DEMOS

BEYOND THE HEADLINES

THE FULL STORY OF THE 2024 INHERITANCE TAX REFORMS - AND LESSONS TO LEARN

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ABOUT THIS REPORT

At Demos, we have spent two years exploring inheritance tax, investigating underlying public attitudes to inheritance, co-designing a set of reforms with the public, and advocating a rebalancing of the tax system onto wealth and inheritance. This briefing paper evaluates the current reforms in the context of our evidence and analysis, the subsequent political and media debate, and how all of this likely affected public perspectives on inheritance tax.

This is part of Demos's wider work to help create a **Citizen Economy** - one where households, businesses, the state, regulators and markets are reformed to focus beyond their self-interest and support the wider needs of our society and economy. 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. Reforms to inheritance taxation were, and are, needed to help address that.

At Demos, we put people at the heart of policy-making. In this project, our evidence and analysis is guided by what the public has told us in surveys, focus groups and deliberative workshops.

EXECUTIVE SUMMARY

In last year's Autumn Budget, the government introduced a series of reforms to inheritance tax. Alongside changes to the non-dom regime (which affect inheritance tax but are not covered in this paper), the government announced reductions in the inheritance tax relief offered for agricultural and business assets, and the application of inheritance tax to pension pots (which were previously not counted towards the tax).

The reforms - particularly relating to relief for agricultural assets - immediately hit the headlines. Heated debates ran through the news about why the reforms had been chosen, the impacts they would have, and what alternative reforms could have been implemented. For much of the public - and even experts - this debate was hard to navigate. Opposing claims and critiques made it hard to distinguish evidence-based analysis from political point scoring.

At Demos, we have spent two years exploring inheritance tax, investigating underlying public attitudes to inheritance, co-designing a set of reforms with the public, and advocating a rebalancing of the tax system onto wealth and inheritance. Based on our evidence and analysis, the briefing paper evaluates the current reforms, the subsequent political and media debate, and how all of this likely affected public perspectives on inheritance tax.

We first look at the economic and political backdrop to the reforms, highlighting that the changes were a needed step forward, and the right place for the government to look to raise revenue. However, we find that, across the political and media debate, a combination of unclear communication, misinformation and lack of clarity about the trade-offs of alternative policies increased the political cost of the reforms for the government.

First, we assess the **narrative** surrounding the reforms: the government's given reason for making the changes. We find that a positive case for reforming agricultural and business relief - about making the system fairer by closing opportunities for the well-advised to bypass the tax - was not consistently made by the Prime Minister and Chancellor from the outset. Accordingly, this argument did not cut through, and the reforms were instead seen as ideological against working farmers. Additionally, the 'fiscal black hole' framing did not align with the public's appetite for hypothecated taxation, because it did not speak to tangible outcomes in people's lives. We recommend that:

- Government narratives should link tax revenues to tangible outcomes that people can understand in relation to their day-to-day experiences.
- If tax changes are expected to generate backlash based on perceived unfairness, the government - in particular the Prime Minister and Chancellor - should defend them by consistently emphasising the fairness of their reforms across all key media appearances. In the face of a strong campaign by media organisations and interest groups against the

reforms, this would help the messaging cut through. In particular, articulating how the reforms will close opportunities for the well-advised to bypass the tax are likely to be more effective.

- In the longer-term, tax policy should move towards more collaborative and less reactive design. The government should take a longer-term, more strategic view of tax policy outside the Budget process, developed through an understanding of the public's values about the tax system.

Secondly, we assess the **evidence on the impacts** of reforms: particularly claims about the impact of reforming agricultural relief. We find questionable claims about the impact on farms, confusion in parts of the media and politics about the data, but various key uncertainties around the impact of reforms. We recommend that:

- When announcing tax reforms, the government should publish detailed forecasts on the expected impact on taxpayers and make explicit all the inputs considered and associated assumptions. This could help avoid confusion and mitigate excessive concern about the impacts.
- The media and politicians should be extremely careful about the data they use on complex tax issues. Where there is contested data, they should ensure that they consult with a balanced range of tax experts, and rely on guidance and data from the Treasury, HMRC or the OBR when needed, as they tend to have much greater access to data and expertise.

Lastly, we assess the **policy design**: the chosen policy design and alternative options. We find that the consultation on the application of inheritance tax to pension pots allowed the government to adapt to various administrative concerns that were raised - demonstrating the benefits of careful and collaborative policymaking. We find that suggestions for alternative policy designs - specifically on agricultural relief - all include trade-offs, and there is no clear winner. While it was not easy for the government to work with farmers and the public to navigate these trade-offs (given the need for tax policy to be confidential in the lead-up to the Budget), reforms to enable more collaborative tax policymaking would be welcome in the future. We recommend that:

- The government should, where possible, take a careful and collaborative approach to tax policymaking, as reflected in the consultation on administration of the pension reforms.
- In the longer-term, the government should explore ways to enable more collaborative and less reactive tax policy design. To facilitate this, independent bodies could run reviews of tax policy outside Budget processes, engaging with representative groups of affected stakeholders to inform government policy.

INTRODUCTION

THE REFORMS TO INHERITANCE TAX

Three weeks after their 2024 election, the new Labour government announced they had discovered a “£22 billion fiscal black hole” which needed to be filled. Rumours about tax rises began flowing in, and all eyes were on the Autumn Budget. At the forefront of these rumours was inheritance tax - and the Budget announced on 30th October included two key changes to inheritance tax:

1. **Reductions in agricultural and business relief.** While previously most agricultural and business property received 100% relief from inheritance tax - regardless of the value - this 100% relief will now only be available for £1 million of combined agricultural and business property. After this, there will be 50% relief for agricultural and business property (meaning a 20% effective tax rate rather than the usual 40%). Shares on the Alternative Investment Market (a part of the London stock exchange for growing businesses), which previously benefited from business relief, will now get 50% relief, but will not benefit from £1 million of 100% relief like other business property. Despite the changes, the reliefs remain more generous than the full abolishment which many think tanks called for, including the Institute for Fiscal Studies (IFS) and Resolution Foundation.

   Critically, the remaining reliefs for agricultural and business property will be offered in combination with other tax-free allowances, meaning a couple dividing their assets between each other could pass on up to £3 million of assets untaxed. The £1 million allowance also ‘refreshes’ every seven years, meaning people can put £1 million into a trust every seven years without facing inheritance tax upon transferring the wealth.[1]

2. **Inheritance tax on pension pots.** Pension pots - previously not counted towards people’s estate for inheritance tax purposes - will now be included within someone’s estate for inheritance tax purposes, and benefit from the usual tax-free allowances for inheritance tax.

Alongside these reforms, there were changes to the domicile-based system of inheritance tax, which will be replaced with a new residence-based system. While previously any non-UK property owned by non-doms may not have been liable for inheritance tax, this would now be liable inheritance tax if the owner is a ‘long-term resident’ in the UK (resident for at least 10 out of the last 20 tax years). This is an important change, but is not central to the design of inheritance tax and is not covered in this paper.

After accounting for the behavioural response (people re-organising their wealth to pay less tax), the Office for Budget Responsibility (OBR) estimates that the changes to agricultural and business relief and the treatment of pensions will collectively raise around £2 billion per year by 2029-30 (the end of the forecast period), with £1.5 billion from the pension reform and £500

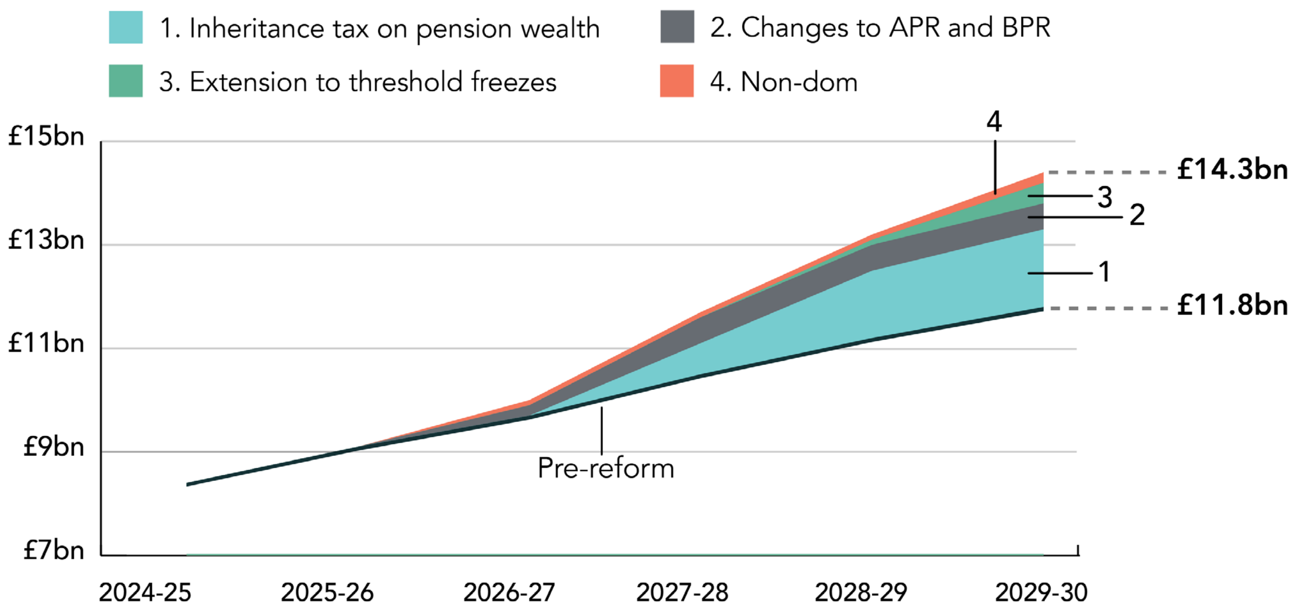
1 HM Revenue & Customs. Reforms to Inheritance Tax agricultural property relief and business property relief: application in relation to trusts. 21 July 2025. https://www.gov.uk/government/consultations/reforms-to-inheritance-tax-reliefs-consultation-on-property-settled-into-trust/reforms-to-inheritance-tax-agricultural-property-relief-and-business-property-relief-application-in-relation-to-trusts#annex-a-case-studies

million from the reform to agricultural and business relief.[2] Alongside this, the government announced an extension to the threshold freeze, raising an additional £400 million annually. Overall, while a relatively small part of the Budget reforms (just 7% of the total revenue gain by 2029-30), it remains a fairly substantial amount of money, and is set to increase inheritance tax revenues by 20% by 2029-30.

FIGURE 1

The 2024 inheritance tax reforms are expected to raise £2.5bn by 2029-30

Impact of reforms to inheritance tax in the 2024 Autumn Budget



**This does not include other policies affecting inheritance tax (either directly or indirectly), including changes to the non-domicile regime, IHT digitalisation, and SDLT changes that are capitalised in house prices*

THE FOLLOW-UP

Demos has been clear that reform of inheritance tax was desperately needed. In the tight fiscal position the government found itself, inheritance tax was the right place to look. Well-designed reforms were an opportunity to make the tax fairer, whilst also raising substantial revenue. As a tax paid by just 1 in every 22 estates in 2022/23 (the most recently available data), and with around half of the total tax bill paid by the wealthiest 1% of estates, the government's changes will affect very few and only those with significant wealth. The implemented reforms also closed opportunities for the well-advised to reduce their tax bill and made the system more neutral between different types of assets, reducing economic inefficiencies.

However, the reforms - specifically to agricultural relief - hit the headlines. Farmers took to Whitehall on tractors demanding the government reverse or adapt the policy, with the National Farmers Union (NFU) and Country Land and Business Association (CLA) dubbing the reforms the 'Family Farm Tax'. Debate blew up across politics and the media about the number of farms who would be affected and the extent to which farms who faced the tax would be able to pay.[3] Alongside this, the pension reforms also faced criticism based on challenges with the

2 There may also be an increased need for valuations, which could be costly in administrative terms - and it is unclear whether these are accounted for in the OBR model. It is also unclear whether the OBR model accounted for the fact that the £1m allowance is refreshed every 7 years.

3 There were also concerns about unfairness in the fact that working farms would have to include equipment in the £1m relief, while the larger landowners who just invest in land for APR contract out the farming and therefore do not tend to have equipment.

administration, which were explored in a technical consultation.[4] There were also concerns that people's long-term plans around their pensions may be disrupted, and concerns from farmers' that they would have given more of their assets away if they had known about the changes earlier. In contrast, the reforms to business relief faced comparatively little public criticism.

The Government was bruised. Yet further reform across the tax system is both needed and likely. It is now widely recognised that, if the Chancellor wants to avoid further spending cuts, she may be forced to raise taxes this Autumn simply to meet her fiscal rules. Further tax rises may be needed on top to avoid real-terms spending cuts later this Parliament. Given this context, it's important to learn the lessons from these previous reforms; to look back and understand whether the criticism was justified, if and how it could have been avoided, and what we can learn both for inheritance tax and tax policy more broadly.

THIS REPORT

At Demos, we have spent two years exploring inheritance tax, investigating underlying public attitudes to inheritance, co-designing a set of reforms with the public, and advocating a rebalancing of the tax system onto wealth and inheritance. This briefing paper evaluates the current reforms in the context of our evidence and analysis, the subsequent political and media debate, and how all of this likely affected public perspectives on inheritance tax.

4 HM Revenue & Customs. Technical consultation - Inheritance Tax on pensions: liability, reporting and payment. 21 July 2025. https://www.gov.uk/government/consultations/inheritance-tax-on-pensions-liability-reporting-and-payment/technical-consultation-inheritance-tax-on-pensions-liability-reporting-and-payment

SECTION 1
THE BACKDROP

The Autumn Budget's inheritance tax reforms did not come out of the blue. They followed widespread criticism of the previous design of inheritance tax, including from us at Demos, as well as the IFS, Resolution Foundation, and the Centre for the Analysis of Taxation. Many called for more radical reform than what was in fact introduced.

This section explains the problems of the previous system that Demos highlighted in the years prior to reform. It demonstrates that inheritance tax reform was a needed change.

ASSESSMENT OF THE PREVIOUS INHERITANCE TAX SYSTEM

- Inheritance had become hugely important in the economy, but the tax system had not kept up.
- Inheritance tax was inequitable and inefficient.
- Agricultural and business reliefs directly benefited only a small number of very large estates.
- The lack of inheritance tax on pension wealth created an easy opportunity to avoid the tax. People could spend savings rather than pension wealth, and therefore pass on additional wealth in inheritance - which was the counter to what the policy was intended to do.
- The narrative that the public hate inheritance tax is flawed.
- The public were keen for reform.

Inheritance had become hugely important in the economy, but the tax system had not kept up. Wealth in Britain surged from the 1980s until the pandemic in 2020, driven primarily by rising asset prices.[5] Accordingly, the amount of inheritance being passed on began surging too, doubling roughly every 20 years to over £120bn annually in 2021-22.[6] Inheritance has become increasingly important to people's finances, perpetuating inequality across generations. Yet,

5 Broome M, Mulheirn I, and Pittaway S. Peaked interest? What higher interest rates mean for the size and distribution of Britain's household wealth. Resolution Foundation. July 2023 https://www.resolutionfoundation.org/app/uploads/2023/07/Peaked-interest.pdf
6 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

around just 4% of inheritance was paid in tax in 2021-22, compared to around 18% of income paid in income tax, with national insurance contributions on top.[7] Given the immense pressures on public services, and faced with already high taxes on income, it was right to ask for more from this huge flow of wealth across generations.

Inheritance tax was inequitable and inefficient. On average, the wealthiest estates paid lower effective rates than others, and some paid vastly lower rates. Demos analysis of data published in July 2025 shows that estates worth over £10 million paid an average effective tax rate in 2022-23 which was 9 percentage points lower than £3-£4 million estates - a gap almost twice as big as the year prior.[8] Our previous research shows how frustrated the public were about this. The inequity arose because of the various reliefs and exemptions available, which were widely used (including by the well-advised). Business relief and agricultural relief alone were worth £1.6 billion in 2021-22, equivalent to over a quarter of all inheritance tax revenue that year (£6 billion).[9,10] This also meant there was widespread inequality in effective rates of tax paid even for the most valuable estates. Advani et al find that, excluding estates eligible for the spouse exemption, a quarter of estates above £10 million paid effective tax rates over 37%, but another quarter paid less than 9%, and many even lower.[11]

The tax also drove inefficient distortions. For example, the combination of inheritance tax reliefs with an 'uplift' in capital gains (meaning gains are forgiven for tax purposes if the owner dies) incentivised people to hold onto assets until death - potentially longer than they would otherwise desire, or would be economically efficient.

Agricultural and business reliefs directly benefited only a small number of very large estates. Demos analysis of the July 2025 data showed that just 92 estates collectively benefitted from inheritance tax business relief on £1.5 billion of assets in 2022-23, each holding, on average, £16.4 million of business assets benefitting, meaning inheritance tax was not charged on these assets.[12] This means the top 2% of claimants accounted for 45% of the assets benefiting from the relief. The top 6%, meanwhile, accounted for 60% of the assets benefitting from the relief. Meanwhile, just 81 estates benefited from agricultural relief on £612 million of assets, meaning just 5% of claimants benefitted from 32% of the relief offered.

These reliefs also created inefficient distortions and potentially represented poor value-for-money. Agricultural relief incentivises investment in farmland for tax purposes, pushing up the price of farmland. There was also little evidence that the application of business relief to shares on the AIM provided value-for-money.[13]

The lack of inheritance tax on pension wealth created an easy opportunity to avoid the tax. If people wanted to maximise the amount of their wealth that avoids inheritance tax, an easy option was to channel as much as possible into their pension, subject to the annual limit. It would then be completely free of inheritance tax. This was not always the case. Before 2015, people had to use defined contribution pensions to buy an 'annuity', meaning they would have a fixed income until death, but cash could not be left in the pot to pass on in inheritance. Then, 'pension freedoms' were introduced, meaning people could instead choose to draw on their

7 HM Revenue & Customs. Inheritance Tax liabilities statistics. 31 July 2025. https://www.gov.uk/government/statistics/inheritance-tax-liabilities-statistics

8 HM Revenue & Customs. Inheritance Tax liabilities statistics. 31 July 2025. https://www.gov.uk/government/statistics/inheritance-tax-liabilities-statistics

9 The £1.6bn figure is not the revenue that would be raised if the reliefs were abolished. Instead it is HRMC's estimates of the amount of relief which is claimed and subsequently granted each tax year.

10 HM Revenue & Customs. Non-structural tax reliefs. 5 December 2024. https://www.gov.uk/government/statistics/main-tax-expenditures-and-structural-reliefs

11 Advani A et al. Inheritance Tax reliefs:Time for reform?. October 2024. https://centax.org.uk/wp-content/uploads/2024/10/AdvaniDisslbacherForresterSummers2024_IHTReliefs.pdf

12 HM Revenue & Customs. Inheritance Tax liabilities statistics. 31 July 2025. https://www.gov.uk/government/statistics/inheritance-tax-liabilities-statistics

13 Goss D. Plugging the black hole: Reforming inheritance tax to unlock revenue and build public support. 29 Oct 2024. https://demos.co.uk/research/plugging-the-black-hole-reforming-inheritance-tax-to-unlock-revenue-and-build-public-support/

pension more flexibly. They could then draw on normal savings rather than pensions, and then leave cash in their pension pot to pass on in inheritance tax-free.

The opportunity to bypass taxes by loading up pension pots was limited by the 'lifetime allowance' (which meant that pension pots worth over £1,073,100 faced higher tax charges) and 'annual allowance' (which meant contributions over £60,000 in a year - or £40,000 before 2023 - would face higher tax charged). Yet, the higher tax charges from exceeding the lifetime allowance were removed in the 2023 Spring Budget, allowing people more ability to load up wealth into pension pots to bypass inheritance tax. Nevertheless, the limitations from the annual allowance remained, including the fact that the annual allowance is reduced for high-earners, falling to just £10,000 if your 'adjusted income' (income plus the amount your employer pays into your pension) is over £360,000.

The narrative that the public hate inheritance tax is flawed. A common narrative is that inheritance tax is the 'most hated' tax, yet Demos' research shows a more nuanced picture.[14] When survey respondents were asked about taxing inheritance in general, 55% said all inheritances should be completely tax-free - supporting the standard narrative. But when respondents were shown specific amounts of inheritance, and asked where the threshold should be, strikingly just 21% said all inheritances should be tax-free, while three quarters said some amounts should be taxed. Even more surprisingly, people typically said only around £300,000 should be tax-free. This is close to the current minimum threshold (£325,000), but much lower than the thresholds for most estates (between £500,000 and £1 million, depending on the household). It suggests that, once faced with specific amounts, the public typically wanted lower thresholds than those currently in place.

Another narrative in research and the media emphasised that inheritance tax was hated by all, regardless of income or wealth.[15] Again, some of our research supported this narrative; when we asked a general question about taxing inheritance, we found that people with less wealth or income are just as likely – if not slightly more likely – to oppose inheritance taxation. Yet, when presented with specific amounts of inheritance, those with less wealth and income supported lower tax-free allowances.

What seems to be happening is that, when asked a general question about the fairness of inheritance tax, people either imagine the tax applying to them (even though it only applies to around 5% of people), or they are thinking specifically in terms of the ethics of the tax itself (which inheritance tax scores badly on due to its association with death, personal wealth, and ease of avoidance). Yet, when presented with specific amounts of inheritance, people no longer need to imagine the tax applying to them, and/or they evaluate the tax more in terms of the economics rather than the ethics.

This shows that if we want to understand the public's views on reforming inheritance tax, it is important to present and probe on the details of reforms and potential trade offs. When we asked if the government should prioritise (1) scrapping inheritance tax, (2) spending the revenue on public services, or (3) reducing borrowing, just 14% of the public chose scrapping inheritance tax. Focus groups confirmed that the public felt that scrapping inheritance tax was not worth the financial trade-offs, but they were supportive of reforms.

The public were keen for specific reforms. Given that the public did not want to scrap inheritance tax but did want reform, we ran deliberative workshops to explore appetite for specific reforms. We used these insights to develop a package of reforms: (1) introducing progressive rate bands rather than the flat rate, (2) tapering away the nil-rate band (the tax-free allowance) for estates over £2 million, (3) cap tax relief for business assets, and (4) remove the

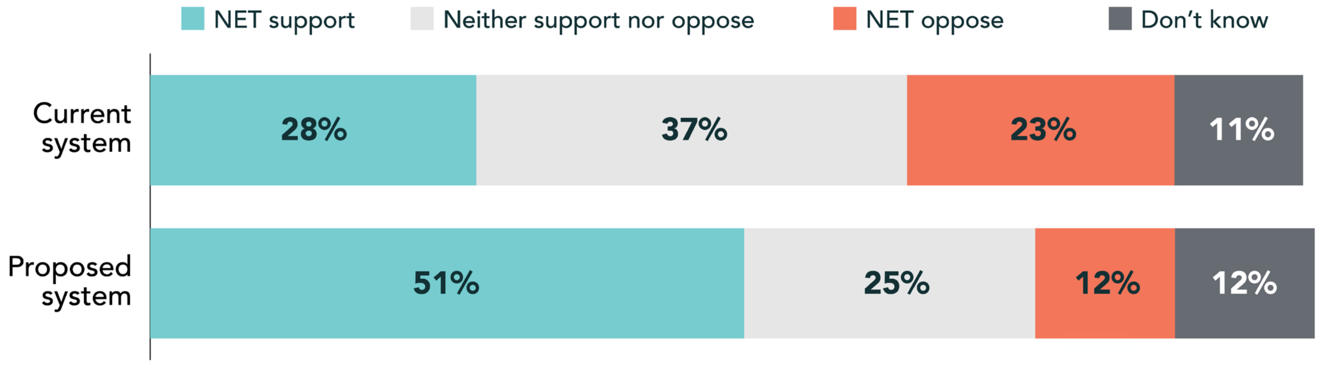
14 Goss D. The Inheritance Tax Puzzle: Challenging assumptions about public attitudes to inheritance. Demos. 14 Jun 2023.https://demos.co.uk/research/the-inheritance-tax-puzzle-challenging-assumptions-about-public-attitudes-to-inheritance/
15 'A hated tax but a fair one', The Economist, 23 November 2017, https://www.economist.com/leaders/2017/11/23/a-hated-tax-but-a-fairone

‘uplift’ in capital gains tax. We then tested this package through polling in September 2024, and found broad support. When separately outlining both our recommended system and the current system, the public were almost twice as likely (1.8x as much) to support the recommended system over the current system (51% vs 28%). Similarly the public are around half as likely to oppose the recommended system (12% vs 23%).

FIGURE 2

The proposed inheritance tax system receives significantly more support than the current system

To what extent do you support or oppose the following inheritance tax system? [Followed by summaries of each system]



The most popular reform was capping business relief - a policy which was echoed in the government’s Autumn 2024 Budget announcement. Over half (51%) of the public said they would support it, with just 15% opposed.

Overall, inheritance tax reform was critical. In the Autumn Budget, the government needed revenue. Reforms to inheritance tax were an opportunity to raise billions of pounds while making the tax fairer at the same time. As a tax paid by just 1 in every 22 estates, and with around half of the total tax bill paid by the wealthiest 1% of estates, changes would also affect very few people and only those with significant wealth. Inheritance tax was therefore the right place to look.

SECTION 2
THE NARRATIVE

WHAT REASON DID THE GOVERNMENT HAVE FOR IMPLEMENTING THE REFORMS?

Tax reforms can be politically controversial, particularly in an environment of low political trust. Our research has shown how the public often see the government as taking money from people in unfair and stealthy ways, and spend it opaquely and inefficiently. Building a persuasive narrative that justifies the reforms is therefore critical for bringing the public along.

The overarching reason given by the government for all the Budget tax rises was to 'fill the fiscal black hole' - the £22 billion funding shortfall which the government claimed to discover via an audit of the public finances, which they say was 'inherited from the previous government'.[16] This, in a sense, means the reforms were loosely hypothecated. Their revenue was earmarked to fill the fiscal hole. However, our research suggests that, in the case of inheritance tax, the public wanted hypothecation towards tangible outcomes, which 'filling the fiscal hole' does not sufficiently deliver.

Beyond this, while a positive case was sometimes made about the fairness of specific inheritance tax reforms - about making the system fairer by closing opportunities for the well-advised to bypass the tax - this case was lacking at other times. Our analysis of key political statements surrounding the reforms to agricultural and business relief suggests the argument about fairness was not made effectively from the outset.

In this paper we focus primarily on the narrative driven by the government. Of course, by the time the public engages with the narrative, it has generally been grinded through the media machine and political debate, which the government has only limited influence over. In the case of the 2024 inheritance tax reforms, which affected a small group of people who have strong organisations to represent them, the debate is particularly driven by certain organisations. And because the losers from the reforms are well-defined while the winners (benefitting from additional public spending enabled by extra revenue) are not, the voices of the losers are much louder. It is beyond the scope of this paper to grapple with the narrative throughout this wider debate, but it remains important to note that not all blame for public anger about the reforms lies at the government's door.

16 Prime Minister's Office, 10 Downing Street. How we're fixing the foundations of the country. 31 August 2024. https://www.gov.uk/government/news/how-were-fixing-the-foundations-of-the-country

THE 'FISCAL BLACK HOLE' WAS LIKELY NOT A COMPELLING FORM OF HYPOTHECATION

Extensive political and media debate surrounded the government's 'fiscal black hole' narrative. Did the black hole really exist? Were the government aware prior to taking office? Did they leave it too long before providing solutions? Whilst polling suggests the public did not completely believe the government's narrative, the most crucial question for our analysis is whether the fiscal hole narrative would have boosted support for tax reforms even if the public did fully believe it.[17]

As part of our research on inheritance tax, we explored various aspects of hypothecation. The public were clear they wanted to feel like any inheritance tax contributions were making a positive and tangible difference in society. People wanted to feel that their payments would improve the things they see and experience in their day-to-day lives.

> *I don't know what the tax is being used for, so I can't really vouch for how good it may benefit the country or us… If you tell me, yes, that tax goes to funding council houses, food banks, then maybe, yes, the 1 million I'd be saying ""Maybe a little tax on it, why not?*
>
> ***- 30, Female, Wales, Homeowner.***
>
> *If people knew where their taxes were going, I feel like that would make such a bigger difference…. Otherwise, it's like you're being robbed.*
>
> ***- 21, Female, South West, Renter.***

Raising taxes to fill the fiscal black hole narrative failed this test; it was unlikely to feel like a positive or tangible step forward for society because it addressed a fiscal accounting problem (one that most people were wholly unaware of until the government revealed it), and did not address a problem that people felt in their lives.

DEMOS'S SURVEY TESTING HYPOTHECATION

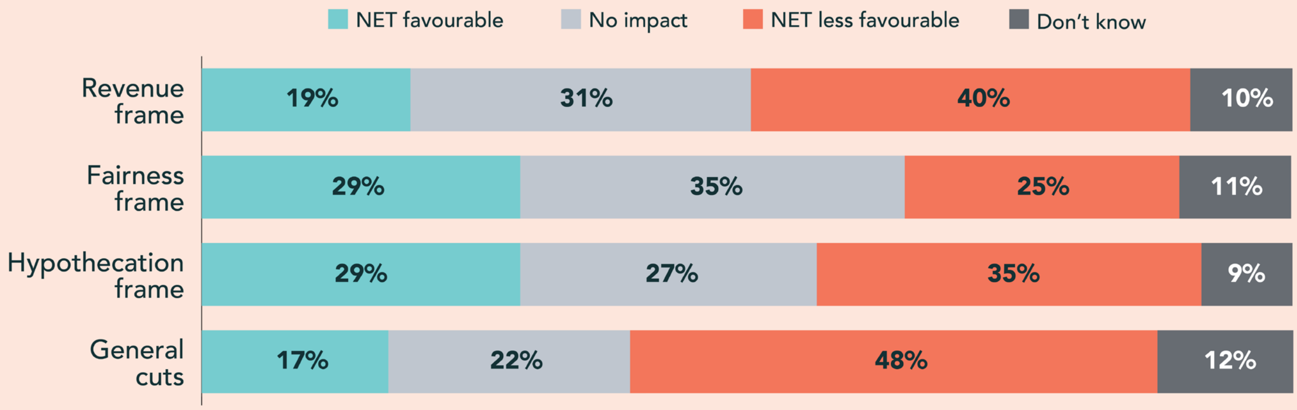
The impact of linking tax revenues to specific investments is clear. In September 2024, we used A/B testing to understand the response of various different framings on inheritance tax reforms, including a 'revenue frame' ('Government announces overhaul of inheritance tax in Autumn Budget to raise £2.6 billion') and a 'hypothecation frame' ('Government announces overhaul of inheritance tax in Autumn Budget to raise £2.6 billion to invest in the NHS and social care'). While the 'revenue frame' led to a 22% hit to net favourability, the 'hypothecation frame' led to just a 6% hit (both much smaller hits to favourability than the 31% hit from general spending cuts ('Government cut spending on public services by £2.6 billion in Autumn Budget').

17 Difford D. Only one in nine Britons think Conservatives left public finances in a good state. YouGov 29 July 2024. https://yougov.co.uk/politics/articles/50199-what-state-do-the-british-public-think-public-finances-are-in

FIGURE 3

People would feel more favourable towards the government if they emphasise the fairness of inheritance tax reforms

A/B test on the impact of different Budget announcements on favourability towards the government



What is critical, however, is the importance of the 'fairness frame' ('Government announces overhaul of inheritance tax in Autumn Budget to "make it fairer for working households"'). This was the only one which, on its own, led to a boost in favourability for the government (of 4%).

The government provided a more tangible hypothecation for the inheritance tax reforms elsewhere. On 19th November, for example, the Chancellor and Defra secretary released a joint statement saying the reforms "ensure that wealthier estates and the most valuable farms pay their fair share to invest in our schools and health services that farmers and families in rural communities rely on."[18] This connection to highly valued public services for rural communities is key, but this point was not consistently made across all statements by key government officials.

THE 'FAIRNESS' ARGUMENT WAS NOT MADE EFFECTIVELY FOR THE REFORMS TO AGRICULTURAL AND BUSINESS RELIEF

We've noted how inheritance tax is widely seen as unfair, in large part because people feel it is easy for the well-advised to avoid. In our focus groups, participants emphasised that some individuals have "the accountants and tax advisors to make sure they don't pay it. It is the likes of us who would pay it".[19] Much of the debate focussed specifically on loopholes, with people emphasising "There shouldn't be all these loopholes for people avoiding tax and not paying the tax and keeping offshore accounts… There shouldn't be people that

18 Department for Environment, Food & Rural Affairs. Statement on farming and agricultural property relief. 19 November 2024. https://deframedia.blog.gov.uk/2024/11/19/statement-on-farming-and-agricultural-property-relief/

19 Goss D. Winning the Argument: How to unlock public support for inheritance taxation. 26 Sep 2023. https://demos.co.uk/research/winning-the-argument/

automatically don't have to pay any tax."[20] Others expressed how it felt like a "middle-income tax". While these views are not quite accurate, they are not wholly unfounded, as the well-advised have many avenues to avoid inheritance tax and the very wealthiest estates have tended to pay lower rates than others.

Unsurprisingly, our subsequent deliberative workshops on framing inheritance tax reforms showed how framing the reforms as making inheritance tax 'fairer' could play a key role in getting the public on board, as discussed in the box below.[21]

DEMOS'S DELIBERATION TESTING 'FAIRNESS' ARGUMENTS

We tested various framing devices for inheritance tax reforms in our deliberative workshops with the public. We presented participants with mock-up BBC headlines on reforms - presented as if news stories on the BBC app, each with a different framing (as above, the revenue frame, hypothecation frame, and fairness frame) - and asked them to explain how they felt about each one. The fairness frame was the most widely supported of the two, with participants feeling that it avoided putting the emphasis on needing more money (which some claimed the hypothecation frame did), and shifted the emphasis to something everyone could support. Some participants also felt that focussing on the money that inheritance tax reform could raise - rather than on how reform would make the tax fairer - might suggest that everyone will be chipping in some extra money, rather than the tiny percentage who actually do.

> *If you're saying you're 'overhauling to make it fair', that's a positive statement. But saying 'we're going to increase tax because we need more money', it sounds more negative.*
>
> ***- Boomer renter, intended to vote Labour in 2024***

In her Budget speech, Reeves made a case about fairness in her explanation of the reform to inheritance tax treatment of pensions. She stated that the reforms would "close the loophole created by the previous government, made even bigger when the Lifetime Allowance was abolished".[22] This strong statement set a compelling narrative. While it may only form a small part of the overall narrative across media and politics, it is indicative of the story that the government wanted to build.

In contrast to the pension reforms, the Chancellor's Budget speech did not give a particular reason for the reforms to agricultural and business relief. While it was included in a list of tax rises which were collectively explained in terms of the need "to raise the revenues required

20 Ibid.
21 Goss D. Plugging the black hole: Reforming inheritance tax to unlock revenue and build public support. 29 Oct 2024. https://demos.co.uk/research/plugging-the-black-hole-reforming-inheritance-tax-to-unlock-revenue-and-build-public-support/
22 HM Treasury and The Rt Hon Rachel Reeves MP. Autumn Budget 2024 speech. 30 October 2024. https://www.gov.uk/government/speeches/autumn-budget-2024-speech

to fund our public services, and to restore economic stability", there was no specific positive case in favour of the reforms to agricultural and business relief. Instead, the government said that they would "continue to protect small family farms, and three-quarters of claims will be unaffected by these changes".[23] An argument in favour of the fairness of the reforms was left out.

The same reasons were given in other contexts, with an argument on fairness also missing. When Starmer was pushed on the issue by Kemi Badenoch at Prime Minister's Questions, and separately by Ed Davey, the emphasis was on how few farms would be affected and the separate support given to farmers.[24,25] Starmer also failed to mention the point about fairness in a press conference at the G20 or in appearances on Channel 4 (both in November).[26,27]

Starmer later doubled down on this approach when asked in the December 2024 Liaison committee whether the tax was targeting "the super-rich sheltering wealth [or] was it the family farmers, or was it both?".[28] He said "the purpose was to raise revenue in the Budget, so it was not aimed at a particular group" and later that "what the very wealthy do with their money, within the rules, is a matter for them".[29] This clarifies that the government was not aiming to target people 'sheltering wealth' to reduce their tax.

Points about fairness were made elsewhere, however, including on the day of the Budget. For example, a Treasury policy paper discussed how the reforms will 'better target' agricultural and business reliefs, which are currently 'not fair or sustainable'.[30] The point was also mentioned in a range of parliamentary debates and government publications and letters.[31,32] Yet, these points were not picked up in the wider media coverage.

PMQs, the Budget speech, the Liaison committee or media appearances give politicians the opportunity to communicate directly with the public - in part, outside of what the media decide to cover. If seeking to get the public on side, the Chancellor and Prime Minister should have used these opportunities to make the argument on fairness, particularly around closing options for the well-advised to reduce their tax bill relative to others. Research shows that message consistency is key, and this messaging on fairness could have been more consistent.[33] Not only was this opportunity not taken by the Chancellor and Prime Minister, such a framing was explicitly rejected at times.

23 Ibid.
24 Daily Record. 'PMQs LIVE - Keir Starmer faces Kemi Badenoch for first time at Prime Minister's questions'. 6 November 2024. YouTube. https://www.youtube.com/watch?v=hGJdaI67DLw
25 PoliticsJOE. Lib Dem leader demands u-turn on Starmer's farmer tax at PMQs. 11 December 2024. https://www.youtube.com/watch?v=SY2jE08xmkQ&t=2s
26 Channel 4. Starmer asked why farmers are taking to the streets. 19 November 2024. https://www.youtube.com/shorts/UMlIO2myXC0
27 AT World News. UK PM Keir Starmer's G20 Press Conference in Rio | Amaravati Today. 19 November 2024. https://www.youtube.com/watch?v=5ixjkabO9p0
28 House of Commons Liaison Committee. Oral evidence: Evidence from the Prime Minister, HC 530. 19 December 2024. https://committees.parliament.uk/oralevidence/15164/html/
29 House of Commons Liaison Committee. Oral evidence: Evidence from the Prime Minister, HC 530. 19 December 2024. https://committees.parliament.uk/oralevidence/15164/html/
30 HM Treasury. Summary of reforms to agricultural property relief and business property relief. 30 October 2024. https://www.gov.uk/government/publications/agricultural-property-relief-and-business-property-relief-reforms/summary-of-reforms-to-agricultural-property-relief-and-business-property-relief
31 HM Treasury and Department for Environment, Food & Rural Affairs. What are the changes to agricultural property relief?. 5 November 2024. https://www.gov.uk/government/news/what-are-the-changes-to-agricultural-property-relief#
32 Reeves R MP. Letter to Dame Meg Hillier MP. https://committees.parliament.uk/publications/45691/documents/226235/default/
33 Fossen B et al. The role of slant and message consistency in political advertising effectiveness: evidence from the 2016 presidential election. Quantitative Marketing and Economics. 28 January 2022. https://link.springer.com/article/10.1007/s11129-021-09246-x

MESSAGING SHOULD HAVE CONSISTENTLY FOCUSSED ON THE THRESHOLDS FACING FARMS, RATHER THAN THE NUMBER OF FARMS AFFECTED

We saw that initial messaging by Reeves and Starmer during PMQs, the Budget and media appearances focussed on how few farms would be affected by the changes. This is an important point to make. However, this framing alone does not explain to farmers - and wider audiences - who would and would not be affected by the changes. All farmers could feasibly imagine themselves being in the small minority who are taxed.

Demos' previous research suggests that framing inheritance tax specifically in terms of the value of thresholds can enable people to clearly understand who will or will not be affected - and in turn boosts support. We explained that "when the discussion is framed in these terms, the emotive associations that people hold when discussing inheritance tax in an abstract sense often slip away".[34]

As with the fairness frame, the framing on the value of thresholds was made in various government documents.[35] Starmer also began emphasising the thresholds facing farms later on. For example, in a Channel 4 interview on 19th November, Starmer emphasised that "in a typical case of parents wanting to pass on to their child a farm, the threshold is 3 million pounds".[36] Similar statements were made by Starmer at a G20 press conference. However, as noted, only a few messages may reach the public, and consistency is key. This framing should have formed part of the narrative in all public appearances by Starmer and Reeves from the very beginning.

MESSAGING AND NARRATIVE WOULD IDEALLY HAVE BEEN DESIGNED IN COLLABORATION WITH THE PUBLIC

To better understand the values of the public in relation to issues about inheritance tax - and in turn tell a more compelling story from the beginning - ideally the government would have engaged with the public in more depth to understand their values about specific parts of the tax system. Unfortunately, this participatory approach would not have been possible with last year's inheritance tax reforms. Engaging the public about policy reforms in the lead-up to a Budget would mean providing confidential information to participants about which reforms would be announced. This could lead to a significant behavioral response ahead of the Budget - particularly among businesses aiming to reduce tax bills - which could give some an unfair advantage, potentially undermine the revenue, and drive a media storm. This is a serious risk, and one that would remain even if participants signed an NDA. While the government could alternatively announce the participatory policymaking process at a Budget, this would create uncertainty around the policy design, meaning the OBR could not score the reform and it would not help the Chancellor meet her fiscal rules.

Lessons should be learnt for fiscal policymaking in the longer-term. The government could avoid an overheated debate and distorted public discourse if participatory policymaking was more deeply integrated into fiscal policymaking, working outside the Budget process. To avoid the issue of releasing confidential information as part of the research process, large-scale participatory policymaking processes could be run by the government, separate from Budget planning. This could scrutinise a broad range of potential trade-offs within the tax system - such as those between raising revenue, tax neutrality, costs for large and small businesses, measures to mitigate harms etc - without revealing specific policy decisions. An output from such a process could be a set of guiding principles from the public to help inform and shape a

34 Goss D. Winning the Argument: How to unlock public support for inheritance taxation. 26 Sep 2023. https://demos.co.uk/research/winning-the-argument/
35 HM Treasury and Department for Environment, Food & Rural Affairs. What are the changes to agricultural property relief?. 5 November 2024. https://www.gov.uk/government/news/what-are-the-changes-to-agricultural-property-relief#
36 Channel 4. Starmer asked why farmers are taking to the streets. 19 November 2024. https://www.youtube.com/shorts/UMlIO2myXC0

range of specific reform proposals. So, when the Chancellor later prepares for the Budget, they can draw on and adapt the findings of these processes to create a more resilient, legitimate, and grounded tax policy. While this is a long way from how tax reform is currently run, it is the direction we need to be moving in if the politics of tax reform is to become less heated, less driven by loud voices, and less reactive - which would in turn improve tax policy.

LESSONS FOR THE FUTURE

1. Government narratives should link tax revenues to tangible outcomes that people can understand in relation to their day-to-day experiences.
2. If tax changes are expected to generate backlash based on perceived unfairness, the government - in particular the Prime Minister and Chancellor - should defend them by consistently emphasising the fairness of their reforms across all key media appearances. In the face of a strong campaign by media organisations and interest groups against the reforms, this would help the messaging cut through. Particularly, articulating how the reforms will close opportunities for the well-advised to bypass the tax are likely to be more effective.
3. In the longer-term, tax policy should move towards more collaborative and less reactive design. The government should take a longer-term, strategic view of tax policy outside the Budget process, developed through an understanding of the public's values about the tax system.

SECTION 3
EVIDENCE ON THE IMPACTS

HOW ACCURATE WAS THE POLITICAL AND MEDIA DISCUSSION AROUND THE IMPACT OF THE REFORMS?

After the Budget, three key arguments dominated the debate around agricultural relief: (1) how many farms would be charged inheritance tax, (2) to what extent will 'asset-rich, cash-poor' farmers have to pay the tax, and (3) to what extent will the reforms affect farmers who are not directly charged the tax?

We evaluate each debate below, assessing the key claims made against the best evidence we currently have available. We then discuss claims around the impact of business relief on businesses, which received less attention.

HOW MANY FARMS WOULD BE CHARGED INHERITANCE TAX?

Upon announcing the reforms, the Treasury published a set of tables outlining the distribution of claims for agricultural relief and business relief in 2021-22. This showed that only 117 estates (7% of claimants) claimed agricultural relief on over £2.5 million of assets, while just 462 (27%) claimed it on over £1 million of assets.[37] Separately, the document explained that "The reforms are expected to only affect around 2,000 estates each year from 2026 to 2027, with around 500 of these claiming agricultural property relief".[38] To the government's credit, this was more information than is often published for such reforms. A few weeks later, Rachel Reeves then sent a letter to the Treasury select committee outlining the OBR forecast that up to around 520 estates claiming agricultural relief (including those claiming both agricultural and business relief) would be affected in 2026-27.[39] Analysis of HMRC data by the Centre for Analysis of Taxation (CenTax) in August 2025 corroborates this analysis, finding that 480-600 farm estates per year would be impacted by the reform.[40]

37 HM Treasury. Summary of reforms to agricultural property relief and business property relief. 30 October 2024. https://www.gov.uk/government/publications/agricultural-property-relief-and-business-property-relief-reforms/summary-of-reforms-to-agricultural-property-relief-and-business-property-relief
38 Ibid.
39 Reeves R MP. Letter to Dame Meg Hillier MP. https://committees.parliament.uk/publications/45691/documents/226235/default/
40 Advani A et al. Inheritance Tax reliefs:Time for reform?. October 2024. https://centax.org.uk/wp-content/uploads/2024/10/AdvaniDisslbacherForresterSummers2024_IHTReliefs.pdf

In the weeks following the announcement, however, conflicting data was published by multiple organisations. The Country Land and Business Association (CLA) said that 70,000 farms could be affected by the reforms over a lifetime, based on the idea that there are around 70,000 with over 50 acres of land (which would be worth around £1 million on average).[41] This number was then repeated by Ed Davey and the Liberal Democrats.[42] It represents about a third of all farms in the UK.[43] Separately, the National Farmers' Union (NFU) said that "it is expected that 75% of commercial family farms will be above the £1m threshold."[44]

There are four key issues with the CLA's and NFU's figures:

- **the range of tax relief available to farms:** both the NFU and CLA use the £1 million threshold, but the actual tax-free allowances facing farms will generally be significantly higher than £1 million
- **the difference between 'estates' and 'farms':** it is estates that are taxed rather than farms, and counting it in terms of farms inflates the numbers
- **additional farms:** while the NFU figures reasonably include some more farms than might be suggested by the Treasury tables on the distribution of claims (e.g. because the Treasury numbers are based on 2021-22 data as it takes time for inheritance tax returns to be processed), other inclusions and exclusions are questionable. The additions also ignore the OBR forecast, which already adjusted for the differences
- **dynamic responses to the reforms:** the NFU and CLA figures do not account for dynamic responses, which in the longer-term mean many more farms will avoid paying the tax.

Each is discussed in depth below:

1. The range of tax relief available to farms

Agricultural and business property not only benefits from the £1 million of inheritance tax relief, but may also benefit from the other tax reliefs if they have not been used up. Every estate gets a minimum tax-free allowance of £325,000, and another tax-free allowance of up to £175,000 if passing a main home onto direct descendents (which get tapered away for estates over £2m). Combined with agricultural property tax relief, this means a farming estate can have up to £1.5 million untaxed. Given that a 'family farm' is often owned by a couple within the family, and each partner can pass on £1.5 million without tax, the usual 'family farm' could pass on £3 million together. Therefore, owners of a typical family farm would need to have combined estates worth over £3 million before they began paying inheritance tax.

Nevertheless, there does remain some uncertainty about the value at which different agricultural estates will start being charged inheritance tax. Some farmers' estates will be taxed on assets under the £3 million mark if they have non-agricultural assets (beyond the farmhouse, which is also covered by agricultural relief) that use up their other allowances. There are also farms run by individuals, rather than couples, who will not be able to split the estate. Others will have the additional allowance for main homes tapered away if their divided assets exceed the £2 million mark. We therefore cannot be exactly sure how valuable different agricultural estates will have to be before they start being charged the tax.

41 Kovacevic T, Reuben A, and Georgieva G. How many farms will be affected by Budget tax rises?. BBC. 1 November 2024. https://www.bbc.co.uk/news/articles/c8rlk0d2vk2o

42 Liberal Democrats. Ed Davey warns inheritance tax change could create 'lost generation' of farmers. 2 Nov 2024. https://www.libdems.org.uk/press/release/ed-davey-warns-inheritance-tax-change-could-create-lost-generation-of-farmers

43 Department for Environment, Food & Rural Affairs. Farming evidence - key statistics (accessible version). 16 September 2024. https://www.gov.uk/government/publications/farming-evidence-pack-a-high-level-overview-of-the-uk-agricultural-industry/farming-evidence-key-statistics-accessible-version

44 National Farmers' Union. An impact analysis of APR reforms on commercial family farms. 25 November 2024. https://www.nfuonline.com/updates-and-information/an-impact-analysis-of-apr-reforms-on-commercial-family-farms/

2. The difference between 'estates' and 'farms'

It is critical to emphasise that inheritance tax applies to estates, not to individual farms. One estate may own multiple farms (or parts of multiple farms) and one farm may have different parts owned by multiple estates. This is not uncommon; Defra statistics show that, in 2021, 31% of farms in England were partly rented, and a further 14% were wholly rented. For these rented farms, the land would either partly or wholly form part of an estate different to that of the farmer.[45] So, we exclude rented farmland from a farmer's estate, and as such, some farmers will fall under the inheritance tax threshold. If that rented land is then more likely to be owned by an estate which is already over the inheritance tax threshold (e.g. the estate of a large landowner), it would not add to the number of estates paying inheritance tax.

The differences do not end there. Comparisons between the estates paying inheritance tax and the current stock of farms also fail because agricultural relief only applies to farming assets passed on in inheritance (or in the seven years prior to death). Many farms may be passed on before this date, so farming assets across the country are not representative of those passed on in inheritance.

Given these differences, it is more useful to look specifically at the data on agricultural relief claims, which apply specifically to estates with farming assets passed on in inheritance. This approach suggests that assets benefitting from agricultural relief are, in many cases, owned by estates which differ from the estate of the 'farmer'. Analysis by CenTax shows that, between 2018 and 2020, only 44% of estates claiming agricultural relief had received identifiable trading income from farming in the five years prior to death.[46] Only 10% of all claimants received farming income of more than £10,000 per year on average in the five years prior. This suggests very few are 'active farmers'. Among those who did not receive farming income, 51% had received income from rent, which is consistent with them being landlords rather than farmers.

Confusion about this distinction was seen across many parts of politics and the media, with the Telegraph, Sky News, Farmers Weekly and others all citing figures that "2,500 farmers will be affected each year", when the analysis underlying this claim was in fact based on analysis of the number of estates rather than farmers.[47,48,49]

The NFU does recognise this complexity with the data. It says that, after making its adjustments, "For the Government's initial assertion that only 27% of farms will be impacted by the measure to be true, requires 2.8 owners per farm. We are not aware of any evidence that supports such a high number." However, no evidence is given on a more realistic estimate of owners per farm, and no adjustment for this issue is made when the NFU reports on their figure that "75% of commercial family farms will be above the £1m threshold".[50] Moreover, the government's analysis was not that only 27% of farms would be affected. This figure was based on the tables published on the distribution of agricultural relief claims, and also refers to farms rather than estates. The government's actual analysis suggested specifically that around 520 estates would be affected.

45 Department for Environment, Food & Rural Affairs. Agriculture in the UK Evidence Pack. September 2022. https://assets.publishing.service.gov.uk/media/6331b071e90e0711d5d595df/AUK_Evidence_Pack_2021_Sept22.pdf
46 Advani A et al. Inheritance Tax reliefs:Time for reform?. October 2024. https://centax.org.uk/wp-content/uploads/2024/10/AdvaniDisslbacherForresterSummers2024_IHTReliefs.pdf
47 Lawford M. Reeves stealth raid set to hit 15,000 more farmers with inheritance tax. The Telegraph. 4 January 2025. https://www.telegraph.co.uk/business/2025/01/04/stealth-raid-hit-thousands-more-farmers-inheritance-ta/
48 Culbertson A. Farmers' inheritance tax could affect five times more farms than Treasury said, analysis finds. Sky News. 27 November 2024. https://news.sky.com/story/farmers-inheritance-tax-could-affect-five-times-more-farms-than-treasury-said-analysis-finds-13261546
49 Clarke P. New estimates suggest 2,500 farmers a year will be hit by IHT. Farmers Weekly. 27 November 2024. https://www.fwi.co.uk/business/business-management/tax/new-estimates-suggest-2500-farmers-a-year-will-be-hit-by-iht
50 National Farmers' Union. An impact analysis of APR reforms on commercial family farms. 25 November 2024. https://www.nfuonline.com/updates-and-information/an-impact-analysis-of-apr-reforms-on-commercial-family-farms/

3. Additional farms

The NFU makes two important points about why the initial numbers published by the Treasury (looking at the distribution of agricultural relief in 2021-22) do not account for the full extent of farms affected:

a. First, they explain how inflation in the price of land since 2021-22 (the year the Treasury numbers are based on) will mean the value of farming estates has grown, pushing a higher proportion of estates over the threshold. Future inflation in the price of land may continue this trend. An important caveat to this, however, is that the price of land has itself faced upwards pressure due to inheritance tax agricultural relief. As estates could invest their wealth in farmland and then avoid paying inheritance tax on it, this drives up demand for farmland, and in turn increases prices. With this relief restricted, we could see a reversal of that effect. Using the £1 million threshold, the NFU say this brings an additional 25,000 farms into scope - but as we've seen, the £1 million is not the threshold that most farms would face. The actual impact of this is not yet clear.

b. Second, they explain how some farms also claim business relief as well as agricultural relief, and the Budget reforms limited business relief too. Just looking at the HMT numbers on agricultural relief therefore does not fully account for how the limiting of reliefs could affect farms.

Yet, both of these above points were accounted for in the OBR forecasts of farms affected (which was noted by the Treasury at the announcement and published in detail in Reeves's letter three weeks after the Budget). As noted, these figures expect only 520 affected estates on a static basis (claiming either agricultural relief or both agricultural and business relief), and behavioural effects may reduce this further.

Additionally, the NFU's statistic also excludes farms which they consider not to be 'working farms' - calculated as farms with less than 20 hectares, excluding those in horticulture. The NFU finds that removing these from the distribution increases the estimated proportion of affected working farms (i.e. those with over £1 million in assets) from 27% to 49%. Importantly, however, this excludes a very significant number of farms - with 39% of farms in England being less than 20 hectares - many of whom will nonetheless be getting significant revenue from farming. Some may argue these should still be considered 'working' farms. The increase would also be significantly lower if accounting for the actual allowances that estates with agricultural property will face, rather than the threshold of £1 million.

4. Dynamic responses to the reforms

Lastly, the statistics from the NFU and CLA do not account for potential behavioural changes by owners of agricultural estates in response to the reforms. In the short-term, this is likely to consist in increased use of the exemption for inheritance between spouses. This would delay inheritance tax until the second spouse dies, but not enable it to be bypassed altogether. In the long-term, however, it is likely that many more farmers will gift the farm to younger generations earlier in life, because if passing it on more than seven years prior to death, there will be no inheritance tax. Therefore, many of the farms who are counted in the NFU and CLA statistics would not end up being included in estates at death.

Some of these debates arose from confusion about the Treasury's original data release on the distribution of estates claiming agricultural relief in 2021-22. This did not claim to be an analysis of the number of estates affected, but was taken by opposing groups as such. While the Treasury also mentioned the forecast for the number of estates affected in 2026-27, this was largely and wrongly overlooked. Those groups should have been more careful about their use of data. At the same time, the government could have mitigated some of the confusion by putting the spotlight on the OBR's forecast from the outset, and outlining how that was calculated, and how it accounts for the different variables since the 2021-22 data.

TO WHAT EXTENT WOULD THIS HARM FARMERS WHO ARE ASSET-RICH BUT CASH-POOR?

A key argument made by farming groups in response to the changes was that farmers are particularly asset-rich and cash poor, and so it is not fair to tax them based on the value of their assets. The groups claimed that many farmers would also be unable to pay the tax due to the lack of cash.

To check the validity of these claims, we can assess farms' 'current ratio' - the ability of a farm to finance its immediate financial demands (known as 'current liabilities') from its 'current assets', i.e. cash or assets that can easily be turned into cash. The consensus across management experts and farming organisations is that it is important to have a ratio of at least 1.5-2 (current assets are at least 1.5x or twice as high as current liabilities).[51,52,53] A ratio that is too high may reflect inefficiency. A paper by Mississippi State University emphasises that a farm "doesn't want too high a ratio though, as this indicates that not enough of the assets are going into investments that are drawing a high return".[54] Some organisations suggest a ratio of three or higher is inefficient.[55]

Defra statistics show that in 2023/24, the average current ratio for farms in England was 2.95 (expressed as a liquidity ratio of 295%), meaning that they could meet their current liabilities almost three times over with liquid assets. This suggests the average farm would have a relatively large amount of current assets to cover an inheritance tax bill while maintaining a healthy liquidity ratio. Three quarters (74%) of farms had liquidity ratios over 200%, suggesting some room to pay inheritance tax bills. This does, however, leave 26% with liquidity ratios that may be considered too low, but it is unclear to what extent these farms would be affected by inheritance tax bills.

CenTax analysis of HMRC data again corroborates this.[56] They find that half of all farm estates affected by the reforms would see a tax rise of less than 5 percentage points (pp). Of farm estates worth under £2.5 million, just 15 estates would face a tax rise higher than 5pp each year. Accordingly, the vast majority of affected farm estates (86%) could pay their entire inheritance tax charge out of existing non-agricultural assets, leaving just 70 farm estates each year which would not be able to.

There are measures in place and methods to implement which can reduce risks to cashflow for people with agricultural property who face an inheritance tax bill on their estates. Primarily, they can pay the bill over 10 years without any interest being charged. So even an estate that had £1 million of farming property over and above the reliefs and allowances (i.e. an estate with at least £2 million of farming property, but £4 million for a typical family farm) would have to pay just £20,000 a year in inheritance tax for 10 years - effectively adding £20,000 to current liabilities. CenTax finds that, if paying in ten-year annual instalments and no adjustment in current behaviour, just 40 farm estates each year would face a bill higher than 20% of the farm's

51 FCC. Farm financial ratios. https://www.fcc-fac.ca/en/resources/ratios#2SpR0uX=0
52 Farm Progress. 5 financial ratios to consider on your farm. 8 November 2021. https://www.farmprogress.com/management/5-financial-ratios-to-consider-on-your-farm
53 Blocker A, Ibendahl G, and Anderson J. Interpreting Farm Financial Ratios. Mississippi State University. December 2015. https://www.cottoninc.com/wp-content/uploads/2015/12/Interpreting_Farm_Financial_Ratios.pdf
54 Ibid.
55 Kibet L. Understanding the Current Ratio. Business Insider. 19 July 2024. https://www.businessinsider.com/personal-finance/investing/current-ratio
56 Advani A et al. Inheritance Tax reliefs:Time for reform?. October 2024. https://centax.org.uk/wp-content/uploads/2024/10/AdvaniDisslbacherForresterSummers2024_IHTReliefs.pdf

income (after tax and depreciation).[57] Alongside this, farms can spread the costs over longer than 10 years by increasing savings in anticipation of an inheritance tax charge, or borrowing after receiving the charge.

TO WHAT EXTENT WILL THE REFORMS AFFECT FARMERS WHO ARE NOT DIRECTLY CHARGED INHERITANCE TAX

It is not only the farms who face inheritance tax charges who will be affected by the reforms. For farmers who rent agricultural property or land, the landowner may now face inheritance tax, making it a less attractive investment. While the response to this may be small given that inheritance tax benefits for agricultural land will remain in place (maintaining the incentives to invest), the extent of the impacts is unclear. In particular, the changes could may impact farmers in two key ways:

1. The reduction in inheritance tax reliefs for farmland is likely to reduce demand for farmland, in turn reducing the price of farmland (i.e. the cost of buying or renting farmland)
2. The reduction in reliefs is likely to drive some farmland owners to sell their land or rent it out for a different purpose, with various potential consequence

First, the extent to which the price of farmland will reduce is unclear. To the extent it does, it will both reduce the value of assets owned by agricultural landowners (including landowning farmers), but also in turn reduce the rental costs for tenant farmers or the purchase cost for people who buy agricultural land in the future. This means there are some winners, and some losers.

Second, there are multiple uncertainties which would affect farms in different ways. First, it is unclear to what extent land owners will, in response to the changes, actually sell their land or rent it out for a different function. Second, if land is sold, it is unclear to what extent it will continue to be agricultural land or be sold for a different function (e.g. for residential or commercial property). Third, for land that is sold but remains as agricultural land, it is unclear to what extent it will continue to be rented to the same farm, or whether it might be rented to another farm. These various effects would shape the impact on farms across the country.

Uncertainties like this are an inherent part of tax reforms. There is never perfect data to enable wholly accurate forecasts, and if the government only made decisions if they had perfect data, no tax reforms would be taken. A decision has to be taken based on the balance of available evidence.

It is also important to weigh the potential impact on farms with wider costs and benefits around the use of land. Some people, for example, express concern about inefficient land use in agriculture, making the case that bits of farmland should be repurposed for housing or different kinds of business.[58] There is wide variety in the productivity of farms. Just 9% of farms in England occupy 35% of all farmland, producing 62% of total agricultural output in 2022.[59] The argument suggests that planning permission currently prevents the repurposing of inefficiently-used farmland. Others, however, argue that retaining farmland is critical either for national food self-sufficiency or for strengthening rural communities. While it is not a stated aim of the reforms, and it is not clear that agricultural land will need to be sold, this debate remains an important consideration.

57 Advani A et al. Inheritance Tax reliefs:Time for reform?. October 2024. https://centax.org.uk/wp-content/uploads/2024/10/AdvaniDisslbacherForresterSummers2024_IHTReliefs.pdf
58 Niemitz K. Housing vs farmland: how to get the balance right?. Institute for Economic Affairs. 17 July 2024. https://iea.org.uk/housing-vs-farmland-how-to-get-the-balance-right/
59 Department for Environment, Food & Rural Affairs. Farming evidence - key statistics (accessible version). 16 September 2024. https://www.gov.uk/government/publications/farming-evidence-pack-a-high-level-overview-of-the-uk-agricultural-industry/farming-evidence-key-statistics-accessible-version

These debates are broad and complex. In January 2025, the government launched a 'national conversation' on land use that will attempt to untangle some of the knotty issues - considering the government's energy and housing plans, the food strategy, and other priorities for land use in conjunction with one another.[60] This will lead to the development of a Land Use Framework, which should help provide answers to some of the debates about land use.

HOW WILL BUSINESSES BE IMPACTED BY BUSINESS RELIEF?

The impact of business relief has been discussed much less than the impact of agricultural relief, but there has been criticism. In particular, a June 2025 report by CBI Economics argued that 55% of businesses 'likely to be affected' have paused or cancelled planned investments, resulting in an average decrease in investment of 16%, and that just under half of surveyed businesses and farms foresee a reduction in headcount or have paused recruitment, with an average reduction per firm of 9%.[61] These are stark numbers, which would be a cause for concern.

However, this data should not be taken as an objective analysis of the impacts. The data is based on a survey by CBI Economics, but the sample used in the survey is self-selecting, meaning it is not representative of the business community as a whole. There is a widely-recognized tendency of self-selection surveys to attract responses from people or organisations who have more extreme views.[62,63] This likely boosted the extremity of the responses to the CBI's survey. There are also cases where this bias was encouraged. For example, when the NFU advertised the survey on Twitter/X, they asked people to fill out the survey specifically to 'show how damaging' the tax is: "Help the NFU, Family Business UK and 30 other UK trade associations show how damaging the Family Farm Tax is by filling out an online survey".[64] Again, this could have made for a more extreme set of responses. This data should therefore not be taken as indicative of the true response of businesses to the tax changes. We were also unable to identify the data tables published online to assess the information that was given on the tax changes to respondents, which can also impact answers.

LESSONS FOR THE FUTURE

- To avoid confusion and mitigate concerns about the impact of potentially controversial tax reform, the government should, upon announcing tax reforms, clearly emphasise the OBR's forecast on how many taxpayers will be affected, with details on how those forecasts were calculated. If asked about the impact in key media appearances, they should exclusively refer to these forecasts by the OBR.
- The media and politicians should be extremely careful about the data they use on complex tax issues. Where there is contested data, they should ensure that they consult with a balanced range of tax experts, and rely on guidance and data from the Treasury, HMRC or the OBR when needed, as they tend to have much greater access to data and expertise. The evidence session by the Committee for Environmental, Food and Rural Affairs represents a good example of this.[65]

60 Department for Environment, Food & Rural Affairs et al. Government launches "national conversation" on land use. 31 January 2025. https://www.gov.uk/government/news/government-launches-national-conversation-on-land-use

61 Family Business UK. Taxing Futures: The economic and fiscal implications of changes to BPR & APR for UK family businesses and farms. June 2025. https://familybusinessuk.org/wp-content/uploads/2025/05/FBUK-Taxing-Futures-Report-June-2025.pdf

62 Henry M. Voluntary Response Bias in Sampling. https://inmoment.com/blog/voluntary-response-bias-in-sampling/

63 Bhole B and Hanna B. The effectiveness of online reviews in the presence of self-selection bias. Simulation Modelling Practice and Theory. September 2017. https://www.sciencedirect.com/science/article/abs/pii/S1569190X17300874

64 National Farmers' Union. Tweet. Feb 14, 2025. https://x.com/NFUtweets/status/1890413269824733287

65 House of Commons Environment, Food and Rural Affairs Committee . Oral evidence: The future of farming, HC 527. 11 December 2024. https://committees.parliament.uk/oralevidence/15134/html/

SECTION 4
POLICY DESIGN

Alongside debate about the impacts of current reforms, there has also been debate about the design of the new policies, whether they are fit for purpose and whether additional regulation is needed to support implementation. In this section, we review the debate surrounding the design of reforms both to taxation on inherited pensions and to agricultural and business relief. For inherited pensions, we review challenges in the administration of the reforms, and the government's response to this. We find an example of the government effectively engaging with stakeholders and adapting policy in response.

For agricultural and business relief, we evaluate proposals for how the changes could have been designed differently. We identify trade-offs or limitations surrounding all the different options, as each proposal has varying effects. In the end, different trade-offs and objectives have to be weighed against one another, often based on values about the tax system , agricultural system and business environment. We argue that a participatory approach could have helped the government navigate some of these problems. While we recognise this may not have been possible in this case (given the need to keep the policy confidential heading into the Budget), it points to wider reform of the fiscal policymaking process.

ADMINISTERING THE PENSION REFORMS

Demos's position before the Budget[66]

Following our research, including on public attitudes, Demos specified the following:

"Reforms to bring pensions into the scope of inheritance tax… were not included in the core recommendations of this paper given public concerns about this, but we recognise that such a policy may be necessary to protect the revenue from inheritance tax. If the aim is to prevent pension pots being used to avoid inheritance tax, one option would be to reinstate the lifetime allowance on pensions… Alternatively, the government could introduce a cap on the amount of pension wealth that remains out of the scope of inheritance tax."

66 Goss D. Plugging the black hole: Reforming inheritance tax to unlock revenue and build public support. 29 Oct 2024. https://demos.co.uk/research/plugging-the-black-hole-reforming-inheritance-tax-to-unlock-revenue-and-build-public-support/

One key driver of Demos's position on this reform was our analysis of how little the reforms would raise. The Resolution Foundation's static model expected the application of inheritance tax to pensions to raise £0.5bn in 2027-28, while the IFS modelled a similar policy (applying inheritance tax to 80% of the value of pension pots) at £0.2bn in 2024-25 and £0.4bn by 2029-30.[67,68] Given broad public opposition, Demos felt the trade-offs for a small amount of revenue were too high. Yet, the OBR's static model expected gains of £0.9bn in the first year of implementation, and £2.6bn by the third year (although behavioural effects reduce these figures to £0.6bn and £1.5bn).[69] If we had known the size of revenues this policy was expected to raise, we may have approached it differently. This provides caution for researchers to rely too heavily on tax policy costings.

The key challenge going forward remains an administrative one, and the burden placed on both the person managing the estate after a death (the 'executor', which is often a family member) and the pension scheme administrator (PSA). Under the current system, an initial assessment is made by the executor of an estate to understand its approximate value. For most assets people own, this is relatively simple - e.g. getting an estate agent to value the property and estimating the value of other items. If it is clear that the estate will be charged inheritance tax, a more thorough evaluation will be required (e.g. getting a chartered surveyor to value the property). Probate cannot be granted (meaning the estate cannot be passed on to beneficiaries) until either there is confirmation that no inheritance tax will be charged, or the inheritance tax bill is paid.

Including pensions in an estate makes this process more complicated, and could extend the time before probate is granted. There is no clear way to estimate the value of someone's pension pot, and instead the executor of the estate would need to gather evidence on the value, potentially from a variety of pension providers. This is a long process, including first identifying the different pension pots, confirming the value of the pots from all pension providers, and calculating the charge. Under the government's initial proposed approach, the PSA was liable to pay the charge, which meant additional steps would be required as executors would need to send back the calculated charge to pension providers, and the providers would then pay the bill.

There is also political risk. While very few people will be aware of these administrative challenges prior to dealing with an inheritance tax charge, those who have to pay the tax (e.g. if a family member dies) will have to spend lots of time and energy navigating them, often soon after a family member has passed away. As more and more people deal with inheritance tax following the pension reforms - and have to navigate the administration - this could increasingly deepen frustration about the tax.

The challenges around bringing inheritance tax into pensions are clear. The government ran a consultation on this - a good approach to navigate tricky decisions - and several key concerns were raised.[70] For example, given that PSAs will not be aware of the wider estate, they will have to assume that inheritance tax is due on the value of the pension they hold. Some may therefore hold back some on passing on all of the pension pot until uncertainty over the inheritance tax position is resolved, delaying the release of the estate. PSAs and executors will also struggle to exchange all the information required to calculate the tax charge by the 6-month payment deadline, which would mean late payment interest charges. If the inheritance tax charge meets

67 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
68 Advani A and Sturrock D. Raising revenue from closing inheritance tax loopholes. 18 April 2024. https://ifs.org.uk/articles/raisingrevenueclosing-inheritance-tax-loopholes
69 Office for Budget Responsibility. Economic and fiscal outlook – October 2024. 30 October 2024. https://obr.uk/efo/economic-and-fiscal-outlook-october-2024/
70 HM Revenue and Customs. Technical consultation - Inheritance Tax on pensions: liability, reporting and payment. 21 July 2025. https://www.gov.uk/government/consultations/inheritance-tax-on-pensions-liability-reporting-and-payment/technical-consultation-inheritance-tax-on-pensions-liability-reporting-and-payment

the 6-month deadline, the PSAs may pay 40% of the value of the pension pot to HMRC in order to avoid the charges, even if the pension ultimately has no liability. This would create burdens for all involved. If there are overpayments, this would create further delays for the full release of the estate.

Based on the consultation, the government is adapting the policy in three key ways:[71]

- First, executors will be liable for the inheritance tax bill rather than PSAs. The government agreed with consultation respondents that "PRs are generally best placed to co-ordinate across different parties", and this means PSAs will be able to release the pension pot as soon as they have identified the correct beneficiaries. This means that PSAs will not need to pay inheritance tax charges as a cautionary measure, just in case inheritance tax is due - which would have added significant burdens for many non-taxpaying estates and HMRC. Most non-taxpaying pensions will now see no difference at all to the previous system after executors have confirmed that no inheritance tax is due.
- Second, executors will be required to notify PSAs of the death, and PSAs will be required to share the value of any unused pension funds within 4 weeks of receiving notification. This new time requirement should speed up the process.
- Third, the government is taking steps to mitigate possible liquidity challenges (i.e. where executors of the estate are unable to pay the inheritance tax charge on the value of the pension pot, because the pension pot has already been passed onto beneficiaries). While previously the estate could not normally be used to pay an inheritance tax charge unless special permission was given, now executors will be allowed to use funds in the estate to pay the inheritance tax charge, then proceed to apply for probate after. Alternatively, executors can pay the inheritance tax charge on the non-pension part of the estate, and then work with the inheritors of the pension pot and/or the PSAs to pay the charge on the pension.

This is a good, flexible response that addresses the challenge using multiple levers. Burdens on executors, PSAs and HMRC are reduced compared to the previous approach. By engaging PSAs, and understanding that many will have paid inheritance tax bills on pension pots at 40% to avoid interest charges, the government avoided significant problems. It shows the value of careful policymaking, informed by close engagement with the range of affected parties, and willingness to adapt.

71 HM Revenue and Customs. Technical consultation - Inheritance Tax on pensions: liability, reporting and payment. 21 July 2025. https://www.gov.uk/government/consultations/inheritance-tax-on-pensions-liability-reporting-and-payment/technical-consultation-inheritance-tax-on-pensions-liability-reporting-and-payment

RESTRICTING AGRICULTURAL AND BUSINESS RELIEF

Demos's position before the Budget[72]

Following extensive conversations with the public, we at Demos specified that:

"If introducing restrictions on agricultural relief, the government should be aware that many people were opposed to this for two key reasons: to protect farms from closing and farmers being put out of the job, and relatedly to reduce shocks to food prices."

"To the extent that an expansion in the use of other opportunities to avoid inheritance tax bills is expected to significantly diminish revenue, the government should clamp down on these remaining opportunities. This could include capping agricultural relief, increasing the amount of time that someone has to own agricultural land before they can benefit from the relief (e.g. from two to five years)...."

Since the reforms, various alternative approaches to agricultural and business relief have been suggested. As our assessment below shows, all those approaches have positives, but also drawbacks or concerns.

THE CLAWBACK APPROACH

Description: All businesses and farms are exempt from inheritance tax at the point of inheritance. However, if the farm or business asset is sold within a certain period of time (e.g. 10 years), then the inheritance tax that previously would have been owed must be paid (i.e. it is 'clawed back').

The logic is that inheritance tax should not be charged on farms/businesses that are intended to be kept within the family for the foreseeable future, but should be charged on farms or businesses that inheritors intend to quickly sell.

✓ **PROS**

This approach achieves additional tax revenue from farm or business property which was bought specifically for inheritance tax avoidance, while preventing tax on farms and businesses that are held within the family across generations.

✗ **CONS**

While there have been suggestions that this approach would not necessarily mean less revenue, the government disagrees with this suggestion.[73] The government says "it would raise much less, which would mean raising taxes elsewhere or lowering public spending."

72 Goss D. Plugging the black hole: Reforming inheritance tax to unlock revenue and build public support. 29 Oct 2024. https://demos.co.uk/research/plugging-the-black-hole-reforming-inheritance-tax-to-unlock-revenue-and-build-public-support/

73 They Work For You. Agriculture and Business: Inheritance Tax. 4 March 2025. https://www.theyworkforyou.com/wrans/?id=2025-02-24.32918.h

The policy may incentivise people to hold on to assets for longer than they otherwise would, or longer than would be economically efficient, in order to benefit from the clawback. The size of this effect depends on the length of the clawback period (i.e. a longer period means fewer people will plan to hold onto assets for the whole period). This effect could be reduced if the amount of inheritance tax owed was gradually increased over the clawback period.

The government also points out that this mechanism could continue to allow "the very wealthiest to tax plan since beneficiaries could hold onto the assets over the specified clawback period just to escape the tax" and would "add complexity to the tax system".[74] The administrative burden for HMRC in monitoring whether the inheritor met the conditions of ownership during the clawback period would be extensive.

RESTRICTING RELIEF TO PEOPLE WHO FARM THE LAND

Description: Agricultural property is fully exempt from inheritance tax if the owner of the estate had farmed the land themselves for a certain time period, or if the inheritor farms the land for a certain time period after inheriting the land. Inheritance tax applies fully if not.

The logic is that the relief is intended to benefit farmers rather than landowners. Restricting the relief to people who farm the land would achieve that.

✓ PROS

This approach could in theory raise additional revenue from larger estates who own lots of land that they rent out to farmers. Meanwhile, as no tax applies to farmers who own the land, most concerns about family farms can be avoided.

This approach prevents problems around farms being an inheritance tax avoidance vehicle for wealthy investors, because the relief is only available to farmers.

✗ CONS

This approach does not address the concerns for tenant farmers, who will still worry about their land being sold. Ireland's approach may mitigate this problem, as they allow inheritance tax relief not just if the inheritor is farming the land, but also if the inheritor is a landlord who continues to lease the land for farming. This partly, but not wholly, mitigates concerns about the land being sold, but also reduces the revenue gain. It also ends up with the problem noted above that some people may hold onto the assets for longer than is optimal.

It is also hard to define who is a farmer. It could be defined as people who own the land but do not rent it out to another farmer. Yet, a landowner could instead engage

74 Ibid.

in contract farming or share farming (i.e. they own the shares in a company that farms the land) in which case they may do very little work on the farm but may still be considered to 'farm the land'. Separately, should someone who, for example, manages the accounts of a farm be considered a farmer? If so, a landowner could appoint themselves to a role managing the accounts, but not doing very much work. Would there be some limit on the amount of work people had to do? If only manual roles were included rather than management roles, this creates significant complexity for HMRC in distinguishing the roles.

To note, Ireland's test is that the owner either has to hold a specified qualification or spend not less than 50% of the individual's normal working time in farming. Importantly, any such distinction would have a distortive impact on behaviour (e.g. farmers who would otherwise spend less time working the farm spend a bit more time), which may impact productivity.

RELIEFS ONLY FOR PRE-RETIREMENT DEATHS[75,76]

As proposed by Tim Leunig, there could be no inheritance tax relief for farms if the deceased dies over retirement age. However, if the deceased dies before retirement age *and* farmed the land themselves (i.e. is not just the landowner), then there is a full exemption from inheritance tax. Equally, if the farm is passed on as a gift in inheritance tax before the farmer is of retirement age, then it will not face inheritance tax (while normally, a gift may be counted towards inheritance tax if the donor dies within seven years).

The logic is that it is good if farmers do not hold onto the farm until death, as this hinders productivity and generally means the recipient won't receive the farm until their 50s or 60s. While the system implemented in last year's Autumn Budget creates some incentive for farmers to pass on farms early because of the seven-year gift rule (they can avoid an inheritance tax charge if passing on the farm at least seven years before death), it does not fully deliver that incentive because some relief remains even if the farm is passed at death. The new system may also seem unfair on farmers who die early, and did not get a chance to pass on the farm more than seven years prior to death. This policy would strengthen the incentive to pass the farm on earlier, while avoiding charges for farmers who die earlier.

This approach could also come with a one-year grace period, by which any farm gifted in the coming year will not face inheritance tax. This means that farmers who are already over retirement age, and so have missed the opportunity to gift their farm tax-free like those under retirement age, are also given that opportunity.

75 Leunig T. How to preserve the family farm. 4 November 2024. https://timleunig.substack.com/p/how-to-preserve-the-family-farm
76 Leunig T. Farms and inheritance tax, part two. 16 December 2024 https://timleunig.substack.com/p/farms-and-inheritance-tax-part-two

PROS

This retains and strengthens the incentive for farmers to pass on their farms to others at an earlier age to avoid inheritance tax - which is good for productivity and the administrative ease of passing on the farm. At the same time, it ensures that farmers who happened to die before retirement age - and so may miss this chance to avoid inheritance tax - do not face inheritance tax.

This approach also prevents problems around farms being an inheritance tax avoidance vehicle because the relief is only available to farmers.

Italy has run a similar policy, offering tax relief only for young farmers that are close relatives of the donor.[77]

CONS

This approach would encourage farmers to pass on their farms earlier than they may otherwise intend to. It would also retain tax for farmers who do not pass on their farm, even if it is passed on to a family member who continues farming the land.

It could also be problematic if significant extra allowances were given to agricultural property but not business property, as this would provide a clear signal for people looking to reduce their tax bill to invest in agricultural property - distorting prices.

The one-year grace period for people over the retirement age would also significantly reduce revenue, as one would expect many estates to transfer their farm or business assets in that time.

It is hard to define who is a farmer, facing the same problem as discussed for other alternative policies.

The approach does not solve the problem for tenant farmers, facing the same problem as discussed for other alternative policies.

77 OECD. Inheritance Taxation in OECD Countries. 11 May 2021. https://www.oecd.org/en/publications/2021/05/inheritance-taxation-in-oecd-countries_2d33ceae.html

CENTAX PROPOSAL: MINIMUM SHARE RULE

In Summer 2025, following extensive analysis of HMRC data, CenTax proposed a novel approach: a 'minimum share rule'.[78] This would mean that, if farm and business assets made up a large-enough share of an estate, they would receive 100% agricultural and business relief up to a certain amount (the tax-free allowance). If this was not the case, no relief would be offered. The aim would be to prevent the use of these assets as a tax shelter, as tax planners would struggle to invest such a large part of their estate in qualifying assets. Meanwhile, family businesses or family farmers are likely to already pass this criteria.

CenTax says the government should consider restricting relief to estates whose qualifying assets make up at least 60% of the total estate.[79] Even after accounting for the behavioural response, CenTax finds that this change could fund a significant increase in the tax-free allowance while still raising additional revenue. For example, with a 60% minimum share rule, the allowance could be increased to £5 million and the government would still raise 71% more revenue than under the current approach (worth an extra £288 million in 2028-29). Not only would this adjustment better target estates using inheritance tax reliefs for tax planning, it would also extend the 100% relief available for family farms and other businesses passing the 60% share rule.

The issue, however, is that the minimum share rule does not necessarily deliver on all of the government's objectives. The proposal would clearly deliver on the stated government objectives to raise revenue and protect family farms.[80] But the fact that the proposal would reduce opportunities for people to shelter wealth from inheritance tax does not necessarily deliver a government objective. As noted in Section 1, the Prime Minister denied that an objective of the reforms was to prevent "the super-rich sheltering wealth".[81]

More importantly, the government had a separate objective to stop allowing "a very small number of claimants each year to claim such a significant amount of relief".[82] Yet, compared to the current approach, the minimum share rule would see the highest value estates claiming a higher proportion of relief. With the minimum share rule, 44% of the revenue would come from estates worth over £10 million, compared to 55% under the current approach. If high value estates pay a smaller proportion of the tax under the minimum share rule, this means they benefit from a higher proportion of the relief.[83]

Given these effects, the minimum share rule better delivers some government objectives but is worse for others. As such, when pressed on CenTax's report, the government suggests it demonstrates that the current approach is "expected largely to meet the Government's objective".[84] Without a clearer understanding of the objectives, one cannot contend that the minimum share rule would better meet the government's goals.

78 Advani A et al. The Impact of Changes to Inheritance Tax on Farm Estates. Centre for the Analysis of Taxation. August 2025. https://centax.org.uk/wp-content/uploads/2025/08/AdvaniGazmuribarkerMahajanSummers2025_TheImpactOfChangesToInheritanceTaxOnFarmEstates.pdf
79 Ibid.
80 Ibid.
81 House of Commons Liaison Committee. Oral evidence: Evidence from the Prime Minister, HC 530. 19 December 2024. https://committees.parliament.uk/oralevidence/15164/html/
82 HM Treasury. Summary of reforms to agricultural property relief and business property relief. 30 October 2024. https://www.gov.uk/government/publications/agricultural-property-relief-and-business-property-relief-reforms/summary-of-reforms-to-agricultural-property-relief-and-business-property-relief
83 Importantly, given that the minimum share rule raises more revenue than the current approach reform, it would mean farm estates worth over £10 million pay more tax in absolute terms.
84 Murray J. Agricultural Property Relief and Business Property Relief: Impact on Farming Treasury. House of Commons. They Work For You. 9 September 2025. https://www.theyworkforyou.com/debates/?id=2025-09-09c.710.0#g711.0

As we see, all the reform proposals involve complex trade-offs. Earlier reform proposals have clear costs and benefits which must be weighed against one another. CenTax's proposals better deliver some government objectives but not others, and so different objectives must be weighed against one another. What is critical, therefore, is how the government is weighing those costs, benefits, and objectives against one another, and why.

While the government can make judgments about these issues, those decisions often rest on core values about what we want from our tax system, agricultural system, and business system. For a trusted democracy, it is important that the public's values are properly reflected in that. Yet, a minister developing complex tax reforms to meet budgetary pressures may struggle to effectively reflect the public's values. Demos has made the case that such problems are better navigated through active collaboration with both the public and the stakeholders affected.

A deep exploration of the public's values about inheritance tax reform and farms could have provided an essential steer for the government's objectives and how it should weigh up trade-offs. It could also have been valuable to see how a representative group of farmers respond to potential inheritance tax reforms if: (1) presented with the evidence on how few farms would be affected, and (2) discussing reforms in-depth in the context of a need to raise revenue. Such a participatory approach could have taken the heat out of the discussion. Demos's research on housing policy shows that engaging with representative groups of the public (rather than just those willing and able to give their time and voice) can lead to more nuanced and balanced discussions.[85] And even if farmers discussed the issue based only on self-interest, at least we could know the view of a representative group of farmers who have considered the issues, rather than just those with the loudest voices.

As noted in Section 2, however, there are challenges around engaging the public or stakeholders on tax policies, as this could reveal confidential information, creating economic and political harms. Nevertheless, we could begin addressing these challenges in the longer-term. For example, the Office for Tax Simplification (an independent office of HM Treasury, closed in 2023) ran reviews of various taxes, engaged with various stakeholders, and published their results. As an independent body, this Office did not decide government policy, so did not reveal confidential information about future policy decisions. The Office's inheritance tax review involved extensive engagement, including with "representative bodies, professional advisers, academics and others, as well as from the Consultative Committee… and an online survey through which nearly 3,000 members of the general public submitted their views".[86] Yet, the Office missed a trick by not engaging with representative groups of the public or stakeholders who might be affected by the reforms. As noted, this could have provided valuable evidence on the public's desired objectives for reform and how the farming community as a whole think about inheritance tax reforms, potentially lending legitimacy to subsequent policy changes.

LESSON TO LEARN

- The government should, where possible, take a careful and collaborative approach to tax policymaking, as reflected in the consultation on administration of the pension reforms.
- In the longer-term, the government should explore ways to enable more collaborative and less reactive tax policy design. To facilitate this, independent bodies could run reviews of tax policy outside Budget processes, engaging with representative groups of affected stakeholders to inform government policy.

85 Levin M, Kapetanovic H, and Gardner A. The MIMBY Majority: How to unlock housebuilding with early and representative public participation in planning. 15 May 2025. https://demos.co.uk/wp-content/uploads/2025/05/The-MIMBY-Majority_Report_2025_May_a.c.pdf
86 Office of 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

LOOKING FORWARD

With the government facing a tight fiscal situation and global economic disruptions, tax is likely to stay on the agenda. At the same time, as inheritance becomes increasingly important in our economy, last year's reforms are likely not the last we will hear on inheritance taxation. In this final section, we consider the overall lessons that the 2024 tax reforms can tell us about both these issues.

LESSONS FOR FUTURE TAX REFORM

Designing, framing, and communicating tax reforms is no easy job. The response can be highly unpredictable. But the 2024 inheritance tax reforms provide a critical case study in how to avoid pitfalls. Government, politicians and the media should learn that:

On narratives:

- Government narratives should link tax revenues to tangible outcomes that people can understand in relation to their day-to-day experiences.
- If tax changes are expected to generate backlash based on perceived unfairness, the government - in particular the Prime Minister and Chancellor - should defend them by consistently emphasising the fairness of their reforms across all key media appearances. In the face of a strong campaign by media organisations and interest groups against the reforms, this would help the messaging cut through. Particularly, articulating how the reforms will close opportunities for the well-advised to bypass the tax are likely to be more effective.

On evidence:

- When announcing tax reforms, the government should publish detailed forecasts on the expected impact on taxpayers, making explicit all the inputs considered and associated assumptions. This could help avoid confusion and mitigate excessive concern about the impacts.
- The media and politicians should be extremely careful about the data they use on complex tax issues. Where there is contested data, they should ensure that they consult with a balanced range of tax experts, and rely on guidance and data from the Treasury, HMRC or the OBR when needed, as they tend to have much greater access to data and expertise.

On policy design:

- The government should, where possible, take a careful and collaborative approach to tax policymaking, as reflected in the consultation on administration of the pension reforms.
- In the longer-term, the government should explore ways to enable more collaborative and less reactive tax policy design. To facilitate this, independent bodies could run reviews of tax policy outside Budget processes, engaging with representative groups of affected stakeholders to inform government policy.

LESSONS FOR THE FUTURE OF TAXATION ON INHERITANCE

The government's actions on inheritance tax breaks were a positive step forward, but that should not be the end of reform to the taxation of inheritance. It remains the case that inheritance will play an increasingly important role in shaping people's fortunes. People born in the 1980s are typically expected to inherit an amount worth eight years of earnings, compared to their counterparts in the 1960s inheriting half as much.[87]

Inequality is baked into the increasingly important role of inheritance. People born in the 1980s with the least wealthy parents (in the bottom fifth) are expected to get a 5% boost to their lifetime income through inheritance, while those with the wealthiest parents (in the top fifth) are expected to get a huge 29% boost.[88] A radical new approach - that goes further than tax reliefs and including pensions - is needed to prevent inheritance exacerbating already widening economic disparities.

An easy first step for the government would be to remove the 'uplift' in capital gains tax. The change would raise around £1.6bn in revenue - a non-trivial amount.[89] It would 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. At the same time, the change would bring us in line with many international competitors. Of the 29 OECD countries who have capital gains taxes, 18 apply capital gains tax to the gains on inherited assets.[90,91,92] Ten of these - including Germany, Italy, and Japan - also have inheritance taxes.

A bolder step forward would be to introduce a progressive rate for inheritance tax, as France, Germany, Japan and many other countries have. Politically, a progressive rate could boost support for taxing inheritance. In our deliberative workshops with the public, a progressive rate came out as the key priority. People felt that it was unfair that everyone paid the same rate, regardless of the amount they passed on, and that the jump from 0% to 40% was too stark. Our polling then showed that 44% of the public thought a progressive rate system (specifically at 30%, 40% and 45%) would make inheritance tax 'fairer for working people', vs just 20% disagreeing. Building this consensus is critical, as the long-term survival of inheritance tax is more important now than at any point in recent decades.

87 Bourquin P, Joyce R and Sturrock D, Inheritances and inequality over the life cycle: what will they mean for younger generations?, Institute for Fiscal Studies, 26 April 2021, https://ifs.org.uk/sites/default/files/output_url_files/R188-Inheritances-and-inequality-overthelifecycle%252520%2525281%252529.pdf
88 Ibid.
89 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
90 The data exclude Poland and the Slovak Republic, because data is missing
91 Denmark and Hungary sometimes apply tax to the capital gains on inherited assets, but sometimes offer an uplift
92 OECD. Inheritance Taxation in OECD Countries. 11 May 2021. https://www.oecd.org/en/publications/2021/05/inheritance-taxation-in-oecd-countries_2d33ceae.html

Economically, a progressive rate would make inheritance tax (as one might expect) more progressive. We at Demos recommend increasing the top rate to 45%, but it could go even higher. The progressive rates in Germany, France, Japan, and South Korea all go to 50% or more on the largest inheritances. A progressive rate could also be used to build support for reducing the thresholds. In our deliberative workshops, some participants felt that, if rates started around the region of 5% or 10%, it would be fair to reduce the threshold. New bands could be created at lower rates for lower amounts, raising additional revenue.

While a progressive rate would be a step forward, it does not deal with lifetime transfers. Unlike inheritance, lifetime transfers (usually given by parents to children) are generally timed specifically to maximise benefit (e.g. to support with buying a house). Like inheritance, though, they are extremely unevenly distributed. Based on recent data, over an eight-year period in adults' 20s and early 30s, 70% receive no transfers at all.[93] Yet, the remaining 30% receive at least one transfer, and about 5% receive a transfer of over £20,000. For the fortunate, these gifts will provide a critical springboard - enabling, for example, homeownership, financial security, or the ability to start a business. Others will miss out. And currently, people can generally benefit from this financial support without paying any tax, meanwhile those who rely solely on work pay rates of up to 53% (when accounting for income tax and national insurance).

A lifetime receipts tax - as Ireland has - would be an ambitious step to address this problem. Under this system, people would get taxed based on the total amount of inheritance and gifts they have received across their lifetime. In Ireland, for example, each person can receive €335,000 collectively from their parents throughout their life tax-free, and receipts above this are then taxed at a flat rate of 33%. There is a broad consensus among researchers and economists (including at Resolution Foundation and IPPR, and highlighted as desirable by the OECD) that this is a desirable system.[94,95,96] Such a system treats all gifts and inheritance more equally regardless of their timing, removes avoidance opportunities, and encourages greater distribution of inheritance and gifts to those who have received less throughout their life. It would also potentially drive a whole new way of viewing the taxation of inheritance and gifts, as the focus shifts from the giver (whose estate is currently charged inheritance tax) to the receiver (the person who actually financially benefits).

The economics of inheritance and lifetime transfers is not going away. It will, in fact, become increasingly salient as the years go on - and politicians will have to adapt to that changing reality. Understanding the possibilities, and preparing to take bold action, will go a long way.

93 Boileau B and Sturrock D. Who gives wealth transfers to whom and when? Patterns in the giving and receiving of lifetime gifts and loans. February 2023. https://ifs.org.uk/sites/default/files/2023-02/Who%20gives%20wealth%20transfers%20to%20whom%20and%20when_1.pdf

94 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

95 Roberts C, Blakeley G and Murphy L. A Wealth of Difference: Reforming the taxation of wealth. Institute for Public Policy Research. 9 October 2018, https://www.ippr.org/

96 OECD. Inheritance Taxation in OECD Countries. 11 May 2021. https://www.oecd.org/en/publications/2021/05/inheritance-taxation-in-oecd-countries_2d33ceae.html

Demos is a champion of people, ideas and democracy. We bring people together. We bridge divides. We listen and we understand. We are practical about the problems we face, but endlessly optimistic and ambitious about our capacity, together, to overcome them.

At a crossroads in Britain's history, we need ideas for renewal, reconnection and the restoration of hope. Challenges from populism to climate change remain unsolved, and a technological revolution dawns, but the centre of politics has been intellectually paralysed. Demos will change that. We can counter the impossible promises of the political extremes, and challenge despair – by bringing to life an aspirational narrative about the future of Britain that is rooted in the hopes and ambitions of people from across our country.

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