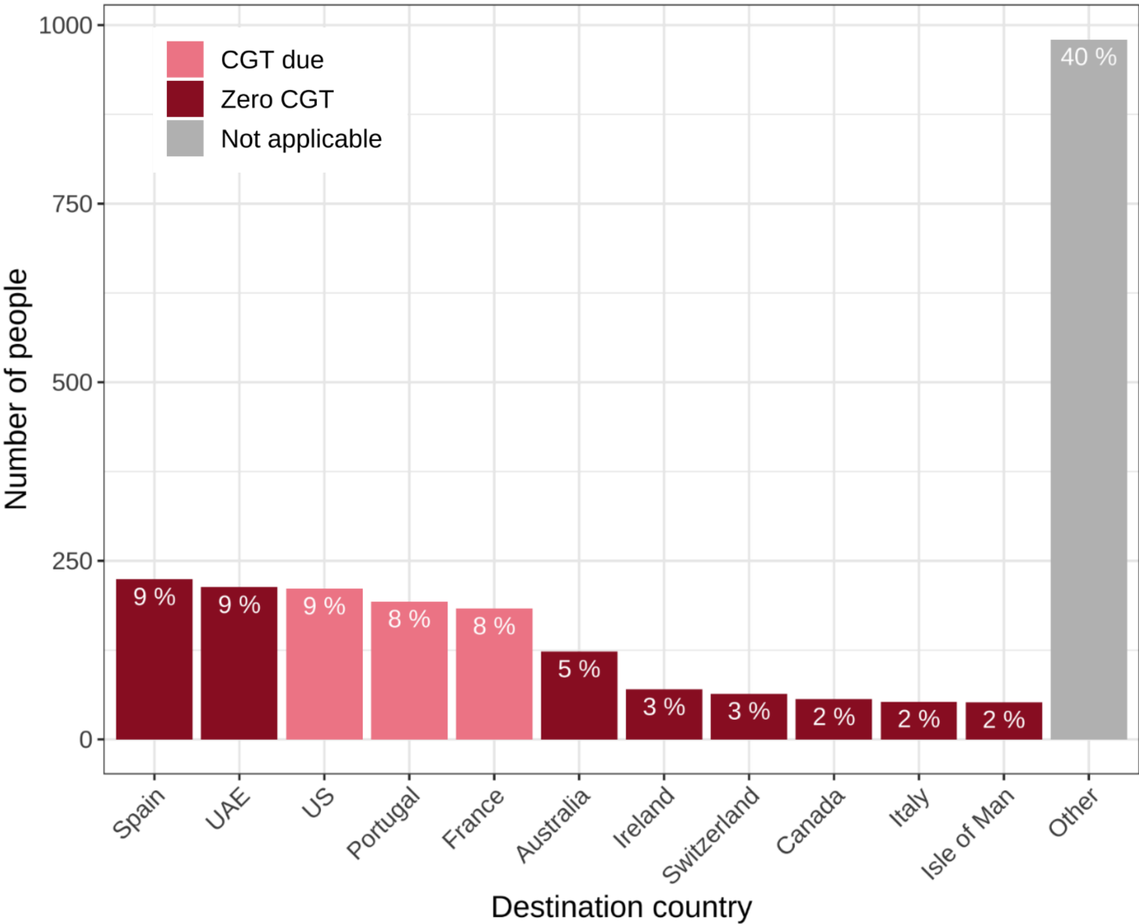
[5] UK land is an exception: although we do not capture it in our estimates, this is not an underestimate, since it is still taxable for non-residents.

forthcoming work, Advani, Lonsdale & Summers (2024) use de-identified HMRC tax data, to estimate the gains accruing to foreigners whilst resident in the UK, and use this to model the revenue effects from a comprehensive reform of CGT.

Leavers are going to zero CGT jurisdictions

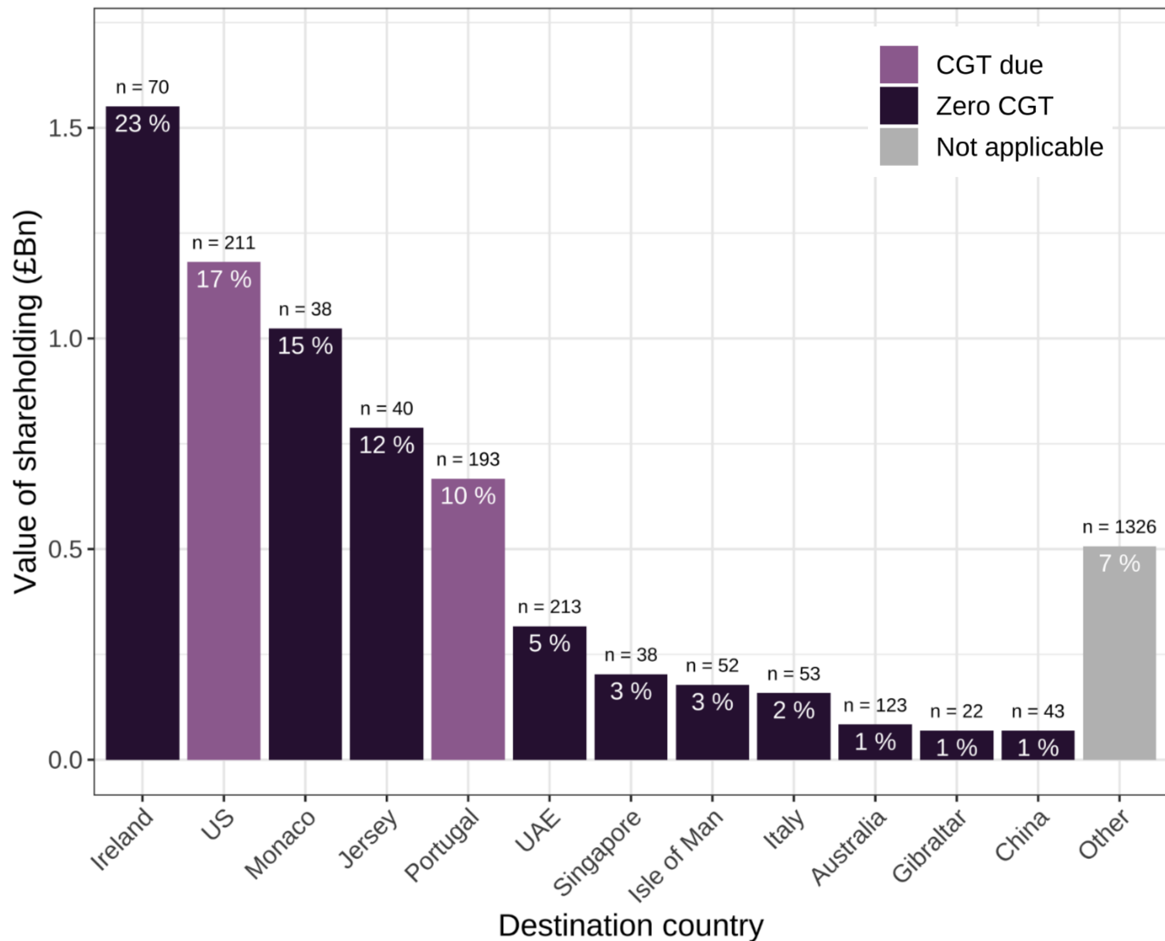
Figure 1: Destinations for business-owning UK nationals leaving the country between April 2023 and April 2024

1.a: Top destinations by number of emigrants



© CenTax

1.b: Top destinations by value of shareholding



Notes: Figures are for the period April 2023 to April 2024, covering 2,422 UK nationals who emigrated from the UK with major shareholdings in UK companies totalling an estimated book value of £6.8 billion. 'CGT due' means that CGT would be due in the destination country if assets are disposed of. 'Zero CGT' means that either the destination country does not have CGT or that disposals by new arrivals are typically exempt.

Source: Authors' calculations based on Companies House and BvD Orbis datasets.

Of the 2,400 UK nationals with major shareholdings in a UK company who left the UK between April 2023 and April 2024, Spain was the top destination country with 980 individuals, closely followed by the UAE and US. Of emigrants who went to one of the top 10 most popular countries (Fig 1a), three out of five (59%) went to a destination country that either does not have CGT or where disposals by new arrivals are typically exempt.

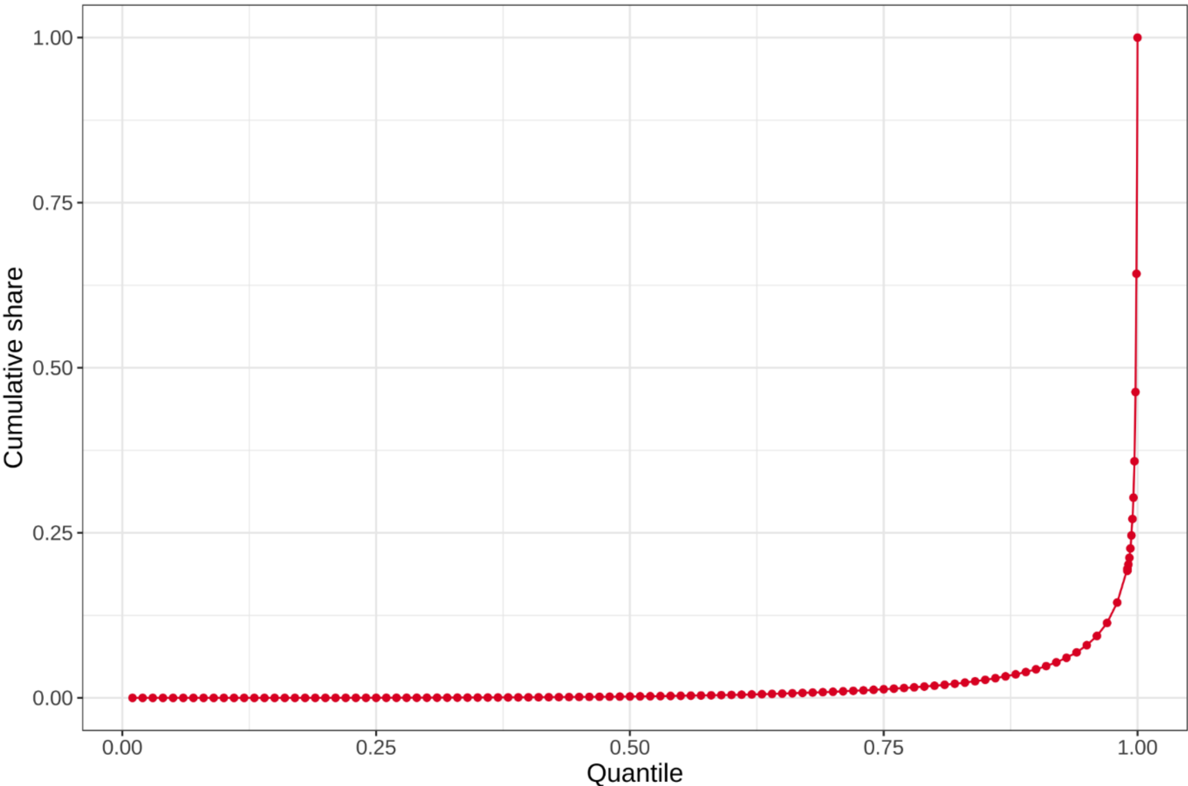
Looking instead by value of shareholding, the top 10 countries are quite different, with Spain not making it anywhere into the top 10. Locations are much more concentrated by this metric, with 93% of gains going to one of the top 10 destinations, compared with only 60% of people. Locations are noticeably more tax-optimised, with **three-quarters of value going to countries where there would be no CGT** (either for anyone or for new arrivals specifically).

The implication is that most people leaving the UK with accrued UK business gains, and a substantial majority of the value of those accrued gains, are not taxed

either in the UK or elsewhere.[6] The right to tax these gains is one that is currently unilaterally being given up by UK. The overrepresentation of zero-CGT jurisdictions amongst top destinations for UK business owners also provides suggestive evidence that some moves may be directly tax-motivated.

Most of the revenue from taxing gains on departure would come from a tiny number of people

Figure 2: Cumulative distribution of value by shareholding value



Source: Authors' calculations based on Companies House and BvD Orbis datasets.

Capital gains are highly concentrated, with more than half of *realised* capital gains going to just 5,000 taxpayers in a year (Advani, Lonsdale and Summers, 2024a). Accrued gains among those leaving the UK are even more concentrated. Using shareholding value as the best available proxy for gains, the **top 10 individuals account for three-quarters (73%) of the total value**. These individuals make up less than 0.5% of the UK nationals who leave with substantial shareholdings.

By contrast, the bottom 75% – even among a group who own at least 25% of a UK business – collectively account for only 1% of the total value moving abroad. This implies that if the UK moved to taxing unrealised gains on departure, it could set a very high filing threshold – thereby ensuring that the vast majority of emigrants would not need to file or pay tax – without losing much revenue.

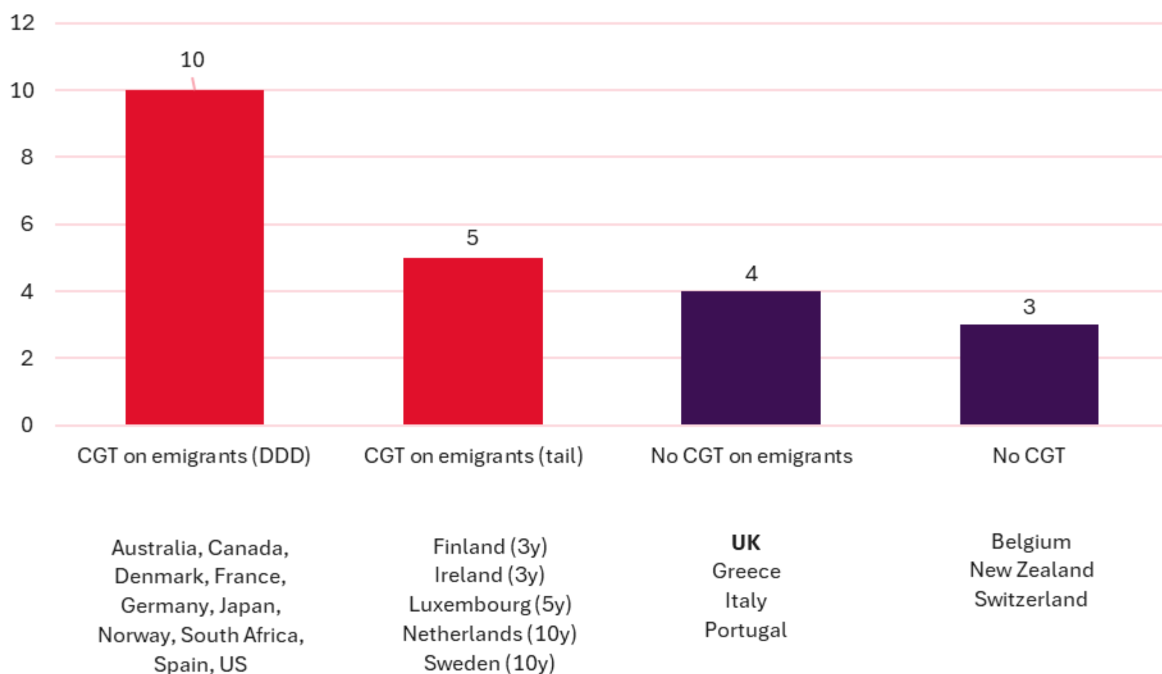
[6] The remainder will not necessarily pay tax on their gains, if they are able to dispose of the business in the period where they have lost UK residence but not yet acquired new residence for tax purposes. This is easier for emigrants from the UK because our tax year – starting in April – is not aligned with most other countries.

© CenTax

Policy implications

Emigration by UK nationals currently costs the UK at least £500m in foregone CGT, at current CGT rates. Given the much higher baseline emigration rates of foreigners, foregone revenue from this group is likely to be even larger. By introducing a policy of rebasing on arrival with deemed disposal on departure (ROA-DDD) the UK would ensure that it collected tax on these gains. Such a policy – which is already in operation in Australia and Canada – would also reduce the incentive for wealthy individuals to emigrate in response to other tax changes, raising additional revenue from existing taxes. As Figure 3 shows, the UK is currently an international outlier in not levying any CGT on emigrants. In the G7, Italy is the only other country that does not do so.

Figure 3: International comparison of CGT on emigrants



Notes: 'DDD' means deemed disposal on departure; 'tail' means that actual disposals by emigrants remain taxable for a period after departure. In the US, DDD applies only when an individual relinquishes their US citizenship or long-term residence. In France and Germany, the exit tax is in practice a hybrid of DDD and tail. Although the UK has no CGT on emigrants, it taxes 'returners' under temporary non-resident rules.

Source: Advani, Gazmuri-Barker & Summers (2024)

The status quo cannot be justified on any principled grounds. As so much of the tax system, it has evolved through piecemeal reform. It disincentivises immigration by those holding substantial pre-arrival gains. It also encourages emigration by people who have made substantial gains whilst living in the UK, to realise those gains tax-free. Although intended to limit avoidance, the UK's current temporary non-resident rules arguably make things worse, by incentivising

people to stay out of the UK for longer. As well as these negative economic effects – which would be even worse at higher rates of CGT – the current system is fundamentally unfair, by allowing those who are willing to leave, to avoid CGT on gains that they made whilst living in the UK.

Rebasing on arrival, deemed disposal on departure (ROA-DDD) would provide a principled policy solution, exempting from UK tax any gains accrued before arriving, and taxing all those which accrue while tax resident in the UK. As well as being fairer, this is economically more efficient. It removes the lock-in effect of holding gains until departure to escape the tax, similar to the current incentive to hold until death, allowing a more efficient allocation of capital. In Advani, Gazmuri-Barker and Summers (2024) we expand on the case for ROA-DDD and develop a blueprint for the UK that draws on international experience from countries that have already adopted this regime.

References

Adam, Advani, Miller & Summers (2024) “Capital gains tax reform” *IFS Report R336*

Advani Bangham & Leslie (2021) “The UK’s wealth distribution and characteristics of high-wealth households” *Fiscal Studies*

Advani, Burgherr & Summers (2023) “Taxation and Migration by the Super-Rich”, *IZA Discussion Paper 16432*

Advani, Gazmuri-Barker & Summers (2024) “Arrivals and Departures for Capital Gains Tax: International Experience and Design Issues” *CenTax Working Paper* (forthcoming, October 2024)

Advani, Hughson, Lonsdale & Summers (2024) “Should Capital Gains be tax privileged”

Advani, Koenig, Pessina & Summers (2024) “Immigration and the Top 1 Percent” *Review of Economics and Statistics*

Advani, Lonsdale & Summers (2024a) “Who would be affected by Capital Gains Tax reform?” *CAGE Policy Briefing 40*

Advani, Lonsdale & Summers (2024b) “Reforming Capital Gains Tax: Revenue and Distributional Effects” *CenTax Report* (forthcoming, October 2024)

Advani, Poux, & Summers (2024) “Top Flight: How responsive are top earners to tax rates?”

Friedman, Gronwald, Summers & Taylor (2024) “Tax flight? Britain’s wealthiest and their attachment to place” *III Working Paper 131*

Kleven, Landais, Muñoz & Stantcheva (2020) “Taxation and Migration: Evidence and Policy Implications” *Journal of Economic Perspectives*

Neidle (2023) "Why Alan Sugar failed to become a tax exile, and why so many others succeed" Tax Policy Associates Blog (10th September 2023).

© CenTax

Appendix A: Methodology

At the top of the wealth distribution, most of the value is held in business assets (Advani, Bangham and Leslie, 2021). For those who are UK residents, this will predominantly be in UK companies. We therefore use information from Companies House and from Bureau van Dijk's Orbis database to estimate the total value of those assets and the shareholding value for people leaving the UK. We proceed in four steps.

1. **Identifying shareholders who left the UK**
   We compare two snapshots of Companies House' People with Significant Control (PSC) register which are one year apart[7] and identify shareholders who have switched their reported residence[8] from a UK residence to a non-UK one.
2. **Using balance sheet information from BVD Orbis to determine the value of the companies owned by switchers**
   We use balance sheet information on total asset value, which is well-reported in Orbis, as an estimate of company value. In general, this is a lower bound on the open market value.
3. **Using reported shareholding percentage in the PSC register to estimate shareholding value**
   Shareholding in the PSC register is given by bands (with thresholds at 25%, 50% and 75%). Our central estimate uses the mean between the lower and the upper bound, i.e., a shareholding value reported to be between 50% and 75% is considered to be 62.5%.
4. **Estimating taxable gains on shareholding value**
   We use administrative data on disposals of unlisted shares to compute a ratio of taxable gains to disposal value (Advani, Hughson, Lonsdale & Summers, 2024), which we compute for different bands of company values.

---

[7] Companies House does not publish historical bulk PSC data, so we rely on our own snapshots (downloaded April 11th 2023 and April 29th 2024).

[8] Guidance by Companies House states that for 'Country of Residence', filers should enter the "country, state or part of the UK where the PSC usually lives". This definition should often align with tax residence but there could be discrepancies, although there is no reason to believe that these discrepancies should be biased in either direction.