DEMOS

# PLUGGING THE BLACK HOLE

## HOW TO UNLOCK REVENUE FROM TAXATION ON INHERITANCE

BRIEFING PAPER

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OCTOBER 2024

Published by Demos October 2024

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# ACKNOWLEDGEMENTS

We would like to thank the abrdn Financial Fairness Trust for their generous support for this programme. In particular, thanks to Mubin Haq for his valuable insights and enthusiasm throughout. Thanks also to our advisory group, who have also provided useful knowledge and commentary on the policy area. The group consists of:

- Anoosh Chakelian, Britain Editor - New Statesman
- Arun Advani, Associate Professor, University of Warwick
- Caroline Abrahams, Director of Age UK
- David Sturrock, Senior Research Economist at the Institute for Fiscal Studies
- Emma Chamberlain, Barrister at Pump Court Tax Chambers
- Karen Rowlingson, Professor and Dean of the Faculty of Social Sciences, University of York
- Liam Byrne, MP for Birmingham Hodge Hill and Chair of the Business and Trade Committee
- Ricky Kanabar, Associate Professor, University of Bath
- Steve Webb, Former Minister for Pensions, 2010-15

We would also like to thank many of our colleagues at Demos for their support. In particular, thanks to Andrew O'Brien, Ben Glover, Felix Arbenz-Caines, Polly Curtis, and Chloe Burke.

Any errors remain the authors' responsibility.

**Dan Goss**

October 2024

# AN INCLUSIVE ECONOMY

This is part of Demos's wider work to help create an Inclusive Economy - one in which all people have security, opportunity, and respect. Our research shows that inheritances - people's increasing reliance on them, their inequalities, and an ill-equipped inheritance tax - plays a part in financial insecurity, inequality of opportunity, and underfunded public services. A new ambitious approach to inheritance policy is needed to address that.

At Demos we also put people at the heart of policy-making. In this project, all our recommendations are guided by what the public has told us in surveys and focus groups.

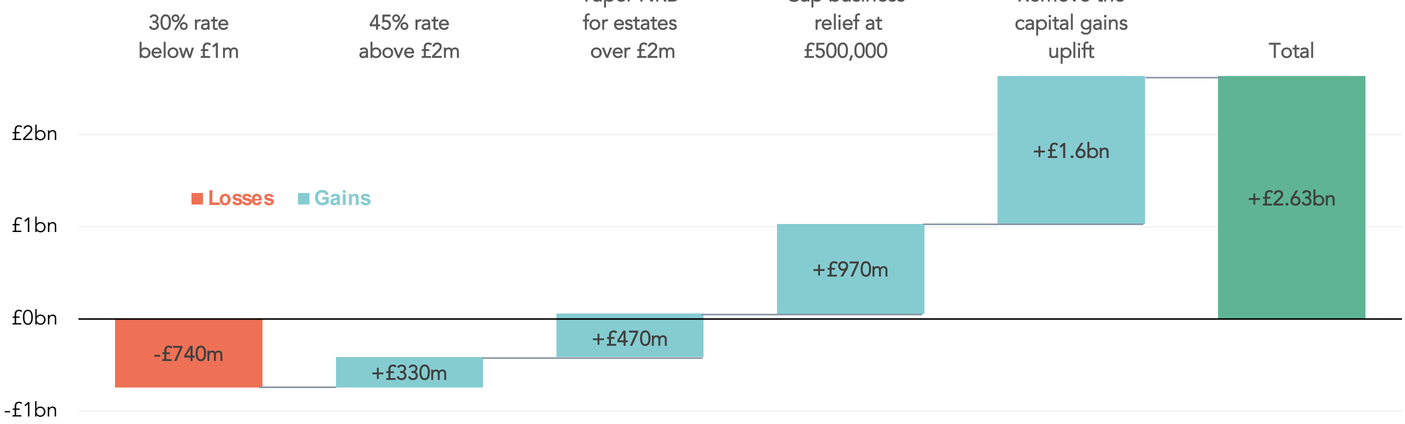
# SUMMARY OF RECOMMENDATIONS

Drawing on insights from Demos's multi-year Unlocking Inheritance programme - and new analysis from a deliberative exercise with the public, economic modelling, and discussion with experts - we identified the following inheritance tax reforms as those that would simultaneously raise revenue, make the system fairer and expand public support for the tax.

| Policy | Description | Revenue |
|---|---|---|
| Introduce rate bands | Move from flat rate of 40% to rate bands at:<br>• 30% for any inheritance under £1m<br>• 40% for inheritance between £1m and £2m<br>• 45% for inheritance over £2m | -£410m |
| Reduce tax-free allowances for the top 1% of estates | Start tapering off the nil-rate band (minimum tax-free allowance) for estates over £2m, in the same way that is currently done for the residence nil-rate band (the additional allowance for people passing on homes to children or grandchildren). This would mean reducing the full allowance (the sum of the nil-rate band and residence nil-rate band) by £1 for every £2 above £2m. | +£470m |
| Cap inheritance tax business relief | Rather than offering full tax relief for certain business assets up to any value, cap business relief, so that relief is only available on the first £500,000 of business assets in an estate. | +£970m |
| Tax all capital gains on inherited assets | Remove the 'uplift' in capital gains tax for inherited assets, which currently means if an asset is passed on in inheritance, the capital gains accrued up to that point do not count towards capital gains tax when the asset is sold. Instead, when the asset is sold, apply capital gains tax to any gains since the asset was purchased. | +£1.6bn |

£2.6bn is gained from higher taxation on estates over £2m, the capping of business relief and the removal of the capital gains 'uplift'

Revenue impact of policies within recommended package



# 1. CONTEXT

At the upcoming Budget, the government is expected to set out its plans to fill the £22bn 'fiscal hole'.[1] If widespread media reports are accurate, this may include changes to the inheritance tax regime.[2,3] With the government having ruled out tax rises 'on working people', inheritance tax remains a critical tax from which additional revenue could be unlocked.[4]

As Demos has argued through our multi-year Unlocking Inheritance programme, the UK has entered a 'new age of inheritance' with the value of inheritance passed on annually doubling roughly every 20 years, reaching over £120bn.[5] Our current regime for taxing these is out of date, with just 4% of inheritance paid in tax and the wealthiest estates paying lower rates than others.[6,7]

Our public attitudes research has also shown how public attitudes to inheritance tax are more nuanced than is sometimes assumed. While it is often reported that inheritance tax is widely opposed, our research in polling and focus groups has shown that, when the public are presented with policy decisions - around which taxes to cut, whether to prioritise scrapping inheritance tax vs funding public services, and where to set the inheritance tax threshold - people express much less interest in cutting it, and more interest in reform.[8,9,10,11]

Well-designed reforms to inheritance tax could raise revenue while making the tax fairer at the same time. This is achieved by countries such as France, Japan and South Korea - who raise more from inheritance tax than the UK, and in a more progressive way.[12] As a tax that is paid by less than 5% of UK estates, and with almost half paid by the wealthiest 1% of estates, inheritance tax reform will also affect very few people, and only those with significant wealth.[13,14] The challenge facing the government is how to unlock funds from inheritance tax while maintaining public support and avoiding harming the government's wider objectives, such as economic growth.

This note sets out our proposals to meet these objectives. It draws on findings from across Demos' Unlocking Inheritance programme, supported by the abrdn Financial Fairness Trust, including economic analysis, surveys, focus groups, reviews of international inheritance tax systems, a public deliberation on reform, and modelling of revenue gains and distributional impacts. Further information on the methodology can be found in the Annex.

1 Hooker L. 'Chancellor warns hard decisions ahead in Budget'. BBC. 11 September 2024. https://www.bbc.co.uk/news/articles/c2045wpddy2o
2 Isaac A. 'Labour drafts options for wealth taxes to 'unlock' funds for public services'. The Guardian. 21 June 2024. https://www.theguardian.com/politics/article/2024/jun/21/labour-drafts-options-for-wealth-taxes-to-unlock-funds-for-public-services
3 Mitchell A. 'Rachel Reeves confirms taxes will rise in her first budget in October'. The Independent. 31 July 2024. https://www.independent.co.uk/news/uk/politics/rachel-reeves-budget-taxes-jeremy-hunt-b2588632.html
4 'Labour will not raise taxes on working people'. Labour. (no date). https://labour.org.uk/updates/stories/labour-party-tax-policy-how-we-will-make-the-tax-system-fairer/
5 Broome M, Corlett A, and Thwaites G. Tax planning: How to match higher taxes with better taxes. Resolution Foundation. June 2023. https://economy2030.resolutionfoundation.org/wp-content/uploads/2023/06/Tax-planning.pdf
6 Goss D. The Future of Inheritance Tax: Options to Repair Inheritance Taxation in Britain. Demos. July 2024. https://demos.co.uk/research/the-future-of-inheritance-tax-options-to-repair-inheritance-taxation-in-britain/
7 Based on 2019-20 data with the annual flow of inheritances at £120bn and inheritance tax at £5bn
8 Goss D and Glover B. The inheritance tax puzzle: Challenging assumptions about public attitudes to inheritance. 14 June 2023. Demos. https://demos.co.uk/research/the-inheritance-tax-puzzle-challenging-assumptions-about-public-attitudes-to-inheritance
9 Demos. "£7 billion electoral gamble' to abolish inheritance tax unlikely to pay off, according to new research". 11 December 2023. https://demos.co.uk/blogs/7-billion-electoral-gamble-to-abolish-inheritance-tax-unlikely-to-pay-off-according-to-new-research/
10 Ipsos. Inheritance tax seen as an unfair tax but others are prioritised for cuts. 30 July 2023. https://www.ipsos.com/en-uk/inheritance-taxseen-unfair-tax-others-are-prioritised-cuts
11 Goss D and Glover B. Winning the Argument: How to unlock public support for inheritance taxation. Demos. 26 September 2023. https://demos.co.uk/research/winning-the-argument/
12 Goss D. The Future of Inheritance Tax: Options to Repair Inheritance Taxation in Britain. Demos. July 2024. https://demos.co.uk/research/the-future-of-inheritance-tax-options-to-repair-inheritance-taxation-in-britain/
13 HM Revenue & Customs. Inheritance Tax statistics: commentary. 31 July 2024. https://www.gov.uk/government/statistics/inheritance-tax-liabilities-statistics/inheritance-tax-liabilities-statistics-commentary
14 Advani A and Sturrock D. Reforming Inheritance Tax. Institute for Fiscal Studies. September 2023. https://ifs.org.uk/sites/default/files/2023-09/Reforming-inheritance-tax-1.pdf

# 2. PROGRAMME FINDINGS

Based on deliberation with the public (see Annex for a detailed methodology), economic modelling, and discussion with experts, we have identified four public priorities for inheritance tax reform that are administratively feasible and economically beneficial:

- Create multiple rate bands to ensure that estates just over the tax-free allowance have a smaller jump to the starting rate, and that the wealthiest pay higher rates than others, like with income tax.
- Review the relief for businesses to ensure support for smaller businesses is retained while larger businesses contribute more.
- Maintain the relief for farms to ensure farms are not broken up by inheritance tax bills.
- Ease the administrative burden, ensuring that reforms do not add excessive administrative complexity and help make the tax easy for the public to understand.

# 3. PROPOSED PACKAGE OF REFORMS

Based on the priorities for inheritance tax reform identified above, the following package of reforms would unlock public funds from inheritance tax, alongside a reform to capital gains tax on inherited assets:

| Reccomend-ation | Current system | Proposed reform | Rationale for reform |
|---|---|---|---|
| Introduce rate bands (-£410m) | Inheritance tax is charged at a flat rate of 40% above the tax-free allowance (which is at least £325,000 per estate, but can increase to £500,000 if the estate includes a house passed to children or grandchildren, and then up to £1m as married couple can combine their allowances). | Retain the current tax-free allowances, and introduce rate bands at:<br>• 30% for any inheritance under £1m<br>• 40% for inheritance between £1m and £2m<br>• 45% for inheritance over £2m | **Fiscal:** Rate bands would make inheritance tax more progressive, and the loss in revenue due to the rate cut for inheritances under £1m would be partly offset by the gain due to the rate increase for inheritances over £2m. The rate cut for inheritance under £1m would also support the government objective to 'lower the tax burden for working people'. |

| Reccomend-ation | Current system | Proposed reform | Rationale for reform |
|---|---|---|---|
| Introduce rate bands (-£410m) | | | **Public support:** The introduction of rate bands received strong support when it was tested with the public, with almost universal support across our panel. It would help mitigate concerns about the big jump in rates from 0% to 40%, and the sense of unfairness that all taxed estates pay the same marginal rate. It would also bring the UK more in line with most OECD countries.<br><br>These rates could be adapted by the government to meet their needs for revenue. For example, the government might instead want to cut the rate for inheritance under £1m to 35% to retain more revenue. |
| Reduce the tax-free allowance for the top 1% of estates (+£470m) | The residence nil-rate band (the additional allowance of up to £175,000 for people passing on homes to children or grandchildren) is tapered away by £1 for every £2 that an estate is worth over £2m. Yet, this does not happen for the nil-rate band (the minimum allowance for all estates). | Taper away the nil-rate band (minimum tax-free allowance) for estates over £2m, in the same way that is currently done for the residence nil-rate band. This would mean reducing the full allowance (the sum of the nil-rate band and residence nil-rate band) by £1 for every £2 above £2m. | **Fiscal:** Tapering away the nil-rate band would raise additional revenue from the most valuable estates. In combination with the introduction of rate bands, there would be a net revenue gain. Additionally, the top marginal rate - which is effectively at 60% under the current system due to the tapering of the residence nil-rate band - would remain the same.[15]<br><br>**Public support:** The public generally feel that estates over £2m are particularly large, with some thinking they should face higher rates than 45%. |

15 Currently, the tapering of the residence nil-rate band effectively adds 20% to the marginal rate because, for every £2 above £2m, £1 becomes subject to the 40% rate. The rate effectively becomes 60%. Under our reform both tax-free allowances would be taxed at the 30% rate, because this wealth would be considered as part of the inheritance under £1m (which would be charged at 30% if rate bands were introduced). This would effectively add 15% to the marginal rate for estates over £2m and £4m. This additional 15% would be on top of the 45% rate for estates over £2m. Again, the rate would effectively be 60%.

| Reccomend-ation | Current system | Proposed reform | Rationale for reform |
|---|---|---|---|
| Reduce tax relief for estates with larger amounts of business assets (+£970m) | Business assets - excluding businesses that mainly deal with securities, stocks or shares, land or buildings, or investments - can benefit from inheritance tax relief. This includes 100% relief for a private business that someone fully or partly owns or shares in an unlisted company (e.g. shares on markets for less developed companies like the Alternative Investment Market (AIM)). There is 50% relief for shares controlling over half of a listed company. | Cap business relief, so that relief is only available on the first £500,000 of business assets in an estate. | **Fiscal:** Reducing tax reliefs for businesses over £500,000 would raise significant revenue, while only affecting the 22% of business relief claimants with over £500,000 in business assets (based on 2020-21 data).[16] The cost would be greatly skewed towards more valuable businesses, as the majority of business relief goes to a small number of very wealthy estates. In 2020-21, for example, just 68 estates - all with business assets worth over £5 million - collectively owned 57% of the assets benefitted from inheritance tax business relief (£1.8 billion of assets).[17]<br><br>While there is a risk that people increasingly transfer business assets earlier in life to avoid the tax - which could lower the revenue gain - the evidence on the extent to which this would happen is unclear. There are no suggestions it would wipe out the revenue gain. There is also no clear evidence that this would lead to the breakup of businesses, as estates generally have a significant portion of cash with which to pay inheritance tax bills, and measures are in place to allow payment over 10 years.<br><br>Given that the UK's business relief is more generous than most other OECD countries, capping business relief would bring the UK more in line with international competitors.[18][19]<br><br>**Public support:** The public feel that local community businesses and family-run businesses should be protected from inheritance tax. Yet, they also feel that larger businesses should not receive the same relief and that owning business assets should not be a way for wealthy estates to significantly reduce their inheritance tax bill. Capping business relief at £500,000 would deliver these objectives while ensuring smaller businesses are protected when passed on in inheritance. |

16 Demos FOI request to HMRC
17 Ibid.
18 Goss D. The Future of Inheritance Tax: Options to Repair Inheritance Taxation in Britain. Demos. July 2024. https://demos.co.uk/research/the-future-of-inheritance-tax-options-to-repair-inheritance-taxation-in-britain/
19 OECD (2021). Inheritance Taxation in OECD Countries. OECD Tax Policy Studies. https://doi.org/10.1787/e2879a7d-en

| Reccomend-ation | Current system | Proposed reform | Rationale for reform |
|---|---|---|---|
| Tax all capital gains on inherited assets (+£1.6bn) | If someone buys an asset (like a second home or shares in a business) and later sells it for profit, they pay capital gains tax on the profit they make. However, if an asset is passed on in inheritance, the capital gains accrued up to that point do not count towards capital gains tax when the asset is sold. This is called the 'uplift' in capital gains at death. | Remove the 'uplift' in capital gains tax for inherited assets. When the asset is sold, apply capital gains tax to any gains since the asset was purchased - rather than only gains since the asset was inherited. | **Fiscal:** Removing the capital gains 'uplift' would raise significant revenue. It would also remove the distortive incentive that currently exists for people to hold onto assets until they die - which may be inefficient and undesirable - to avoid being charged capital gains tax.<br><br>This policy would also bring us in line with many international competitors. Of the 29 OECD countries who have capital gains taxes,[20] 18 apply capital gains tax to the gains on inherited assets.[21] Ten of these - including Germany, Italy, and Japan - also have inheritance taxes<br><br>**Public support:** The public have mixed opinions on the removal of the capital gains uplift. Some feel that the uplift mainly benefits the wealthy, and would particularly support its removal if offered alongside inheritance tax cuts. Others are concerned about creating additional taxation at death. Nevertheless, given the fiscal and economic benefits, it is an important reform. |

The modelling of the revenue gain for the above reforms is based on static modelling (not accounting for potential changes in behaviour in response to the tax changes). Certain behavioural changes could have an impact on the revenue, including migration, increased lifetime gift giving (as gifts are not charged inheritance tax if given more than seven year prior to death) and shifting wealth into assets which are not charged inheritance tax (such as farmland and pension pots). While the evidence is not clear on the extent to which behavioural changes would undermine the revenue, if the government deemed this to be a significant problem, they should introduce reforms to close the opportunities for minimising tax bills. This could include introducing inheritance taxation on farms, pensions, or large lifetime gifts more than seven years prior to death, or capital gains tax on unrealised gains when people move assets out of the country. Doing this would mitigate the extent to which, in response to the tax changes, people take steps to minimise their tax bills. While these policies would come at a larger political cost to the core reforms recommended in this briefing, they may be needed to help protect the revenue gain from the core recommended reforms.

Alongside our core package, one policy that was a priority for the public but which nevertheless faces significant administrative barriers - and so was left out of the package of recommendations - is extending the inheritance tax benefits for married couples to unmarried couples. Currently, people can pass on inheritance to their spouse or civil partner completely tax-free, and the surviving partner can take any unused tax-free allowance (due to the 'transferable nil-rate band'), but these benefits are not available to unmarried couples. Most of our panel felt that this treatment of unmarried couples was outdated, and that reforms were needed to reflect changes in relationship norms. To help address this, the government could extend the transferable nil-rate band to unmarried couples if, for example, they have lived together for at least five years. However, this could open new routes for evasion (as people could, for example, falsely claim they are a couple) and add administrative complexity (in tracking whether couples have lived together). Married couples also currently get additional benefits with many taxes - and as the Office for Tax Simplification note, changing this would naturally come from wider reform across the tax system.[22] While the government should explore this option, they should be wary of the potential costs.

20 Excluding Poland and the Slovak Republic, because data is missing.
21 Denmark and Hungary sometimes apply tax to the capital gains on inherited assets, but sometimes offer an uplift.
22 Office for Tax Simplification. Inheritance Tax Review – second report: Simplifying the design of Inheritance Tax. July 2019. https://assets.publishing.service.gov.uk/media/5d274fad40f0b61158962af5/Final_Inheritance_Tax_2_report_-_web_copy.pdf

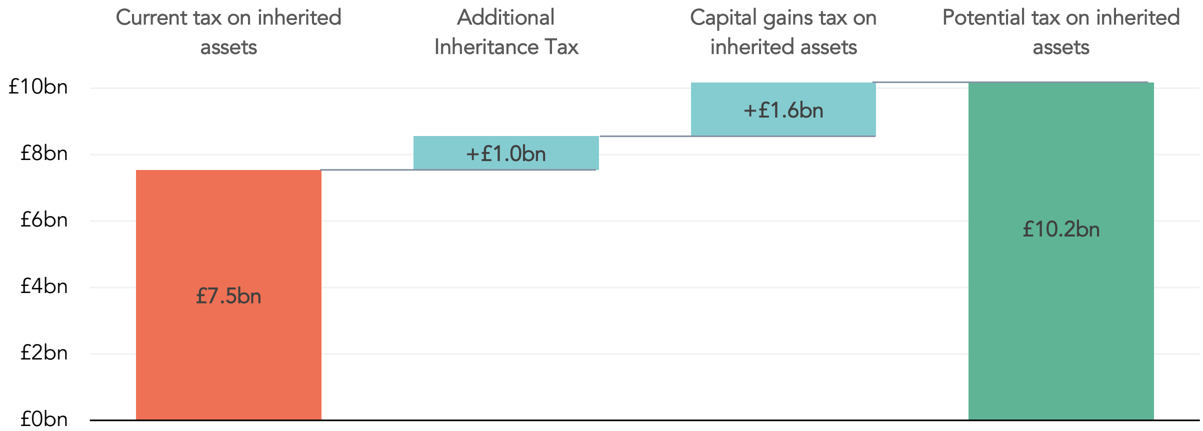
# 4. REVENUE EFFECTS

The recommended package of reforms is expected to raise £2.62 billion in 2024-25, or around £16bn over the five years of this parliament, assuming no behavioural changes. The annual revenue is double the amount of money raised by the government's move to restrict the winter fuel payments (£1.3bn).[23] It is also slightly higher than the cost of removing the two child benefit cap (worth £2.5bn, according to estimates by Resolution Foundation).[24]

The revenue gain would include an additional £1.02bn from inheritance tax, and £1.6bn from capital gains tax on inherited assets. It would increase the value of tax on inherited assets from £7.5bn to £10.1bn in 2024-25 - a 34% increase.

The recomended package of reforms would raise £1bn from inheritance tax and £1.6bn from capital gains tax

*Additions to annual revenue based on Demos's reccomended package of reforms*




As the value of inheritance passed on is set to increase significantly in coming years, the additional revenue raised will also grow significantly. The IFS project that the value of inheritance tax will grow from £7.2bn in 2023–24 to £10.3bn by 2027–28 and £15.3bn by 2032-33. Assuming that our package continues to increase inheritance tax revenue by 34%, these reforms would lead to a £3.9bn increase in tax revenues by the end of the parliament (2028-29), or around £16bn over the five years of this parliament. Yet, this is likely an underestimate, because the value of estates across the distribution will grow over this period, meaning an increasing number of estates are pushed into higher rate brackets. This will drive an additional increase in revenue.

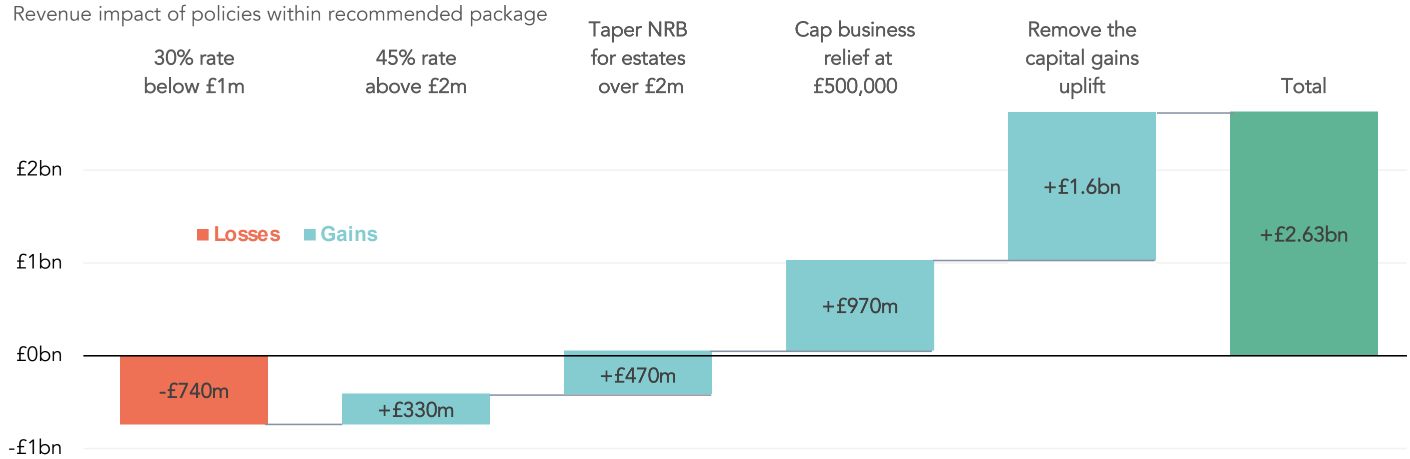
In the current tax year, the revenue gained is the aggregate of:

- **Loss of £410m** from the introduction of rate bands (loss of £740m from the 30% band and gain of £330m from the 45% band)
- **Gain of £470m** from tapering away the nil-rate band for estates over £2m
- **Gain of £970m** from capping business relief at £500,000
- **Gain of £1.6bn** from removing the capital gains uplift[25]

23 Coleman C. Changes to winter fuel payments: The Social Fund Winter Fuel Payment Regulations 2024.House of Lords Library. 6 September 2024. https://lordslibrary.parliament.uk/changes-to-winter-fuel-payments-the-social-fund-winter-fuel-payment-regulations-2024/
24 Try L. Catastrophic caps. Resolution Foundation. 31 January 2024. https://www.resolutionfoundation.org/publications/catastophic-caps/
25 If removing the capital gains uplift, a decision must be made about whether to apply capital gains tax at death or when the asset is sold. If the latter, a decision must also be made about whether the policy applies to assets that, when the policy is introduced, had already been passed on in inheritance but not yet sold. The £1.6bn figure is based on the Institute for Fiscal Studies' estimate of applying capital gains at death. If applying capital gains when the asset is sold, but only to assets inherited after that point, the additional revenue would start lower than £1.6bn but increase to that figure over time (adjusted for increases in wealth). However, applying capital gains when the asset is sold, but to all assets including those that had already been passed on in inheritance but not yet sold, the additional revenue would start at around £1.6bn.

£2.6bn is gained from higher taxation on estates over £2m, the capping of business relief and the removal of the capital gains 'uplift'

Revenue impact of policies within recommended package




Note, the modelling for the capital gains uplift is based on the current rates of capital gains tax. If these were increased in the Autumn Budget from their current rates (between 10% and 28%) - as various organisations have called for an increase in capital gains tax rates to the same level as income tax rates (20%, 40% and 45%) - this could lead to larger increases in the revenue from this policy.[26][27]

Behavioural responses to the taxes could reduce the revenue gain. As noted, if the government deemed this a problem, they should consider reforms to protect the revenue gain, including inheritance taxation on farms, pensions, or large lifetime gifts more than seven years prior to death, or capital gains tax on unrealised gains when people move assets out of the country. These would help minimise the loss of revenue due to behavioural responses to the recommended tax changes, while also raising additional revenue independently.

# CONCLUSION

The government faces tough choices on 30th October. Making cuts or tax rises worth £22bn inevitably involves making trade-offs between the revenue raised, the costs to different groups of people, and the political response. In raising £2.6bn additional revenue in the first year and around £16bn over the Parliament - a significant sum in hard times - through measures that mainly affect the wealthiest and have been tested with the public, the inheritance tax reforms laid out in the paper aim to balance those trade-offs effectively.

In the coming weeks, Demos will publish a series of briefings with further insights on these reforms, including their impacts for people of different wealth and income, the public's in-depth views (based on data from the deliberative exercise), and the expected political response (based on polling data).

26 Broome M, Corlett A, and Thwaites G. Tax planning: How to match higher taxes with better taxes. Resolution Foundation. June 2023. https://economy2030.resolutionfoundation.org/wp-content/uploads/2023/06/Tax-planning.pdf

27 Dibb G. 'Chancellor's first step to raising tax on income from wealth leaves potential £50 billion untapped, IPPR finds'. IPPR. 18 November 2022. https://www.ippr.org/media-office/chancellor-s-first-step-to-raising-tax-on-income-from-wealth-leaves-potential-50-billion-untapped-ippr-finds

# ANNEX: RESEARCH METHODOLOGY

**Deliberation**

In May and June 2024, Demos ran a deliberative exercise on inheritance reform. We first ran six two-hour sessions with 27 members of the public (sometimes split into three randomised groups of nine each, and sometimes together as a whole) on the question of "How to tax inheritances in a way people think is fair and effective, without losing revenue". Across these, the participants discussed three categories of reform:

- Shifts within the current system: rates, thresholds and exemptions
- Shifting the tax base: taxing receipts rather than estates, gifts, and inherited capital gains
- Hypothecation: to different kinds of spending commitment, and using different mechanisms

For each, we provided data on aspects such as:

- How the current policy works and the reason it exists
- How the reformed policy would work and the reason it is proposed
- The impact of reform on the amount and distribution of inheritance
- The impact of reform on the amount and distribution of inheritance tax
- Various arguments around the impact of different reforms on businesses, investment and growth.

In each session, the panel would discuss what they liked about the current system, what they did not like, and what kind of reforms they would like to see implemented. Based on this, we asked the panel to decide upon two things.

- What aspects of inheritance tax should change, and what should stay the same?
- For things that need to change, which direction should the changes go in (e.g. higher or lower rates, more or less restricted reliefs)?

Where relevant - and where we felt our public sample had enough evidence to make an informed decision - we also asked the public for a sense of the scale of change needed. For example, after the groups agreed that inheritance tax should have rate bands, we asked them how many bands they thought there should be, at what rates, and at what amounts.

In the fifth session, we asked the panel to think about all the previous sessions in the round and consider priorities for inheritance tax reform that would work together well. We ran the same decision-making process as outlined above and asked three randomised groups in the panel to outline packages of reform priorities. The reform priorities outlined in this briefing are informed by these three packages.

### Economic modelling

The costings and distributional effects of the modelled reforms to IHT and CGT in this report are estimated by Landman Economics using data from the Wealth and Assets Survey (WAS). The WAS data used are from Round 7 (collected 2018-2020), which are the most recent wave available at the time of writing.

In the UK Inheritance Tax system, liability for IHT is assessed on the basis of the value of the deceased person's estate (taking into account eligibility for the Spouse Nil Rate Band and the Residence Nil Rate Band) rather than the amount of the estate received by each recipient and the number of recipients. Therefore, to estimate the cost of each IHT reform we model the size and distribution of estates becoming liable for IHT. For each household in WAS Round 7, the probability of the estate becoming assessed for inheritance tax in the next 12 months is modelled using probabilities of death based on the age and sex of each adult (or adults) in the household, using the Office for National Statistics' National Life Tables (ONS, 2024). The value of each estate is estimated using data from the WAS on the total value of each estate when the interview data was collected, and uprating to the 2024-25 tax year using house price indices (for property values) and nominal GDP (for other parts of the estate, e.g. financial assets).

The 'raw' yield from baseline IHT is then calculated by summing the estate value multiplied by the probability of the estate being passed on (i.e. the adults in the household dying) for each estate in the WAS, grossed up to GB population totals using household grossing factors. The predicted yield from the current IHT system is then calibrated to match Office for Budget Responsibility estimates for the yield from IHT in the current (2024-25) tax year (around £7.5 billion - OBR, 2024). This recalibrated dataset is then used to estimate the yield of the reforms to IHT featured in this report.

The simulated donor dataset is also used to estimate the distribution of IHT payments by estate size and the proportion of all estates paying IHT.

To model the distributional impact of the IHT reforms according to the wealth and income quintile of the recipients of inheritances, the data on actual inheritances received in the WAS is used and calibrated so that the yield of the baseline IHT system matches Office for Budget Responsibility forecasts (OBR 2024).

### Synthesis

Alongside the deliberative research and economic modelling, Demos also discussed the policies with various experts to dig into the practical implications and ease of implementation of each policy. This led to the development of a package of reforms based on an evaluation of the revenue gain, alignment with the public's priorities in the deliberation, and practical implementability.

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DEMOS

PUBLISHED BY DEMOS OCTOBER 2024

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