

A TAXING INHERITANCE

The state of Britain's inheritance tax system –
is reform enough?

Rory Meakin
March 2026

Acknowledgement

This paper is part of the IEA's *Taxed Out: Britain's War on Wealth Creators* workstream. Many thanks to those whose support has made this series possible.

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Executive summary

- Inheritance tax is levied on the estates of the deceased, including on lifetime gifts made up to seven years prior to death. Roman emperors levied taxes on inheritances, and the British history goes back to the Stamp Act 1694, later modernised by the Finance Act 1894 with the introduction of the estate duty. Rates were initially low with a top rate of 8% on estates worth over £1 million (£116 million in 2025 prices). But they rose precipitously over the 20th century to reach 85% before being renamed as capital transfer tax, applying to lifetime gifts, before reverting back to a tax on death estates only in the mid-1980s and being renamed again as today's inheritance tax at a single headline rate of 40%.
- Britain's top headline rate of 40% is only moderately above the median rate among OECD countries which levy a tax, Czechia's 35%. But 18 out of the 38 OECD countries, almost half, do not levy a tax on bequests to adult children of the deceased, and 10 charge preferential rates. Including these countries and those without a tax at all, Britain ranks fifth highest and is in a small group of high-tax outliers.
- Much policy-expert commentary on the question of inheritance tax being a 'double' tax is mistaken, and the general public are closer to the truth. It may strictly speaking not be a 'double' tax given all the others that apply, but it is arbitrary, additional and distortionary. The correct lens to consider the question is the value chain from creation to consumption; inheritance tax somewhat arbitrarily introduces an additional point of taxation into the chain. The only way to make an inheritance tax neutral would be

to implement a retrospective matching tax rebate for taxed income originally received by the benefactor.

- Inheritance tax is particularly complex and costly to administer, but its effects on savings and investment and redistribution are more ambiguous, as is public opinion on the question of how to reform it. The public considers it to be unfair, and there is a large majority in favour of reducing it, and sometimes of abolishing it. But that opinion appears to weaken significantly when set against alternative taxes to cut instead.
- There is a good case for abolishing inheritance tax entirely due to its arbitrary and distortionary nature, its complexity, its effect on savings and investment, its effect on Britain's international competitiveness in attracting entrepreneurs and the very rich, and satisfying public opinion. But it is harder to make the case for abolition as a policy priority above other alternative tax cuts which might deliver greater effects on incentives when governments are unwilling to restrain spending enough to allow both.
- More incremental reforms offer significantly weaker tax simplification, neutrality and efficiency benefits but come with smaller foregone revenues for the exchequer and represent a smaller opportunity cost in terms of alternative potential tax reforms.

Foreword

Inheritance tax is not a popular tax.

Until just over a year ago, though, it was also a low-salience tax. It rarely generated news headlines. It did not even generate many think tank reports. In fact, the last time the IEA published a report specifically on inheritance tax (as opposed to a report on some broader fiscal policy issue, in which inheritance tax is one subsection among many) was in 2002. Even the Institute for Fiscal Studies would usually subsume it under something else, for example, the taxation of savings, or the taxation of wealth.

But then, in November 2024, *BBC News* reported that '[t]housands of farmers protest against inheritance tax changes', and *Associated Press* added 'Thousands of UK farmers descend on Parliament to protest a tax they say will ruin family farms.' These protests continued throughout 2025.

What had triggered them was a seemingly innocuous announcement in the 2024 Budget. Most agricultural assets are currently exempt from inheritance tax. The Budget announced the removal of that exemption, so that agricultural assets worth more than £1 million would be subject to an effective 20% inheritance tax rate.¹ Some of the protesters argued that they simply did not have the money to pay inheritance tax on the farm they expected to inherit, and that the tax liability would force

¹ In December 2025, the government watered down its proposals, announcing that inheritance tax would now only be charged on agricultural assets worth over £2.5 million.

them to sell the farm. For someone who is not familiar with the intricacies of asset taxation, it was probably not immediately clear what the problem was. If somebody has just inherited assets worth, say, £1.5 million, but also a tax bill of £100,000, then surely that person is still £1.4 million better off than they were before they made that inheritance. So, what exactly are they complaining about?

The problem is that wealth can be illiquid, and it is not always easily divisible. Owning assets worth £1.5 million is not the same thing as having £1.5 million in one's bank account. If our hypothetical farmer can carve out a part of their estate that is worth £100,000, and sell it, then yes, they can use the revenue to pay their tax bill. But if the farm is only viable as an integrated whole – they have a problem.

But neither can it be the solution to just leave the agricultural exemption in place and keep everything as it is now. Exemptions of this kind distort people's investment decisions. If some asset classes are tax-exempt while others are not, people will shift their wealth from the non-exempt to the exempt ones. This will, among other things, push up the price of (in this case) agricultural land.

In this way, the farmers' protests have highlighted two common problems with the taxation of asset wealth: liquidity constraints and economic distortions. These are far from the only problems, and agriculture is far from the only sector affected.

Rory Meakin looks beyond the headlines and approaches the issue from first principles. Should there be a tax on inheritances at all? Would we introduce one today if we did not already have it? If yes, what should we expect from such a tax, and what economic downsides should we be prepared to accept?

Some see inheritance tax as illegitimate: as an undue interference with the wishes of a recently deceased person, and with private internal family matters. While this is a defensible position, I am glad Meakin did not settle there, because that would have made for an unduly short paper without much economic content. Rather, Meakin accepts that there is a certain ambivalence around the question of the legitimacy of inheritance tax – including from a classical liberal perspective. He explains how, historically, liberals have expressed a range of positions on the subject. The liberal thinker John Stuart Mill supported inheritance tax on meritocratic grounds. James Buchanan, one of the founding fathers of the Public Choice School (as well as a Nobel Prize laureate and IEA author), went a step further than Mill. Buchanan feared the emergence of quasi-feudal wealth dynasties, which he sought to curb via an inheritance tax with a marginal rate approaching 100%. It is perhaps the only thing on which Buchanan would have agreed with ‘Corbynista’ journalist Abi Wilkinson, who once called for precisely that in the pages of *The Guardian*.

If we cannot settle the matter in this way, we might as well just go back to old-fashioned Optimal Taxation Theory. On those grounds, the economic case for inheritance tax looks unimpressive. In Britain, inheritance tax accounts for only about 0.7% of all tax receipts, and that is already one of the highest levels in the world. Its administrative and compliance costs are hard to establish precisely, but they appear to be higher than for most comparable taxes. Its wider economic costs are not dramatic, but they are not trivial either. It suffers from many of the same problems as its cousin, the wealth tax, and should be debated in that context. If we had to design an ‘optimal’ tax system from scratch, it would probably not include an inheritance tax. What complicates the matter, though, is the fact that we are in an

I-would-not-start-from-here position, which is miles away from anything resembling optimality.

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London, February 2026

What is inheritance tax?

Inheritance tax, often abbreviated to IHT, is a tax levied on the worldwide estates of deceased long-term residents of the UK and on the British assets of everyone else. The levy is charged at 40% over a threshold of £325,000, known as the 'nil rate band'. Assets left to a surviving spouse in a marriage (or civil partnership) are exempt from the tax, and the threshold is also transferred to combine into a £650,000 allowance. An additional £175,000 is allowed for a residential property if this is passed on to direct descendants, known as the 'residence nil rate band', which is also transferrable to a spouse or civil partner so that on the second death a married couple can bequeath £1 million to their descendants before an inheritance tax charge arises.

An estate for inheritance tax purposes includes gifts made not more than seven years prior to death, subject to a £3,000 annual allowance. Further allowances exist for gifts given to people getting married, and there is an annual small gifts allowance of £250 per beneficiary which applies to an unlimited number of beneficiaries. Regular gifts within normal expenditure made out of income which do not affect the donor's normal standard of living are also exempt (HMRC 2026). Tax charged on lifetime gifts made within three years of death is levied at the full 40% rate but at successively lower rates for the four remaining years (32, 24, 16 and 8%).

Gifts made to charities, political parties and community amateur sports clubs are exempt, and where at least 10% of the net value of an estate is left to charity, the IHT rate is 36% instead of 40%.

Business assets (unquoted shares in private companies, a business or interest in a partnership or shares listed on the Alternative Investment Market at the London Stock Exchange) and agricultural assets (but not equipment and machinery, livestock, harvested crops or derelict buildings) attract a 100% relief, making them effectively exempt from the charge, but in the 2026–27 tax year this relief will be reduced to 50%, effectively increasing the rate to 20% on those assets. Businesses and agricultural property must have been owned for two years prior to transfer (or seven years in the case of agricultural land occupied by someone else), but there are no equivalent requirements for the beneficiaries to continue to do so after they are transferred.

The history of inheritance tax

Estate taxes' history to 1986

Some Roman emperors imposed a tax on inheritance, and taxes 'upon the transference of land, both from the dead to the living, and from the living to the living' in ancient times 'constituted in every part of Europe one of the principal branches of the revenue of the crown' (Smith 1776).

The Stamps Act 1694 introduced a five shillings duty on probates of estates of more than £20. Probate duty remained in place until 1896 when it, along with other related duties, was replaced with the estate duty under the Finance Act 1894. Estate duty, an *ad valorem* tax on the death estates of the deceased, has remained to this day in the form of tax on gifts, albeit renamed as inheritance tax in 1986. This was after an interlude as capital transfer tax since 1975, which also applied to lifetime gifts, and was therefore arguably a substantively different tax.

Since the introduction of a temporary estate duty in 1889 at a rate of 1% on estates over £10,000 (over £1 million in 2025 prices), the history of the rates and thresholds over the following century is instructive. The rates began very low and were increased repeatedly until the 1970s, by when they had risen to society-changing levels, at least for those who did not take steps to avoid them in time. Similarly, thresholds for the highest rates were incredibly high by today's standards, often over £50 million or £100 million in today's prices. Sometimes they were reduced,

such as during the wars, but at other times high inflation was left to erode their values.

Tables 1 and 2 show how the structure changed in the early 20th century. An estate worth £1.5 million in 2025 prices would be liable to a 4% estate duty in 1894, but by 1930 the applicable rate was 10%. Meanwhile the top rate in 1894 applied to estates worth over £116 million was 8%. The top rate threshold was curiously similar in the 1930 update, applying at £114 million in 2025 prices. But the rate had risen to 50%, and the old 8% top rate by 1930 had its upper bound at £1.2 million in 2025 prices.

Table 1: estate duty rates, 1894–1907

Where the estate's principal value exceeds (£)	1894 values in 2025 prices (£)	Estate duty rate (%)
100	11,600	1
500	58,000	2
1,000	116,000	3
10,000	1,160,000	4
25,000	2,900,000	4.5
50,000	5,800,000	5
75,000	8,700,000	5.5
100,000	11,600,000	6
150,000	17,400,000	6.5
250,000	29,000,000	7
500,000	58,000,000	7.5
1,000,000	116,000,000	8

Table 2: estate duty rates, 1930–1939

Where the estate's principal value exceeds (£)	1930 values in 2025 prices (£)	Estate duty rate (%)
100	5,700	1
500	28,500	2
1,000	57,000	3
5,000	285,000	4
10,000	570,000	5
12,500	713,000	6
15,000	855,000	7
18,000	1,030,000	8
21,000	1,200,000	9
25,000	1,430,000	10
30,000	1,710,000	11
35,000	2,000,000	12
40,000	2,280,000	13
45,000	2,570,000	14
50,000	2,850,000	15
55,000	3,140,000	16
65,000	3,710,000	17
75,000	4,280,000	18
85,000	4,850,000	19
100,000	5,700,000	20
120,000	6,840,000	22
150,000	8,550,000	24
200,000	11,400,000	26
250,000	14,300,000	28
300,000	17,100,000	30
400,000	22,800,000	32
500,000	28,500,000	34

Where the estate's principal value exceeds (£)	1930 values in 2025 prices (£)	Estate duty rate (%)
600,000	34,200,000	36
800,000	45,600,000	38
1,000,000	57,000,000	40
1,250,000	71,300,000	42
1,500,000	85,500,000	45
2,000,000	114,000,000	50

The Finance Act 1939 increased the rates again in the months before the outbreak of World War II, in the bands exceeding £50,000 (£2.85 million in 2025 prices), with the top rate rising to 55%. A second finance act in 1939 raised the rates again in the bands exceeding £10,000 (£570,000 in 2025 prices) shortly after war was declared. Another two finance acts in 1940 raised rates twice again on estates over £10,000, including the top rate which was increased again to 60% and then 65%.

In 1946 the Atlee government raised the nil rate band from £100 to £2,000, cut rates on estates under £7,500 and raised them again on estates over £12,500, including raising the top rate to 75%. Agricultural property, however, was subject to a different schedule of rates, roughly half the standard rates on estates over £15,000, with a top rate of 40%.

A few years later the Atlee government abolished the legacy and succession duties (relatively minor duties imposed on the beneficiaries) while once again increasing the estate duty rates. The 70% rate between £1 million and £2 million and the 75% rate above £2 million were replaced with a single 80% rate above £1 million, which had been eroded by inflation from £36.5 million to £30.8 million in 2025 prices.

The top rate was increased again to 85% in 1969 on estates over £750,000 (£11 million in 2025 prices). This rise was the last in the 80-year long trend of rising top rates, however, as it was cut to 75% in 1972 on estates over £500,000 (£6 million in 2025 prices). This marked a new trend of converging rates and a shorter schedule that had begun in the 1960s with increases to the lower rates. Estates duty was then replaced by capital transfer tax, which lasted from 1975 until 1986 and was a tax on the beneficiaries of gifts both lifetime and bequests. The system then reverted back to the estates tax we have today and was renamed inheritance tax. It initially had lower (30% to 35%) and higher (45% to 60%) rates, but these were abolished in 1988, completing the trend of converging rates and leaving the single 40% rate that remains in place to this day.

This progression is illustrated in figures 1 and 2.

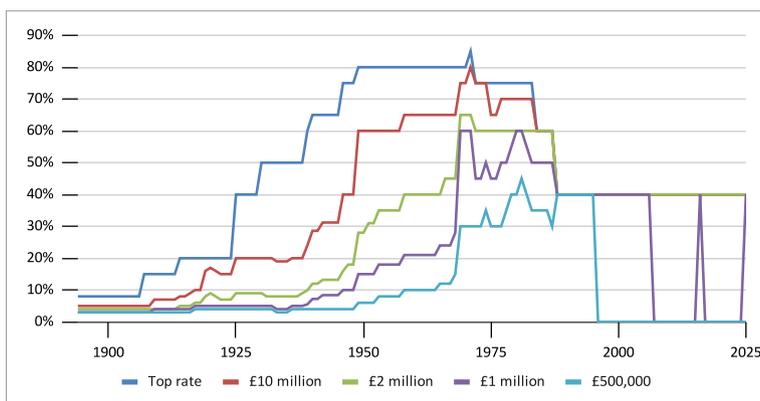


Figure 1: headline rates of estate duty, capital transfer tax and inheritance tax on selected estate values at 2025 prices and the highest rate

Figure 1 shows how modern estate taxes were initially set at relatively low levels even for the largest estates, with a very

graduated schedule of rates. Initially only very substantial estates were subject to high rates. Rates above 10% were first introduced in 1907, and then only on estates worth over £750,000, or £127 million in 2025 prices. The highest rate, 15%, was applied to the balance over £1 million (£509 million in 2025 prices).² When the maximum rate was raised to 40%, the current standard rate, in 1925, still only applied to estates over £1.95 million (£331 million in 2025 prices) and was one of 32 different rates above the nil rate band. An estate worth £10 million in today's prices would only be liable for a rate of 20% while an estate worth £2 million would be liable to a 9% rate.

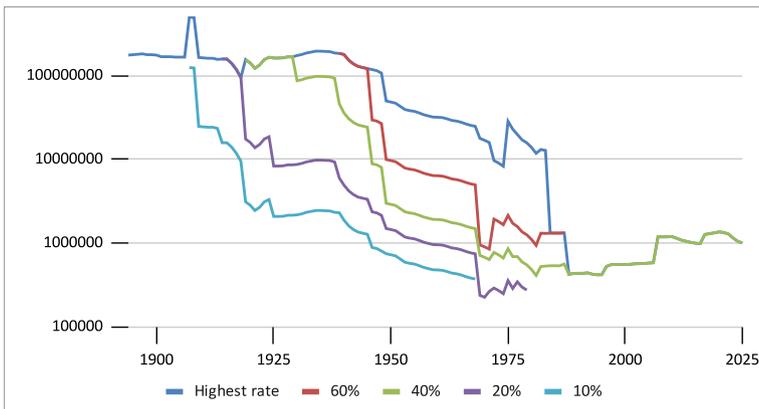


Figure 2: thresholds at 2025 prices for estate duty, capital transfer tax and inheritance tax at selected rates and the highest rate (log scale)

2 Estate duty rates were introduced as a 'slab' rate structure, where the relevant rate applied to the whole estate. Between 1907 and 1909, the rates applicable to estates over £1 million applied only to the balance over £1 million, creating a second slab system while making it a 'marginal' system for the first £1 million. From 1914 a marginal relief system was introduced, effectively applying a 100% rate at the lower end of a rate band until the amount payable was equal to that which would be payable, thereby removing the 'cliff edge' effect. From 1969 the structure was a 'marginal' rates one, applying only to the value of the estate within a band.

Figure 2 illustrates the data through a lens of threshold levels at selected rates, illustrating how various selected rates drift down over time to smaller estates, until the 1970s when they converged to 40% before drifting back up again to around £1 million in the 21st century.

Inheritance tax since 1986

In 1986 capital transfer tax was renamed as inheritance tax, and its rates were further rationalised down to four (35, 45 and 55% rates were deleted, leaving 30, 40, 50 and 60% rates). The lifetime gifts tax element was also abolished save for those made within seven years of death. Finally, in 1988 the 30, 50 and 60% rates were dropped, leaving the single headline rate of 40% that remains to this day (although various reliefs for charitable giving, agricultural and business assets, and gifts made between three and seven years prior to death mean there are effective rates of 36, 32, 24, 20, 16 and 8%, too).

The headline rate of inheritance tax has not changed since 1988, when the higher and lower rates were abolished in favour of a single 40% rate. But the real value of the nil rate band slowly grew from £315,000 (2025 prices) to £511,000 in 2009 (or from £110,000 to £325,000 without adjusting for inflation).

In 2005 the Shadow Chancellor, George Osborne, set up the Tax Reform Commission, chaired by Lord Forsyth of Drumlean, to propose reforms to deliver a 'less complex and more competitive tax system'. In their report (Forsyth et al 2006), they recommended the abolition of inheritance tax, which Lord Clarke of Nottingham had pledged to do while he was the Chancellor of the Exchequer (Hansard HC Deb. 26 November

1996). A year later in 2007 Mr Osborne pledged in his party conference speech to raise the ‘threshold’ to £1 million.³ In the context of the time, before the introduction of the residence and transferrable nil rate bands, many interpreted this as raising the nil rate band. That proposal almost certainly ‘put an end to talk of an October or November election’ that year (Prabhakar, Rowlingson and White 2008).

Responding to the opposition promise to dramatically raise the ‘threshold’ and to media campaigns from *The Observer*⁴ and, perhaps more expectedly, the *Daily Express*,⁵ the government made it transferrable to a surviving spouse so that on the second death of a married (or civil-partnered) couple, the nil rate band would be £600,000, or £1 million in 2025 prices, less any use of the nil rate band of the first death to bequests (or gifts made within seven years of death) other than to the spouse (or civil partner).

The Conservatives (2015) promised to ‘take the family home out of tax by increasing the effective Inheritance Tax threshold for married couples and civil partners to £1 million’ in their manifesto, and then the new government announced it would implement this in the post-election Budget (HM Treasury 2015). The measure began to be partially implemented in 2017 with a £100,000 residence nil rate band, but it would not be until 2020 when the ‘effective’ inheritance tax threshold ‘for married couples and civil partners’ finally reached £1 million as the residential nil rate band had been raised to £175,000. This combined with

3 ‘In full: Osborne’s speech on tax’, *BBC News*, 1 October 2007 (http://news.bbc.co.uk/1/hi/uk_politics/7022498.stm).

4 “‘Wicked tax’ that hits the bereaved”, *The Guardian*, 6 October 2007 (<https://archive.is/eSGqN>).

5 ‘Let’s kill off hated death tax’, *Daily Express*, 2 February 2007 (https://web.archive.org/web/20070210172841/http://www.express.co.uk/news_detail.html?sku=1147).

the (still frozen) £325,000 nil rate band to be worth £500,000, which could in turn be transferred to a surviving spouse or civil partner.

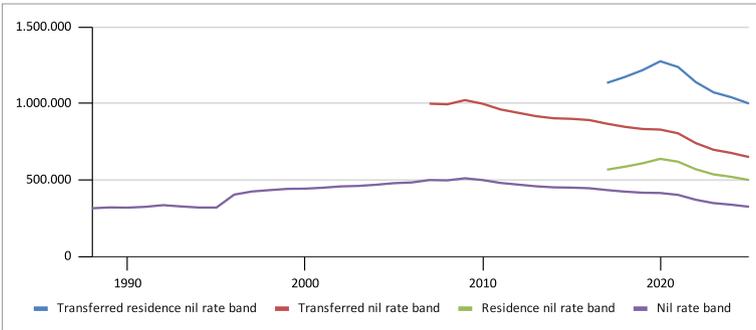


Figure 3: inheritance tax nil rate bands, 1988–2025 (£ 2025 prices)

The 2024 Labour party manifesto pledged to ‘abolish non-dom status once and for all’ and ‘end the use of off-shore trusts to avoid inheritance tax’ (Labour 2024).⁶ In the 2024 post-election Budget, the plan to abolish non-domiciled status consulted on by the previous government was confirmed, and then implemented in 2025, along with a substantial tightening of agricultural and business property reliefs, cutting them from 100% to 50%, effectively raising the tax rate from zero to 20%, prompting significant protests from farmers.⁷ The reduced relief was originally to apply above a £1 million allowance, which could be transferred to a spouse’s and combined with the standard and residential nil rate bands to a combined total of £3 million for a married couple (or civil partners). This relief was increased to £2.5 million each in December 2025, or £6 million for a married

6 See the international competitiveness section for further discussion of non-domiciled status, its reform and inheritance tax.

7 ‘Thousands of farmers protest against inheritance tax changes’, *BBC News*, 19 November 2024 (<https://www.bbc.co.uk/news/articles/czj71zyy934o>).

couple (or civil partners), when it is combined with standard and residential nil rate bands and transferred to the surviving spouse (or civil partner).⁸

Personal representatives may have to take dividends out of the companies concerned to pay the inheritance tax, which are subject to income tax at rates of up to 39.35%, making the effective marginal tax rate up to 34%.

Protesters have relied on numerous grounds to support their opposition to the new policy, but perhaps the most powerful is the sense of unfairness, as it pertains to a relatively small group who will be liable because they arranged their affairs under the assumption that they will benefit from 100% relief but for whom it may be too late to rearrange their affairs to suit the new environment.

As Neidle⁹ has noted, younger farmers and business owners can easily avoid the rises simply by giving away their farms and businesses earlier than they would have otherwise done, whereas some will be too close to death to take such steps. This discrepancy shows the measures ‘yielding the most revenue in the first few years’ in the Office for Budget Responsibility (OBR) costings, after which ‘gifting/planning is expected to reduce revenues’.

The £3,000 annual gifts allowance (which applies to lifetime gifts that do not become exempt because the donor dies before seven years have elapsed and would therefore otherwise be within the

8 ‘What are the changes to agricultural property relief?’, *Gov.uk*, 5 November 2024 (<https://www.gov.uk/government/news/what-are-the-changes-to-agricultural-property-relief>).

9 ‘A fair solution to inheritance tax on farms and small businesses’, *Tax Policy Associates*, 15 August 2025 (<https://taxpolicy.org.uk/2025/08/15/fixing-the-farm-tax>).

scope of inheritance tax) and the £250 small gifts allowance have been frozen since the introduction of IHT. Had they been indexed to inflation they would now be £8,592 and £716, respectively. But if they had been indexed to the house price index, to reflect their common use as help for children and grandchildren in buying residential property, they would now be £16,859 and £1,405.

Who pays inheritance tax?

Legally, inheritance tax is paid by the personal representative on behalf of the estate, called an executor where the deceased left a will naming someone, or an administrator where a court appoints someone in the absence of a will. Benefactors often consider themselves to be the taxpayer, however, and the economic incidence of the tax is disputed.

In the 2022–23 fiscal year, the most recent for which figures are available, 4.62% of deaths resulted in an IHT charge (HMRC 2025b). This proportion is the highest since 2016–17, before the introduction of the residential nil rate band. Like the introduction of the transferrable nil rate band in 2007, its effects are visible in figure 4.

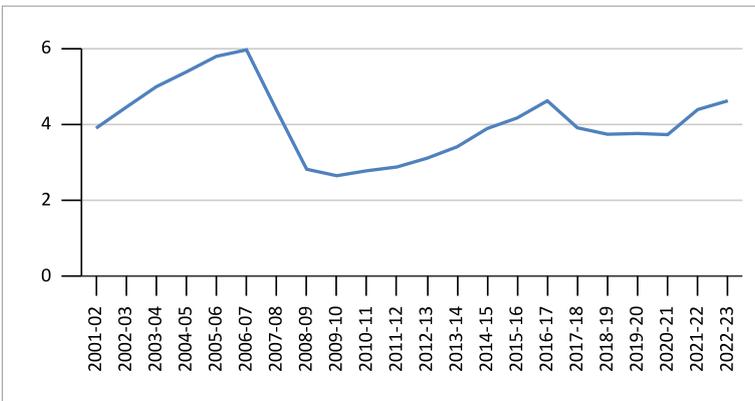


Figure 4: proportion of deaths resulting in an inheritance tax charge (%)

From 2015–16 to 2021–22, between a third and a fifth of death estates above the nil rate band were exempt due to transfers between spouses (see figure 5). This fell to a tenth in 2022–23, possibly due to the much lighter reporting requirements introduced in 2022. Smaller estates, no longer required to report to HMRC and less likely to involve bequests other than to spouses and civil partners, were removed from the denominator. The effect of that change can also be seen in the share of estates not reported to HMRC (see figure 6), which ranged between 51% and 56% between 2001–02 and 2020–21 but shot up to 90% in 2022–23. Prior to these changes, between 88% and 95% of estates reporting to HMRC had no tax liability. After them, in 2022–23, that share had fallen to 54%.

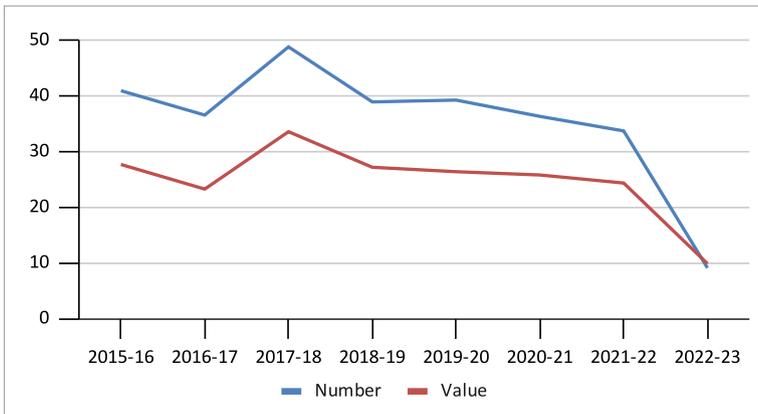


Figure 5: share of taxed estates granted exemption for transfers between spouses or civil partners, by value and by number (%)

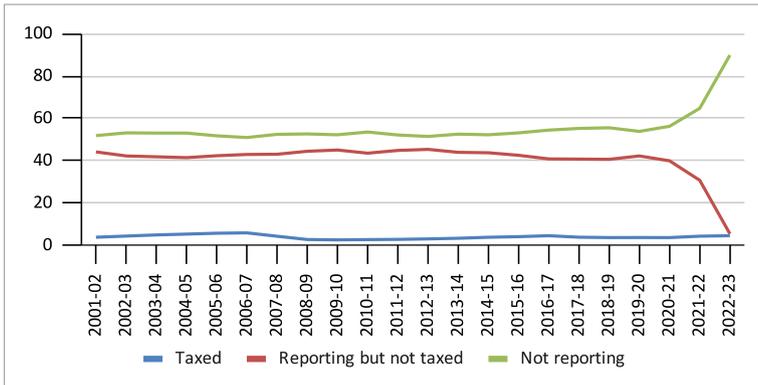


Figure 6: proportion of deaths resulting in an inheritance tax charge, reporting to HMRC but not resulting in a charge, and not reporting to HMRC (%)

HMRC publishes data on effective tax rates by size of estate in 15 potentially taxable bands. In 2022–23, the effective rates ranged from 4% for estates between £300,000 and £400,000 to 26% for estates between £3 million and £4 million. It is interesting that 24% of estates between £300,000 and £500,000 were taxed, despite being below the combined residence nil rate band and the standard nil rate band. How these taxed estates are comprised is not published, but it is likely that they are bequests to those other than direct descendants, to whom the residence nil rate band is restricted, or estates where the residence has a value of less than £175,000.

As estates become larger, the effect of the nil rate band diminishes and the effective tax rate rises, but then after the £3 million to £4 million band the rate starts to fall again until the highest band provided, estates over £10 million, where the effective rate is 17% (see figure 7). This is likely to be so because the share of estates accounted for by a family home falls with increasing wealth and the share accounted for by preferentially treated business property and agricultural property rises. Inheritance tax can be

avoided by gifting property to beneficiaries at least seven years before death, but for those wishing to retain ownership until the end, owning qualifying agricultural or business property offers, at least until the provisions of the 2024 autumn Budget come into force, a way to do so while minimising the tax consequences of retaining ownership.

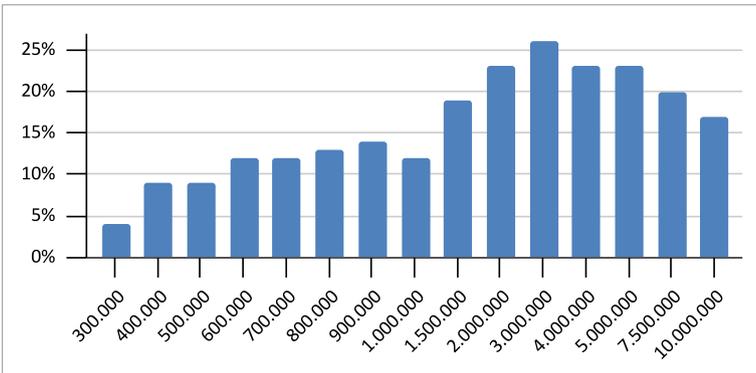


Figure 7: effective tax rates on estates by lower band in 2022–23 (%)

With an IHT ‘entry charge’ of 20%, recurring 6% charges every ten years and an ‘exit charge’ (equivalent to the recurring charge but proportionate to the time elapsed since it was last applied) when the capital is distributed or the trust ends, trusts subject to this ‘relevant property’ regime no longer provide significant avoidance opportunities and are mainly used to restrict the use (and potential misuse in the opinion of benefactors) of assets.

Inheritance and estate taxes in other countries

Most countries do not levy an inheritance (or estate) tax. Of the 148 countries listed in PwC's worldwide tax summaries,¹⁰ 58 impose one while 79 do not (the data is missing for a further 11). Britain's 40% rate is ranked in joint 11th place with Greece, behind the US, Japan, France and Germany among others, and 10th among OECD members (see figure 8). But this picture of Britain having a headline rate below four of the G7 economies conceals a more outlying nature of the British system. Many countries provide much lower rates for, or exempt entirely, bequests made to lineal descendants, the type of transfer most people make and receive. Looking only at the rates applied to bequests to the deceased's adult children, Britain has the fifth highest rate in the OECD (see figure 9).

10 PwC (2025) *Worldwide tax summaries online*. Accessed: 19 February 2026 (<https://taxsummaries.pwc.com>).

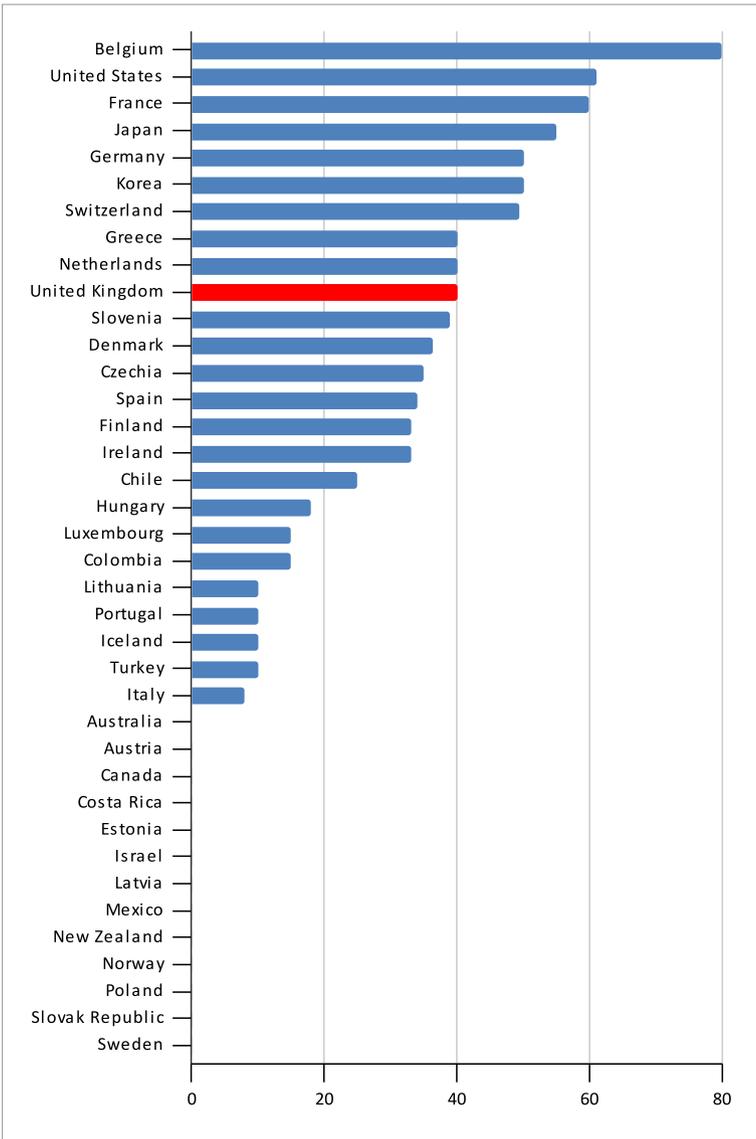


Figure 8: OECD members by top headline rate of inheritance taxes (%)

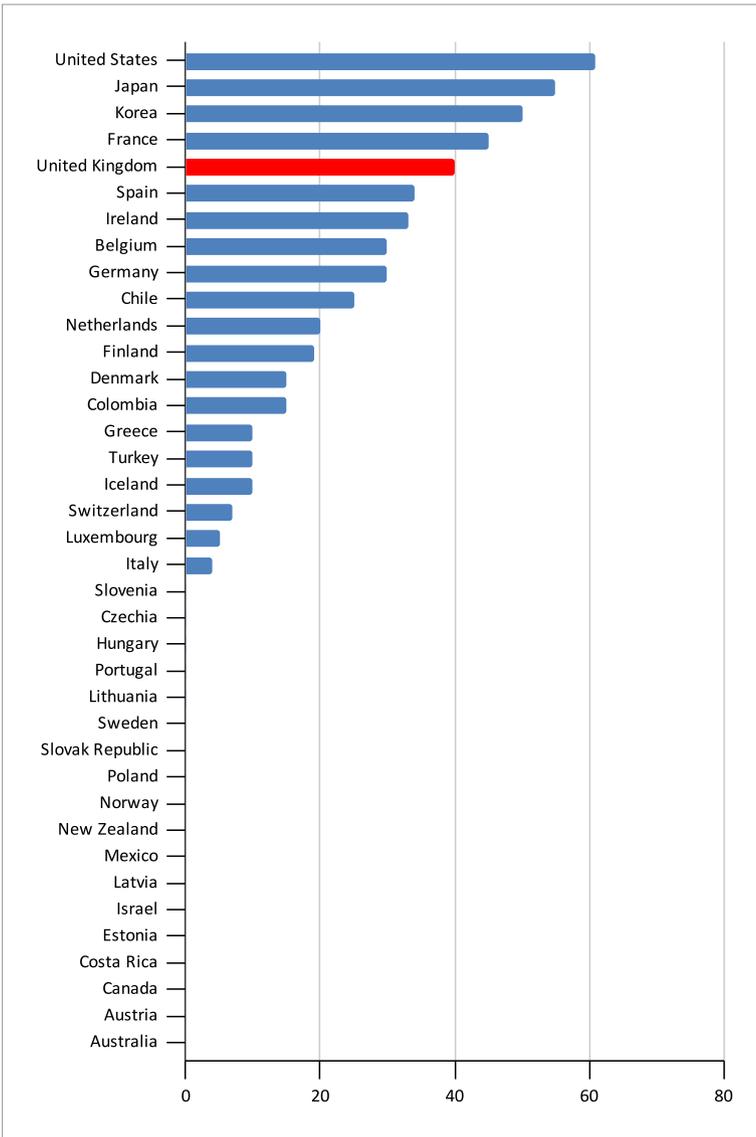


Figure 9: OECD members by top rate of inheritance taxes on bequests to adult children (%)

Of the 58 countries with a tax, 10 exempt bequests to the deceased's adult children (see table 4). And of the 48 countries with a tax and without an exemption for adult children, 19 have a rate of 20% or lower, and another 15 impose a 20% or lower rate on bequests to adult children (see tables 5 and 6). There are 22 countries with a top rate higher than 20% which do not exempt adult children. But the top rate on bequests to children is above 20% in 14 of them, of which five have a rate not higher than 30%. Along with Britain at 40%, the remaining eight are Ireland, Spain, Vietnam and Ecuador with rates of 33, 34, 35 and 35%, respectively, and Korea, Japan, France and the US, with rates of 50, 55, 60 and 61% respectively. And among these, in Spain and the US there are peculiarities of their systems which make them much less punitive.

In Spain there are reliefs of 99, 99.9 or 100% for adult children in regions representing just over half the population (Andalusia, Madrid, Murcia and Valencia; Canary Islands; and Balearic Islands respectively). And in the US the federal flat rate of 40% only starts at \$13.99 million (£10.7 million), and only 16 states (plus the District of Columbia) levy estate or inheritance taxes (Loughead 2025). So, while the top rate in the US is 61% (ie the 40% federal rate and then a 35% rate in Washington state applied to the remaining 60% left by the federal government), in most states (including California, Florida and Texas) a bequest will be tax-free up to over £10 million, while in Connecticut, Hawaii, Maine, Maryland, New York and Vermont even the state taxes only start at or above \$5 million (£3.8 million).

Table 3: countries with no inheritance or estate taxes (* OECD members)

Argentina	Guyana	Norway
Armenia	Hong Kong	Oman
Australia*	India	Pakistan

Austria*	Indonesia	Palestinian territories
Bahamas, The	Isle of Man	Panama
Bahrain	Israel*	Papua New Guinea
Bangladesh	Jordan	Paraguay
Barbados	Kazakhstan	Puerto Rico
Bermuda	Kosovo	Qatar
Brunei Darussalam	Kuwait	Romania
Cambodia	Lao PDR	Rwanda
Canada*	Latvia*	Saint Lucia
Cayman Islands	Liberia	Saudi Arabia
Chad	Libya	Senegal
China	Liechtenstein	Singapore
Congo (Democratic Republic)	Macau	Slovakia*
Costa Rica*	Madagascar	Sweden*
Egypt	Malaysia	Tanzania
El Salvador	Mauritania	Timor-Leste
Estonia*	Mauritius	Trinidad and Tobago
Eswatini	Mexico*	Uganda
Ethiopia	Moldova	United Arab Emirates
Georgia	Mongolia	Uruguay
Ghana	Myanmar	Uzbekistan
Gibraltar	Namibia	Zambia
Greenland	New Zealand*	
Guernsey	Nigeria	

Table 4: countries where bequests to adult children are exempted from inheritance taxes (* OECD members)

Territory	Top rate
Slovenia*	39
Czechia*	35

Territory	Top rate
Azerbaijan	25
Hungary*	18
Lithuania*	10
Portugal*	10
Bulgaria	6.6
North Macedonia	5
Ukraine	5
Serbia	2.5

Table 5: countries where bequests to adult children receive a preferential rate of inheritance taxes (* OECD members)

Territory	Top rate for adult children	Top headline rate
France*	45	60
Belgium*	30	80
Germany*	30	50
Venezuela	25	55
Netherlands*	20	40
New Caledonia	20	50
Finland*	19	33
Denmark*	15	36.25
Lebanon	12	45
Greece*	10	40
Switzerland*	7	50
Luxembourg*	5	15
Thailand	5	10
Cyprus	4	8
Italy*	4	8
Malta	3.5	5

Territory	Top rate for adult children	Top headline rate
Tunisia	2.5	35
Angola	1	2
Bolivia	1	20

Table 6: countries with no exemptions or preferential rates on bequests to adult children (* OECD members)

Territory	Headline top rate	Territory	Headline top rate
United States	61	Iceland	10
Japan	55	Mozambique	10
South Korea	50	Turkey	10
United Kingdom	40	Brazil	8
Ecuador	35	Iraq	6
Vietnam	35	Montenegro	6
Spain	34	Philippines	6
Ireland	33	Algeria	5
South Africa	30	Cameroon	5
Chile	25	Croatia	4
Taiwan	20	Dominican Republic	3
Albania	15	Jamaica	1.5
Colombia	15	Jersey	0.75
Nicaragua	15	Equatorial Guinea	0.5
Botswana	12.5		

Unlike Britain, many countries also impose a gift tax on lifetime gifts as well as on bequests after death. Britain is unusual (but not unique) in this regard, and it makes it possible to pass on wealth to children tax-free. It should be noted that the overall picture is much the same as for inheritance taxes: many of the lifetime gift taxes also exempt adult children (and various other

categories of relatives) and provide much lower rates or the headline rate itself is much lower than 40%.

Similarly, many countries are less generous on capital gains tax (CGT) on inherited assets. Whereas the British tax system treats an asset inherited as having been acquired at the market value on the date of death with no CGT payable by the estate on the capital gains made before then, other countries often either levy a CGT immediately or treat the deceased's capital gains on the asset as payable by the heirs when they later sell it.

Economics

There are a number of economic aspects of inheritance tax to consider: whether it is a ‘double tax’, its effect on savings and investment, the deadweight costs of its administration, whether it is excessively damaging relative to other taxes, its effect on British competitiveness and its effectiveness as a tool for social policy objectives.

Arbitrary or ‘double’ taxation

Broadly speaking, the public view inheritance tax as a ‘double tax’, while policy experts dismiss this view as incorrect or irrelevant. The view held by the public is substantively correct but semantically imprecise, while the criticisms of it by policy experts are the opposite: semantically justified but substantively flawed.

YouGov¹¹ polled the public and found that ‘by far the most common reason is the perception that inheritance tax represents “double taxation”’ with 42% of those who think the tax is unfair citing this as a reason why it is so. The number who believe it to be double taxation, however, could be higher than this because the question was answered in respondents’ own words – some (17%) wrote answers indicating that governments shouldn’t be able to tax inheritance, while others may have agreed with the

11 ‘Why do Britons think inheritance tax is unfair?’, *YouGov*, 23 November 2023 (<https://yougov.co.uk/politics/articles/47940-why-do-britons-think-inheritance-tax-is-unfair>).

proposition had it been posed in a closed question despite not using the argument in their response at the time.

Many policy experts disagree, however.

Goss (2024a) says ‘this is the case for most taxes (council tax, VAT and fuel duty, for example, are all paid after income tax is paid)’ and suggests the public believe this because ‘it is wealth that people have put aside to save’ and it is more salient because ‘taxpayers themselves have to administer the payments, while VAT payments (although included in the price of goods) are administered by businesses’.

In its review of inheritance tax, the Office of Tax Simplification (2018) said ‘a common question is why tax should be paid on wealth generated over peoples’ life time when this wealth would have already been subject to, for example, Income Tax’. The Office of Tax Simplification was not impressed: ‘this arrangement is not exceptional. Indirect taxation, such as Value Added Tax (VAT), could also be considered “double” taxation. An individual’s earnings are taxed, and then the purchasing of goods and services may also be subject to tax.’

Nor was Neidle¹²: ‘it’s a terrible argument: We pay tax on already-taxed assets all the time. Literally every day: I just bought a kebab. 20% VAT. I paid for it out of taxed income.’ Nor Prabhakar, Rowlingson and White (2008). ‘There has been too much nonsense written about “double taxation”’, they wrote, continuing that the ‘arguments put forward in this pamphlet expose that for the nonsense it is’. Inheritance taxes, they said,

12 ‘The terrible argument that won’t die: “inheritance tax is double taxation”’, *Tax Policy Associates*, 3 June 2023 (https://taxpolicy.org.uk/2023/06/03/iht_terrible).

are ‘paid by the recipient, not by the donor. So how can the tax be a second tax of or on the donor?’

The All-Party Parliamentary Group on Inheritance and Intergenerational Fairness (2020) made much the same criticism. ‘Even with an estate tax of the UK type, the donor does not actually pay it because they are dead. In effect it is paid by the recipient because they receive less. Moreover, this objection is not customarily raised in respect of other taxes’, concluding that the ‘double taxation objection seems weak’.

Broome et al (2023) thought that the double taxation criticism ‘would hold less weight if it was explicitly a tax on the income of recipients’.

The problem with these criticisms, both the notion that paying tax at more than one point in the value chain from creation to consumption is a meaningless commonplace and the observation that the tax is due after the benefactor has died, is that they miss the point.

It is, of course, true that consumption taxes are paid on purchases that are paid for typically with income which itself was taxed. And it is true that additional taxes are levied on certain products and services intended to change behaviour or to recover external costs borne by others. In this narrow semantic sense, the critics of the ‘double tax’ charge are correct. Tax other than inheritance tax is not levied on earning, on consumption, on land or at some

other single point.¹³ There are multiple points along the value chain from generation to consumption where tax is levied. So it is not a 'double' tax but a triple, quadruple or more tax depending on the combination of income tax, national insurance, capital gains tax, corporation tax, VAT and a wide range of intermediate business taxes and Pigouvian taxes to which the money will be subject between generation and consumption.

What is different about inheritance tax is that it adds a tax charge in the value chain, relative to the obvious counterfactuals, and lacks a 'nanny state' or internalisation of externalities justification for doing so. This makes it arbitrary and distortionary, warping the economic decisions people make beyond the level of distortion one would expect from a broader tax on all value created, either at the generation stage or the consumption stage.

It is not hard to imagine how such distortions might arise. If I earn money and spend it on, say, a new suit for myself, there will be income tax on the money when it is generated and VAT at the point of purchase. If, instead of consuming that portion of my income myself, I decide to reallocate it to someone else, perhaps a son, by buying him a new suit, then once again there will be a tax on the income when it is generated and a tax at the point of purchase. But if I decide to bequeath the money to him so that he may buy it for himself after my death, then, for no obvious good reason, an additional tax charge is applied.

13 Some, such as Salin (2020) and Cochrane (2026), recommend eliminating 'double' taxes altogether and levying tax entirely at one point, usually a broad-based consumption tax, although discussion of this aspect of optimal tax design is outside the scope of this paper. See 'From £52k to £80k: John Cochrane on how Britain can catch up with America', *IEA podcast*, 26 January 2026 (<https://insider.iea.org.uk/p/from-52k-to-80k-john-cochrane-on>).

One way inheritance tax can be seen to remove an arbitrary distortion, however, is in the treatment of capitals gains due to the policy of disregarding capital gains at death and using the value at the date of death rather than the price originally paid. Inheritance tax is nonetheless so functionally disconnected from CGT that one must ask whether it fulfils this function satisfactorily in light of the distortions (and other problems) with respect to value bequeathed which was accrued other than by an untaxed capital gains under the current system.

It is curious that the general public seems intuitively to understand that splitting the tax burden up into a charge at the point of income and another at the point of consumption does not represent 'double taxation', nor applying taxes on externalities, in the same (more substantive) sense that a tax on gifts and inheritances does. People do complain about being taxed multiple times at different economic events, but special criticism is reserved for inheritance tax.

Similarly otiose is the fact that inheritance tax is levied after the death of the benefactor, and therefore the legal incidence (and to some degree the economic incidence) does not fall on the deceased. Regardless of whether the incidence, legal or economic, falls entirely on the deceased or on the heir, or some combination of the two, imposing a tax on inheritances (or lifetime gifts, or death estates) introduces arbitrary taxation at least in contrast to consumption of value oneself in one's own lifetime, in the case of a tax system that also taxes lifetime gifts, but also in contrast, under the current British tax system, to gifting the value before death.

The only way in which an inheritance or estate tax, or indeed a lifetime gift tax, could be neutrally imposed without introducing such arbitrary taxation would be to also operate a rebate

system for the direct tax paid by the benefactor on the original generation of the wealth in question. There may well be some distributional or efficiency benefit to reallocating the tax burden from the original generator of the wealth to the heir. But the administrative and compliance costs of such a regime would almost certainly be far in excess of any benefit. Neutrality is clearly far more simply achieved by taxing income at the point of accrual but not having an additional, arbitrary tax when it is transferred via a gift or bequest than it would be by taxing gifts and bequests but reimbursing estates to reflect the taxes paid by the benefactors when the income was originally accrued.

Savings and investment

The effect of inheritance tax on savings and investment is ambiguous. If, as Mirrlees et al (2011) put it, ‘you expect to receive a large inheritance, why save yourself?’ So, taxing inheritances might restore somewhat the incentives of heirs to work and save for themselves. And perhaps inheritance tax might have the effect of making benefactors work harder and save more, focussed on achieving a target of how much their heirs will inherit rather than a target size of pre-tax estate which they leave. Moreover, some bequests may be bigger than intended due to an unexpectedly early death, leaving less time than expected to run down savings. As Advani and Sturrock (2023) noted, taxing ‘such inheritances will not lead to a change in economic behaviour and will therefore be a way of the government raising revenue without causing costly economic distortions’.

Nonetheless, all these arguments serve as objections to the default thesis, viz. imposing taxes on an activity makes it less worthwhile and reduces the incentives for people to engage in

it, in this case saving money to leave to one's heirs (and therefore earning it, or saving it, in the first place). If the alternative is reduced public sector spending, then it might depend on how productive the foregone spending is. De Nardi and Yang (2016) characterised the policy trade-off between maximising aggregate wealth and output on the one hand and constraining the wealth of the very richest on the other by noting that increasing 'the estate tax reduces the wealth concentration in the hands of the richest few and the economic advantage of being born to a rich and super-rich family at the cost of reduced aggregate capital and output'.

Whether inheritance tax constrains savings and investments or not depends to some extent on what the baseline is. For an economy with as large and unproductive a public sector as the United Kingdom, then it is hard to imagine how savings and investment might be supported by an inheritance tax. But the answer might be different if the alternative is other taxes levied on the same group of people. As the OECD (2021) noted in a review of the literature:

While the number of studies is limited, the empirical literature generally suggests that inheritance taxes tend to have more limited effects on savings than other taxes levied on wealthy taxpayers, and confirms their positive effects on heirs' labour supply and donors' charitable giving.

The OECD also noted that inheritance taxes can 'help prevent the accumulation of extreme wealth', which may be a noble social objective but is also a reminder that the effect on savings, wealth and investment is negative. Miller (1998) found that the existence of the US estate tax reduced capital stock by 3.2%. Castañeda et al (2003, as cited in Schratzenstaller, 2025) found abolishing estate taxes increases capital stock by 0.37%. And Cagetti and

De Nardi (2009) found capital accumulation rises by 0.78% on abolition, concentrated on ‘larger firms, thereby reducing output and savings’.

This balance was largely reflected a century ago by Hoover (1927), who wrote that ‘the final result as between income and inheritance taxes is only slightly in favor of income taxes, since both of these taxes fall largely on the group which saves’ but ‘between raising revenue from a consumption tax or an inheritance tax, the issue is clearer. An inheritance tax will reduce the savings of the wealthier classes; and the resultant loss of capital will not be made good through increased savings of the poor’. He concluded:

There is only a slight balance in favor of taxes on income; but that any large-scale attempt to substitute inheritance taxes for taxes on consumption would seriously restrict the supply of producers’ capital and thus imperil the high level of well-being that characterizes the present economic order.

Administrative efficiency

In recent years, the number of pages in *Tolley’s Inheritance Tax* has been slightly over 1,000. This compares with around 2,300 pages for the equivalent guide to corporation tax.¹⁴ The latter is a notoriously complicated aspect of the tax system, but in 2023–24 the receipts from corporation tax were larger than inheritance tax by a factor of 12 (Office for Budget Responsibility 2025b).

14 Page counts available from Amazon books website for the 2022–23 editions of *Tolley’s Inheritance Tax* (https://www.amazon.co.uk/Tolleys-Inheritance-2022-23-Malcolm-Gunn/dp/0754558436/ref=sr_1_4) and *Tolley’s Corporation Tax* (<https://www.amazon.co.uk/Tolleys-Corporation-2022-23-Main-Annual/dp/0754558657>).

Even more starkly, the number of pages in *Tolley's Income Tax* has been around 2,500. But income tax raised 37 times as much as inheritance tax in 2023–24.

Measuring the complexity of an aspect of taxation by the length of the handbooks is, of course, fraught with difficulty, but the comparison nonetheless provides an indication that the complexity of the charge, and by extension the deadweight cost of compliance and administration from both sides of the payment, may be substantial and disproportionately so.

Unfortunately, HMRC does not publish workforce figures by tax type, and the Society of Trust and Estate Practitioners (2025) does not say how many of its 22,064 members at the end of the 2023–24 year were working in the UK. Similarly, the Chartered Institute of Taxation (2025) had 20,193 members at the end of 2023, but it is not known how many of them work on inheritance tax.

Nonetheless, the government has said that the administrative cost of collecting the £8.4 billion of inheritance tax revenues in 2024–25 was approximately £66 million (Hansard HC Deb. 30 October 2025). In addition, when the Swedish government submitted to its parliament a proposal to abolish its inheritance and gift tax, one of its reasons for the proposal was that the administrative framework surrounding the charge was ‘relatively costly’ (Swedish government, 2004, as cited in Lee, 2007).

The administrative cost of compliance by taxpayers is likely to be greater than that incurred by government due to the inevitably inefficient efforts by lay personal representatives and tax planners and the use of more expensive professionals than HMRC is able to justify. The Office of Tax Simplification (2018) found that 38% of respondents to its call for evidence who did

not use an adviser recalled spending 50 hours or more on estate administration, while only 11% stated that they found the process simple and user-friendly. The Office of Tax Simplification (2019) concluded that there are ‘many areas where Inheritance Tax is either poorly understood, counter-intuitive, requires substantial record-keeping, creates distortions, or where the application of the law is simply unclear’.

The total cost of the compliance will go far beyond the £66 million attributed by the government for its own costs. It will include the time personal representatives spend familiarising themselves with the law; the time spent by tax, legal and investment professionals on settling wills; and the time spent on planning the tax consequences by benefactors and their professional advisers prior to death. But it will also include the cost of economic inefficiencies occasioned by distorting decision-making to avoid tax and even avert engaging in some marginally viable activity at all.

International competitiveness

Until April 2025, the estates of residents who were not deemed to be ‘domiciled’ in the United Kingdom were generally not subject to inheritance tax on their non-UK assets, nor on their foreign income and capital gains which were not remitted to the UK. Then Shadow Chancellor Gordon Brown first suggested abolishing this status in speeches before the 1997 general election,¹⁵ but it was not until 2008 when the regime was altered by introducing a £30,000 charge. Subsequent reforms in 2012, 2015 and 2017 added

15 ‘Stuck in the groove!’, *Taxation*, 23 May 2007 (<https://www.taxation.co.uk/articles/2007-05-24-4966-stuck-groove>).

higher charges and a 15-year limit on maintaining the status. The previous government announced in the 2024 pre-election Budget that it would be replaced by a new regime, effective from April 2025, which the new government supported and implemented.

The replacement system offers an exemption from inheritance tax but lasts for only four years. This compares with 15 years in Italy for its special regime for wealthy foreigners (Oxford Economics 2024), where the top rate of inheritance tax is 8% anyway, and indefinite schemes in Switzerland, where the canton with the highest rate for direct descendants is 7% and where most cantons (22 out of 26) exempt such bequests altogether.¹⁶ When the four years is up and their status has changed to a long-term resident, their worldwide assets remain within the scope of inheritance tax, should they then leave the UK, for at least three years and as many as ten, depending on how many of the 20 years prior to leaving were resident in Britain.

However, by switching from a domicile to a residence basis, UK domiciliaries obtain enhanced clarity and certainty about how to leave the UK tax net. Rather than relying on a complex assessment of evidence proving that one has severed ties with the UK, such as by closing bank accounts, selling properties and terminating business interests, now only ten years of residence elsewhere prior to death is sufficient for the non-British assets in one's estate not to be liable for IHT. This has introduced a tax incentive for people with large estates to retire abroad.

16 PwC (2025) *Worldwide tax summaries online*. Accessed: 19 February 2026 (<https://taxsummaries.pwc.com>); RSM (2025) *Gift & inheritance tax implications for Swiss and non-Swiss residents*. Accessed: 19 February 2026 (<https://www.rsm.global/switzerland/en/service/tax-and-legal/swiss-gift-inheritance-tax/gift-inheritance-tax-implications-swiss-and-non-swiss-residents>); and Erbrechtsinfo (2025) *Erbschaftssteuer § Steuersätze, Freibeträge & mehr*. Accessed: 19 February 2026 (<https://www.erbrechtsinfo.ch/steuern-finanzen/erbschaftssteuer>).

The Office for Budget Responsibility (2025a) forecasted that the reform will raise £4.5 billion annually by 2029–30, a figure it concedes has ‘significant uncertainty around the size of the tax base and the behavioural response to this measure’ due to being ‘contingent on decisions made by a relatively small number of wealthy individuals’. The fact that the Brown treasury did not reform the system, despite his pre-election pledges, and implemented very modest changes under his successor Alastair Darling suggests a nervousness about the consequences. Others have been more pessimistic.

Oxford Economics (2024) estimated receipts of £1.1 billion in 2029–30 under one of its two scenarios. But under the other it found the changes could reduce receipts by £0.9 billion. Marlow and Palmer’s (2025) estimates were even more concerning, finding that GDP could be reduced by £9.6 billion in 2029, based on an assumption of a loss of 50% of non-doms, compared with the OBR’s assumption of 12% of non-doms without trusts and 25% with. And ChamberlainWalker (2025) in October estimated that non-dom departures were already at least 50% higher than the OBR’s forecast, noting that the departures are likely to be concentrated among the wealthiest, with more likely to have left who aren’t employees and therefore captured by HMRC data. Perhaps such hissing is what dissuaded previous chancellors from attempting to pluck another feather from the non-domiciled goose?

Redistribution

The OECD (2021) found that ‘inheritances and gifts have been found to play a strong role in wealth persistence across generations, particularly between parents and their children’

and so inheritance taxes ‘can therefore be justified to enhance equality of opportunity’, justified in part because ‘Piketty, Saez and Zucman (2013[9]) have argued that, from a meritocratic perspective, inherited wealth should be taxed at higher rates than earned income and self-made wealth.’ Perhaps unsurprisingly, results ‘from theoretical optimal tax models on the design of inheritance taxes vary significantly’ depending on ‘the weights placed on the donor and recipients’ utilities, the weights that the social planner assigns to efficiency and equity objectives, the type of social welfare function that the social planner is maximising, and the types of (linear or non-linear) tax instruments that the social planner can avail of to maximise social welfare’.

As previously mentioned, De Nardi and Yang (2016) found that increasing the (US) estate tax ‘reduces wealth concentration in the hands of the richest few’. Interestingly, however, ‘changing the exemption level of estate taxation in the range of \$200,000 – \$1,000,000 has little effect on wealth inequality for an estate tax rate of 21%’. Similarly, Morelli et al (2025) found that ‘the average influence of the net worth of transfer recipients on the Gini coefficient is negative’ but ‘in the upper 5% of transfer sizes—the influence on the Gini index turns positive’. The point at which the sign changes, they said, was £343,000 in Britain, using 2012 data.

Looking at the estate tax from the perspective of heirs, Batchelder and Khitatrakun (2008) found ‘the 2009 federal estate tax is highly progressive by various measures of economic income if its burdens are assigned to heirs’.

Contrarily, Stiglitz (1978) found that ‘because of capital accumulation effects, the estate tax may increase inequality of income and wealth’.

Nekoei and Seim (2022) found that, in Sweden, ‘inheritances reduce relative measures of wealth inequality, such as top shares or percentile ratios’, which they speculated could be due to high intergenerational mobility, confirming results of others (Boserup, Kopczuk and Kreiner 2016; Elinder, Erixson and Waldenström 2018). But they found that custodianship of inheritances differs, showing that ‘the average heir depletes her inheritance within a decade while the inheritances of wealthy heirs remain intact’. This in turn, they found, means that ‘the effect is reversed: inheritances increase wealth inequality since the different depletion rates widen the inequality in inherited wealth over time’, concluding that only through the taxation of wealthy heirs can inequality be reduced via inheritance taxation.

Bequests seem to have the effect of reducing inequality, except for the very largest among them. Consequentially, inheritance taxes would have the effect of increasing inequality, except for when applied to the very largest bequests. To the extent that altering inequality indices is a concern, the level of the nil rate band in particular should be a matter of interest for policymakers.

Perspectives

This section considers perspectives for and against inheritance taxation and public opinion evidence.

Arguments for inheritance taxation

Advocacy of estate or inheritance taxation has existed for a long time. A 5% inheritance tax was introduced in Rome by Augustus in 6 AD (Gilliam 1952), which was later raised to 10% by Caracalla before being reduced back down to 5% by Macrinus and then abolished (Schmitz 1875).

More recently, Thomas Paine (1797) proposed a 10% tax in his *Agrarian Justice* pamphlet. The objectives were to provide a sum of £15 (£1,639 in 2025 prices) to everyone on their 21st birthdays and an annual £10 (£1,093 in 2025 prices) pension to over 50s and 'the lame and blind under that age'. His rationale for the 21st birthday payments was that 'the earth, in its natural uncultivated state, was, and ever would have continued to be, the COMMON PROPERTY OF THE HUMAN RACE' (his emphasis) and the payment should be seen 'as a compensation in part, for the loss of his or her natural inheritance, by the introduction of the system of landed property'. When the heirs are not direct, however, an additional rate of 'five to ten or twelve per cent' should be levied, he said, 'in proportion as the next of kin be nearer or more remote'. He justified this additional levy on account of the contention that 'man is always related to

society, that relationship will become comparatively greater in proportion as the next of kin is more distant’.

Smith (1776) advocated a tax on inheritances where the beneficiary would enjoy ‘a real addition to their fortune, and might therefore, perhaps, without more inconveniency than what attends all duties of this kind, be liable to some tax’. But the death:

of a father, to such of his children as live in the same house with him, is seldom attended with any increase, and frequently with a considerable diminution of revenue; by the loss of his industry, of his office, or of some life-rent estate, of which he may have been in possession. That tax would be cruel and oppressive which aggravated their loss by taking from them any part of his succession.

JS Mill backed inheritance taxes for two reasons. First, he believed it to be ‘fair and reasonable that the general policy of the State should favour the diffusion rather than the concentration of wealth’. Second, he believed in a distinction between the fruits of one’s own efforts and those by others. As he put it (1871):

I have very radical notions as to what is the fair mode of sharing any burthen among the whole community. I would throw a very large proportion of it upon property—not all property, not property which has been earned by the industry of its present possessors, but property which has been inherited, & forms the patrimony of an idle class.

This reasoning has been described as a belief in a more efficiently functioning capitalism (Ekelund and Walker 1996).

In the post-war era the most eminent and indeed probably the most radical proponent was Nobel prize-winning economist James Buchanan, who thought there should be a 100% marginal estate tax above a modest threshold (Henderson 2013) to prevent an aristocracy emerging.

The Fabian Society and the TUC (Prabhakar, Rowlingson and White 2008) shared Buchanan's concern about aristocracies, noting that a 'failure to tax inheritances [...] can easily lead to a sense of belonging to a distinct and superior social class'. They worried that inheritances 'can be the platform for a life of self-indulgence'.

They went on to say it is 'patently unfair to tax earnings from hard work while leaving unearned inheritances and gifts, which often reflect nothing more than accident of birth, untaxed'. They also argued that inequality of inheritance translates to inequality of opportunity and taxing it neutralises that. They also criticised 'thinking in terms of a familial model of inheritance', inviting readers instead to 'imagine a model of socialized inheritance in which the community takes (some) wealth left on a person's death and uses it to finance the payment of a capital grant to everyone'.

And due to the way that 'the prospect of an inheritance can generate ugly rivalry between family members jostling for favour', an inheritance tax might reduce 'the incentive to engage in such behaviour' and thus 'might actually be good for family relations'. They also dismissed concerns that inheritance tax might reduce the virtue in wishing to provide for one's children after death, arguing that equality is a more important consideration. Such a desire, they said, is 'lacking in virtue precisely because it intends, or can reasonably be expected, to put their children at a serious

relative advantage compared to others' children, thereby placing undue strain on society's achievement of equality of opportunity'.

The Resolution Foundation Intergenerational Commission (Corlett 2018) discussed problems with inheritance tax, declared it to be unfixable but then recommended renaming it and extending it to lifetime gifts, because 'the fairness and efficiency arguments are also strong'. The root causes of the unpopularity of inheritance tax, it argued, are too many exemptions, it not applying to lifetime gifts and the rate being too high.

These arguments were bolstered by a subsequent report (Broome et al 2023) for its Economy 2030 Inquiry. Inheritance is:

a form of income, yet one that is not a function of personal effort or output, and every pound raised via inheritance taxation is a pound that does not need to be raised via taxing earned income. The UK has high wealth inequality, with the richest tenth of families owning around half of total wealth, and the degree to which home ownership (for example) is determined by one's parents has grown over time.

The Inheritance and Intergenerational Fairness APPG (2020) said that taxing transfers had three obvious arguments. First, taxpayers should be treated equally regardless of how incoming money is received.¹⁷ Second, taxing inheritance can 'neutralise' the economic opportunities that bequests bestow upon heirs. Third, it transfers money from the private sector to the public sector.

¹⁷ This argument was restated as a fourth in the form of a question asking if it is 'morally right that someone who does not work to earn their money pays less tax on inherited wealth than a person who only builds up wealth through their earnings'.

The OECD (2021) argued that inheritance taxes' effect on savings is more limited than other taxes on the wealthy.

Arguments against inheritance taxation

Opposition to inheritance taxation seems to be at least as old as the tax itself. People in ancient Rome 'certainly talked about the unfair nature of the tax and the possibility of large-scale riots' (Pettinger 2012) and 'complained that the inheritance tax was unfit for Roman citizens, implying that they were being treated like subjects'.

There is also a strong philosophical defence of inheritance itself, from which one can reasonably infer opposition to taxation upon it. Burke (1790) wrote that redistribution of property can only give the many an 'inconceivably small share' of the plunder and bequeathing property to one's familial heirs 'is one of the most valuable and interesting circumstances' of belonging to a family and to a society, turning weakness into virtue and avarice into benevolence.

Ricardo (1817) wrote that government policy should be 'never to lay such taxes as will inevitably fall on capital; since by so doing, they impair the funds for the maintenance of labour, and thereby diminish the future production of the country', criticising the estate taxes of the day, primarily probate duty and legacy duty but also 'all taxes affecting the transference of property from the dead to the living'.

At the turn of the 21st century another Nobel laureate, Milton Friedman, argued that it punishes virtue in the form of frugality and wealth accumulation and rewards wasteful spending

while wasting the ‘talent of able people, both those engaged in enforcing the tax and the probably even greater number engaged in devising arrangements to escape the tax’ (Friedman 2001). Eliminating it, he said, will ‘lead to higher economic growth, which is the most important variable in determining the level of charitable giving’. The letter has been signed by over 700 economists, including four other Nobel laureates.

One of the signatories was N Gregory Mankiw, former chair of the Council of Economic Advisers, who argues that it breaches horizontal equality, illustrated by two notional couples, the Frugals and the Profligates.¹⁸ The Frugals, he wrote, ‘watch their spending’ and ‘want to share their success with their children, grandchildren, nephews and nieces’, while the Profligates ‘want to enjoy every penny of it themselves’. Partly due to the estate tax, ‘the Frugal family has the higher tax burden. To me, that does not seem right.’ Mankiw also noted¹⁹ that he faces a marginal tax rate of over 90%, given that any additional work he undertakes would be for the benefit of his children due to his own lifestyle being invariant to his income.

Heath et al (2012) argued that the tax is ‘broadly loathed’ because ‘most people understand tax through the prism of its effects on families’. Using families as the agents in an economy rather than individuals, they noted that the tax punishes families who save and accumulate assets, in contrast to the ones who spend and thereby reduce their inheritance tax liabilities, while society’s interests ‘are best served by the family saving more’. It also ‘clearly infringes people’s right to dispose of their property as they wish’.

18 ‘Why taxing fairly means not taxing inheritances’, *The New York Times*, 11 September 2016 (https://mankiw.scholars.harvard.edu/sites/g/files/omnuum5931/files/mankiw/files/why_taxing_fairly.pdf).

19 ‘My personal work incentives’, *Greg Mankiw’s blog*, 26 October 2008 (<https://gregmankiw.blogspot.com/2008/10/blog-post.html>).

The TaxPayers' Alliance (2025) notes that it is 'distortionary in several ways', including asset types and time of giving and 'discourages saving on your heirs' behalf in favour of immediate consumption or cash transfers'.

Public opinion

'Since everybody, so to speak, was disturbed' about the Roman inheritance tax, and 'there was about to be an uprising, he sent the senate a letter urging it to look for alternative sources of revenue.' So wrote Cassius Dio about Augustus (Pettinger 2012).

Modern opinion polls show consistent opposition to inheritance tax, too, at least at its current rate. YouGov has been asking people 'how fair or unfair' they think inheritance tax is since 2019.²⁰ On every occasion those answering 'unfair' or 'very unfair' outnumbered by at least two-to-one those answering 'fair' or 'very fair'. The average combined 'fair' or 'very fair' response was 21%, ranging between 19% and 23%, while the average combined 'unfair' or 'very unfair' response was 51%, ranging between 47% and 57%.

Another YouGov poll recently found that 54% support scrapping it entirely, with 35% opposed²¹. Intriguingly, only among Green Party voters was there a majority in opposition to abolition, with 52% opposed and 35% in favour, although a plurality of Labour

20 YouGov (2025) *How fair is inheritance tax?* Accessed: 19 February 2026 (<https://yougov.co.uk/topics/politics/trackers/how-fair-is-inheritance-tax>).

21 'YouGov poll ahead of November Budget shows over half of the British public want complete abolition of IHT', *Kingsley Napley*, 10 October 2025 (<https://www.kingsleynapley.co.uk/insights/blogs/private-client-law-blog/yougov-poll-ahead-of-november-budget-shows-over-half-of-the-british-public-want-complete-abolition-of-ihht>).

voters were also opposed (48% to 39%). A PublicFirst (2024) poll for the TaxPayers' Alliance found that support for abolition at 28% when it was offered with another option to reduce it instead, which was selected by 27%, gave a combined 55% support for either abolition or reduction. By contrast, raising the rates attracted 10% support and keeping it the same attracted 22%.

WeThink (2023) polling also suggests that the ignorance about the structure of the tax does not explain the high levels of support for abolition. They polled people who had been told that most married couples estates' were charged inheritance tax only where their net assets were over £1 million, and a larger share (47%, with a further 22% believing that the threshold should be set at £2 million, £5 million or £10 million) of this group favoured abolition than the group who were not given that information before being asked (42%, plus 14% who said the threshold should be £2 million, £5 million or £10 million).

Despite high levels of opposition to inheritance tax and support for cuts and outright abolition, they nonetheless do not appear to be a high priority among the public. Asked to name up to three taxes they would like to see cut, only 16% of Conservative voters and 12% of Labour voters selected inheritance tax as one of their three options in an Ipsos 2023 poll.²²

22 Ipsos (2023) *Perceptions of tax polling*. Accessed: 19 February 2026 (https://www.ipsos.com/sites/default/files/ct/news/documents/2023-07/Ipsos%20June%202022_Tax%20charts_PUBLIC.pdf).

Policy options

Broadly speaking, policy options other than ‘do nothing’ can be categorised into four categories: maximisation, streamlining, reform and abolition. All can be described as reform, of course, but the ‘reform’ category in this quartet comprises attempts to fundamentally reform the operation of the system without attempting to either eliminate substantial inheritances (which are described as ‘maximisation’) or eliminate tax on inheritances (‘abolition’). Streamlining refers to reforms which aim to make the system work more efficiently but which do not involve significant changes to the scope of the tax or the receipts it yields for the exchequer.

Maximisation

Inheritance tax maximalists are either motivated by a desire to eliminate aristocracy, such as James Buchanan, or to eliminate capitalism itself, such as Karl Marx (Marx and Engels 1848). Either policy objective would be defeated by a response by taxpayers to lifetime gifts, which would necessitate a gift tax. If this were set at a higher rate than income tax, then avoidance activity would shift to gifts disguised as commercial payments, which would in turn require legislation (and compliance enforcement) to minimise such behaviour.

The marked unpopularity, together with the obvious enforcement challenges and lack of serious proposals, means further discussion is unnecessary.

Streamlining

The government could improve the operation of inheritance tax without changing it fundamentally by addressing a number of relatively minor matters. The defunct Office of Tax Simplification (2018, 2019) proposed a range of changes minor enough to not be considered matters of ‘policy’ (and therefore beyond their remit), and the most minor of these have since been implemented. Some of the more substantial ones have not and remain available as options to consider. Four categories are discussed below.

Gift allowances

An allowance of £5,000 if given to a child, £2,500 if given to a grandchild or £1,000 if given to any other person in consideration of a wedding or civil partnership is exempt, and gifts made as part of ‘normal expenditure out of income’ are exempt, in the latter case so long as they can be paid for after meeting usual living costs from regular income. This is a common law exemption and the limits are found in case law rather than legislation.

The difference amounts to the difference between an attempt to shrink a death estate before death to avoid inheritance tax and a gift which can reasonably be considered a straightforward gift that might have been made anyway without fear of tax consequences from an expected imminent death.

A higher annual gifts allowance instead of these allowances would simplify and clarify the law at the expense of making it less sophisticated in its distinction of regular gifts from gifts made in anticipation of imminent death and less distorted in favour of gifts for marriage and civil partnerships.

Gifting taper and period

Gifts made in the seven years prior to the date of death are part of the deceased's estate and are taxed at lower rates if made more than three years before death, at 32, 24, 16 and 8% successively. In some very rare circumstances, the estate can be required to consider gifts made up to 14 years prior to death. These comprised £20 million of gifts in 2015–16, with no tax chargeable (Office of Tax Simplification 2019).

The Office of Tax Simplification recommended reducing the time limit from 7 to 5 years and abolishing the 14-year rule and the taper. This would reduce the requirement to retain paperwork from 7 (or 14, in the case of gifts made first to trusts) to 5 and reduce the tax on gifts made in 6 and 7 years prior to death from the tapered 8% and 16% rates to exemption while increasing those made in 4 and 5 years prior to death from 24% and 32% to the standard 40%.

Capital gains tax

The heir of an asset is treated for capital gains tax purposes as having acquired it at the market value on the date of death, but assets are not liable to CGT by the estate, meaning that no tax is paid on capital gains between the date of acquisition and the date of death. This creates a tax distortion against selling assets in favour of retaining ownership of them until death.

This distortion can be exacerbated further if the asset is subject to an exemption or relief from inheritance tax. An asset sold before death might be liable to CGT, and then the proceeds of the sale could be subject to inheritance tax. But if the asset enjoys an inheritance tax exemption, then retaining it until death means

neither inheritance tax on the value of the asset nor CGT on the value of the capital gain until the date of death are chargeable. The reduction in agricultural property relief and business property relief from 100% to 50% in April 2026 will reduce this tax benefit but not eliminate it.

The Office of Tax Simplification (2019) recommended treating the benefactor's cost of acquisition as the baseline for the heir's CGT liability instead of the date of death with respect to inherited assets, in cases where a relief or exemption from inheritance tax applies (such as spouse or civil partner exemption). This would extend the scope (and consequent harms) of CGT (including record-keeping requirements) but remove a tax friction on the movement of assets between owners.

Rules alignment

Rules concerning the level of trading activity necessary for eligibility for business property relief on inheritance tax are not aligned with gift holdover relief or entrepreneur's relief. Similarly, the treatment of indirect non-controlling holdings in trading companies and of furnished holiday lets that meet certain criteria are also misaligned. The Office of Tax Simplification (2019) advocated consideration of whether having different tests continues to be necessary, saying that a single test would be easier for taxpayers and their advisers to understand.

Reform

Several more fundamental 'reform' options short of abolition have been proposed for inheritance tax. The most common are

found in proposals to broaden the base and lower the rates while maintaining existing receipts levels. Some have recommended replacing the single rate structure with a range of rates (Broome et al 2023; Corlett 2018; Goss 2024b; Inheritance and Intergenerational Fairness APPG 2020; OECD 2021), with the base broadening consisting of removing the residence nil rate band, reducing the nil rate band, eliminating or capping agricultural and business property reliefs and extending inheritance tax to lifetime gifts, renamed accordingly.

Goss (2024b) recommended a suite of reforms in addition to those mentioned in the previous paragraph with the objective of increasing receipts, including taxing pensions, raising the rate to 45% over £2 million and tapering away the nil rate band in the same way that the personal allowance on income tax is tapered away above £100,000. The consequence of this would be a marginal effective rate of 60% if the 40% headline rate were to remain or 67.5% if the headline rate were raised to 45%.

Mirrlees et al (2011) did not address rates but advocated all three base broadening measures, arguing that the status quo is 'unfair' because 'it fails to tax those who pass on gifts during their lifetime'. Simpson (2019), meanwhile, advocated the reverse: a narrowing of the base while leaving the rate unchanged, estimating that raising the nil rate band to £1 million would have resulted in 27,781 of the forecast 39,409 estates liable in 2019–20 no longer being subject, approximately 70%. Five years later the Reform UK (2024) manifesto pledged to raise the nil rate band to £2 million.

The Inheritance and Intergenerational Fairness APPG (2020) offered worked examples showing how their proposals would tax inherited capital gains twice. And Mirrlees (2011) explicitly addressed the awkwardness of the question of CGT and IHT

duplication: ‘Coexistence of CGT with wealth transfer taxation would merely make this double taxation more explicit. If policymakers do not accept the argument for taxing transfers, then they should not tax them: simply abolish inheritance tax. But if there is an argument for taxing transfers, that must be on top of the regime for taxing returns to capital.’

Another common reform proposal is to alter the base such that the charge is transformed from an estate tax into a true inheritance tax, ie a tax on inheritances rather than bequests (Corlett 2018; Srblin 2015; Mirrlees 2011; Inheritance and Intergenerational Fairness APPG 2020; OECD 2021; Prabhakar, Rowlingson and White 2008). All of these proposals, however, also propose extending the tax to lifetime gifts (or applying income tax to them). It is perhaps because taxes on estates are administratively simpler than taxes on inheritances that explains why proposals to reform inheritance tax which do not include a proposal to extend it to lifetime gifts do not tend to advocate a base shift from estates to inheritances.

A common feature of foreign inheritance tax systems that is notable by its absence from British tax reform proposals is the exemption or substantially reduced rates available when assets are bequeathed to family members, especially direct descendants (see previous section on international comparisons). The preponderance of this type of exemption or relief possibly suggests an acknowledgement in those systems that bequests to descendants are likely to be bona fide gifts whereas gifts made to third parties might be more likely to be disguised commercial transactions and therefore value creating rather than transfers of value. Or it might simply be an aspect of Britain’s peculiarly individualistic culture.

Some countries exempt only the direct descendants of the deceased whereas others also exempt more distant relations. Similarly, some apply preferential treatment only to direct descendants whereas others offer less generous but nonetheless preferential treatment to relations such as brothers or nieces.

Abolition

The complete abolition of inheritance tax is a common policy recommendation of bolder reformers (Bracewell-Milnes 1995; Forsyth et al 2006; Friedman 2001; Heath et al 2012; Herring 2016; Lee 2007; Meakin 2016). It was also the stated policy ambition of the government in the 1996 Budget and the manifesto commitment of the Brexit party (2019) and Reform UK (2024).

There are slight differences between how abolitionists approach the interaction with CGT, however. Forsyth et al (2006) recommended that CGT should apply only to assets held for under ten years and applied only fully to assets owned for less than a year. Assets held for nine years would be subject to a 10% relief, those held for eight years to a 20% relief, and so forth. This tax would be applied to estates upon death, but inheritance tax would be abolished. Herring (2016) similarly recommended merging CGT and IHT, suggesting a flat 15% rate and a £500,000 threshold of probate value, which he estimated would involve less than £3 billion of foregone receipts for 2015–16 and would entail a reduction of 275 pages of tax legislation. Lee (2007) cited the reintroduction of CGT on death as ‘just one of a number of measures’ available to replace lost receipts.

Central to the Heath et al (2012) and Meakin (2016) view on tax policy is that taxation and spending both substantially

exceed optimal levels as a share of GDP and consequently did not bind themselves to the government's own revenue targets. They were therefore able to argue more from first principles and both recommended abolishing CGT and inheritance tax, albeit both on their own merits rather than necessarily for the web of interactions they have on each other. Similarly, despite recommending a merger of the two on account of politically imposed restrictions, Herring (2016) argued that 'in a perfect world' both would be repealed.

A complete abolition of CGT would entirely eliminate the tax distortions around how and when to acquire and dispose of assets. But in the absence of abolition, how to treat the capital gains up to the date of death remains a pertinent question of how the tax system treats death, despite not being an inheritance tax matter. Treating inherited assets as acquired at the benefactor's acquisition cost for the purposes of CGT on an eventual sale removes some but not all of the distortion in favour of holding the asset until death.

An asset with faster growth but lower income would generate more taxable capital gain but less cash (which would go untaxed in a system with no inheritance tax but a CGT). It is important to note that capital gains are already discounted to reflect the income tax due on the increased expected future distributions of value that justify the capital gain. The 'step up' (ie the policy of treating assets as acquired at their market value on the date of death and therefore disregarding gains made before the date of death) removes this distortion but introduces a different one. A benefactor with an asset that has generated an unrealised capital gain will find that capital gain subject to tax if the asset were sold and the proceeds bequeathed instead, whereas with a 'step up' the capital gain is disregarded and the heir can inherit the whole value of the asset.

Treating death as a deemed disposal of an asset triggering a CGT charge, by contrast, would eliminate this distortion (at the expense of imposing the aforementioned distortion at the point of the benefactor's decision on which asset to acquire in the first place). Ranking the three options (retaining the 'step up', a deemed disposal on death, or treating the benefactor's original acquisition cost as the heir's acquisition cost on eventual sale) by degree of distortion is unclear, but retaining the step up is probably the most distortionary, and deemed disposal on death is probably the least.

Conclusions

Inheritance tax is high compared with other countries and appears especially so on a deeper analysis than offered by a comparison of the headline top rates. It is also arguably the most unpopular tax, but its unpopularity seems shallower, as people tend to prioritise other taxes when asked where they think the burden should fall. Its effect on savings (and therefore investment) is almost certainly negative but probably less so than a number of other taxes at the margin, although Britain's unusual reliance on (and appeal to) rich foreigners means that recent rule changes may be an exception in their cases. It appears to be a particularly complex tax and, consequently, a costly one to administer. Its effect on inequality is, perhaps counter-intuitively, ambiguous. When properly assessed through a lens of the chain of value, from creation to consumption, it constitutes an arbitrary double tax.

What to make of all these often-contradicting assessments naturally depends on the scope of reform being considered, the counterfactuals and alternatives in question and the weights one assigns to the various competing objectives one might have.

Abolition

Ultimately, the neutrality principle, sometimes described in this context as horizontal equality,²³ demands complete abolition of inheritance tax for the reasons discussed in the double taxation section. Adopting a family perspective of agency in an economy,²⁴ too, leads to the same conclusion and would be widely popular, given the resentment towards the tax not just among those who have to pay it but others merely for its existence.

Complete abolition would have beneficial effects on output, saving and investment. It would also have a disproportionately beneficial effect on the administrative cost of running the tax system, with substantial simplification benefits, freeing up significant high-quality human capital to be reallocated to more productive endeavours.

It would sharpen Britain's international competitiveness as a place of residence for high- and ultra-high net worth individuals (including entrepreneurial existing citizens on the margin of emigration) and all the prosperity benefits that they bring.

The CGT 'step up' should also be abolished in the event of full abolition. In a more fundamental reform of the tax system, CGT itself might be abolished, eliminating the problem entirely. But absent abolition of CGT, death should trigger a deemed disposal (unless it can be established that this would generate a greater

23 'Why taxing fairly means not taxing inheritances', *The New York Times*, 11 September 2016 (https://mankiw.scholars.harvard.edu/sites/g/files/omnuum5931/files/mankiw/files/why_taxing_fairly.pdf).

24 See 1:07:15 to 1:08:52 in 'Milton Friedman speaks: What is America?', *YouTube* video, 1978 (<https://youtu.be/hoFdVuqrMZw?t=4038>).

distortion to investment behaviour than ‘no gain, no loss’ treatment of inherited capital gains).

Incremental reform

Inheritance tax is forecast to yield £8.7 billion for the exchequer in 2025–26, rising to £14.5 billion in 2030–31 (Office for Budget Responsibility 2025c). In the context of a government unwilling to restrain spending to levels which would justify complete abolition, there are more incremental reforms which could provide some of the benefits of abolition, perhaps enough to outweigh the opportunity costs of foregoing other tax reforms that such action under such circumstances would entail.

The ‘streamlining’ measures proposed by the Office of Tax Simplification discussed earlier (simplifying the gift allowances, reducing the gifting time from seven to five years and abolishing the taper, removing the CGT ‘step up’ and aligning definitions to match those for other taxes) are unlikely to involve substantial foregone receipts. For example, just £7 million of the total £4.38 billion of inheritance tax receipts (or of £71 million of all receipts relating to lifetime gifts) in 2015–16 involved gifts made more than five years before death. These measures would deliver meaningful simplification benefits, and indeed the government should consider reducing the time limit to four, three or even two years instead of the Office of Tax Simplification’s recommended five, to deliver greater reductions in the record-keeping burden.

Extending the tax to all lifetime gifts would exacerbate the problems of inheritance tax, viz. that it requires intrusive and extensive monitoring and it is an arbitrary double tax on the chain of value between creation and consumption. Such a

reform could follow the American model of having a separate gift tax with its own rules, rates and thresholds, or both could be subject to unified lifetime (rather than, or perhaps in addition to, annual) allowances. The receipts could be used to reduce the rate (or raise the thresholds) of tax applied to inheritances from estates, but the majority of such transfers are made at death already, even with the tax advantages available with gifts made more than seven years before death. Such a system would also strengthen the case for the adoption of an exemption (or at least higher thresholds) for direct descendants, so as to lessen the intrusive nature of the compliance regime into family life.

Could such a system work in Britain? On the one hand, it might reduce the antipathy towards the tax from those who resent it based on its interference with the desire to leave something for their children. On the other hand, resentment at people inheriting assets from their parents is arguably the primary basis for support of inheritance tax in the first place. If a government wanted to exempt descendants or family members but retain tax for others as an anti-avoidance measure, in cases such as commercial payments disguised as gifts, to protect income tax, then it might be simpler to abolish it and tighten anti-avoidance rules directly. In any case, Britain's system taxes bequests only, so such payments avoid inclusion so long as death does not occur within seven years.

Generally speaking, there should be a strong preference against multiple rates and exemptions, to minimise both complexity and distortions. This also applies to proposals to introduce multiple rates based on the size of the bequest or inheritance. Redistribution objectives can be more simply satisfied by altering the level of the nil rate band.

A more substantial incremental reform would be to raise the nil rate band or lower the rate. In 2022–23, the most recent available year, £3.4 billion of the total £6.7 billion was collected from estates with a net value of over £2 million (HMRC 2025a). But the £3.3 billion paid by estates worth under £2 million represented the overwhelming majority of taxpaying estates: 27,920 of 31,500. Raising the nil rate band would have reduced the £3.4 billion of receipts due from the estates worth over £2 million, but it would also enable the abolition of the residential nil rate band and the transferrable nil rate band between spouses and civil partners which would have the opposite effect as well as simplifying the legislation.

For estates over £5 million, the receipts were £1.4 billion, and for estates over £10 million, the threshold in the US, the receipts were £734 million. Raising the nil rate band to one of these levels would entail such a substantial reduction in the receipts that it becomes difficult to see the point in retaining the tax at all, except for a Buchananite desire to disrupt aristocracies.

Raising the threshold has the advantage of making the complexity of inheritance tax effectively otiose for a great number of people who now worry about it, while leaving it in place for those who would still pay it. By contrast, cutting the rate would have the effect of reducing the financial burden for all, or almost all, without removing anyone from liability. Indeed, there would be a smaller disincentive to avoid the tax, which might have the effect of more estates being liable due to less avoidance or even evasion.

Halving the rates would halve the receipts, on a static analysis, although this could be paired with removing the 50% reliefs for agricultural and business property, reducing the loss of receipts for the exchequer. In 2022–23, at least, cutting the headline

rate to 20% can therefore be considered as broadly equivalent, fiscally, to raising the nil rate band to £2 million.

A combination of a smaller rate cut and a more modest increase in the nil rate band might be better than going all in on either, though. Cutting the rate to 30% and raising the nil rate band to perhaps £1.25 million could enable the government to reduce the effective rate for agricultural and business property to 15% (compared with the imminent 20%) while abolishing the residential and transferrable nil rate bands and still offering a significant tax cut to those affected by their withdrawal. There would be some simplification, some reduction in the incentive to avoid it, some removal of estates from it entirely and some reallocation of high-quality human capital to more productive pursuits.

None of these options are likely to have a significant impact on the decisions of wealthy foreigners considering relocation to Britain, as competing jurisdictions would still be substantially more competitive. The decision to abandon long-standing previous caution on taxing this most mobile of groups' foreign income and assets under income tax and inheritance tax appears to have been a mistake and the new regime should be amended accordingly, perhaps by reinstating the 15-year limit to the new system. Although, if the government wished to make complete abolition of inheritance tax an objective for its tax strategy, it should probably abolish the time limit altogether and promise those considering moving to (or remaining in) Britain an intention to never change that policy.

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