

The huge Brexit Party tax cut for rich remain areas

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There are bad ideas, really bad ideas – and then there's abolishing inheritance tax. This is the new top priority announced by the Brexit Party – one of only two policies beyond Brexit. The proposal would amount to an expensive giveaway to a tiny number of very wealthy households, largely living in the richest parts of the country and concentrated in remain voting constituencies. The fact that the proposal has been made reminds us that inheritance tax is unpopular and should provide an impetus to significant reform.

Scrapping inheritance tax is a very expensive pledge – it raised £5.3 billion last year. It's particularly expensive at a time when it has become something of a political consensus that we need to spend more to provide what people want. Last week a Conservative government [set out proposals](#) to increase the size of the state, by almost £14 billion next year, at the price of binning their fiscal rules.

But just because something's expensive doesn't mean it's a bad idea in of itself – not least if lots of people would benefit from the policy. Universal education and healthcare cost quite a lot after all. But universal this policy is not – only 24,500 of those who passed away in 2015-16 paid any inheritance tax and would have benefited from its abolition. That's just four per cent of estates. If three people benefited from every estate, even Boris Johnson's very expensive and very regressive [proposed giveaway](#) to higher rate taxpayers would benefit 60 times as many people each year.

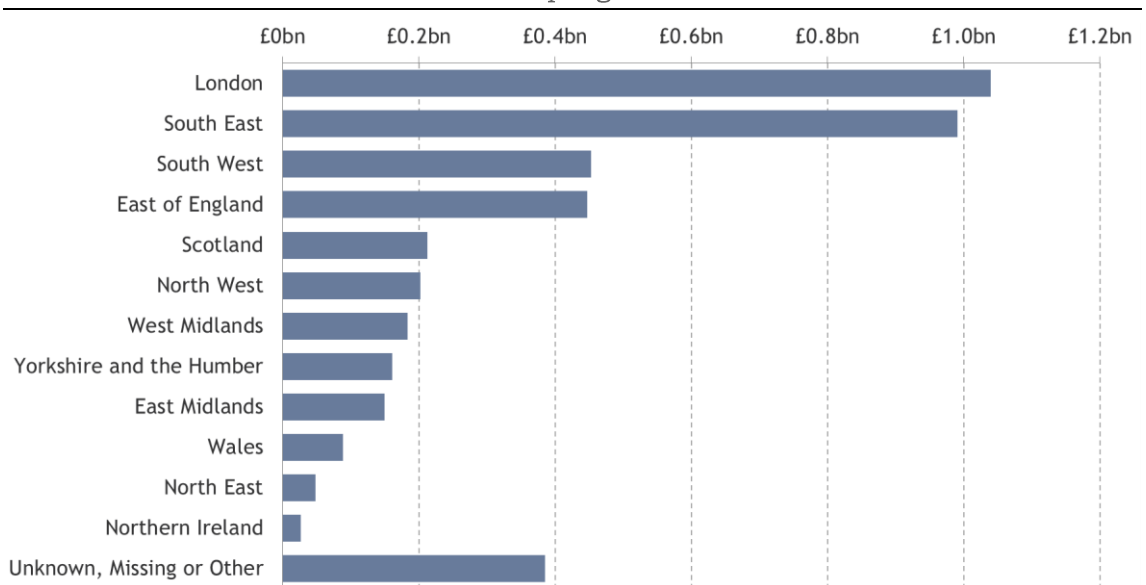
Key finding: Scrapping inheritance tax would deliver an average tax cut of over £1 million each to just 1,720 super-wealthy estates.

Scrapping inheritance tax would give that small number of estates an average of £179,000 each. And even that average hides the fact that the tax cut would really be focused on the super-rich. If we'd abolished inheritance tax in 2015-16, 70 per cent of the benefit would have gone to those with estates of over a million pounds and a huge 40 per cent to just 1,720 estates worth over £2 million – that's 1,720 people being given an average tax cut of just over £1 million each. That's a hugely regressive tax cut – and that would be particularly stark at a time when [child poverty](#) is rising.

The geographic spread of the tax cut is also interesting given the Brexit Party's public goal of showing how the north of England has been let down by the elite's focus on London (their other non-Brexit policy is a big infrastructure investment programme for the regions outside London). This tax cut is an odd priority from that perspective. London and the South East are the big winners – they currently pay twice as much inheritance tax as any other part of the UK. It's also noteworthy that out of the ten constituencies with the highest numbers of inheritance tax payers (Twickenham and Richmond Park top the list), all ten voted remain.

Figure 1 **London and the South East would be the biggest winners if inheritance tax were abolished**

Inheritance tax due for 2015-16 deaths, by region



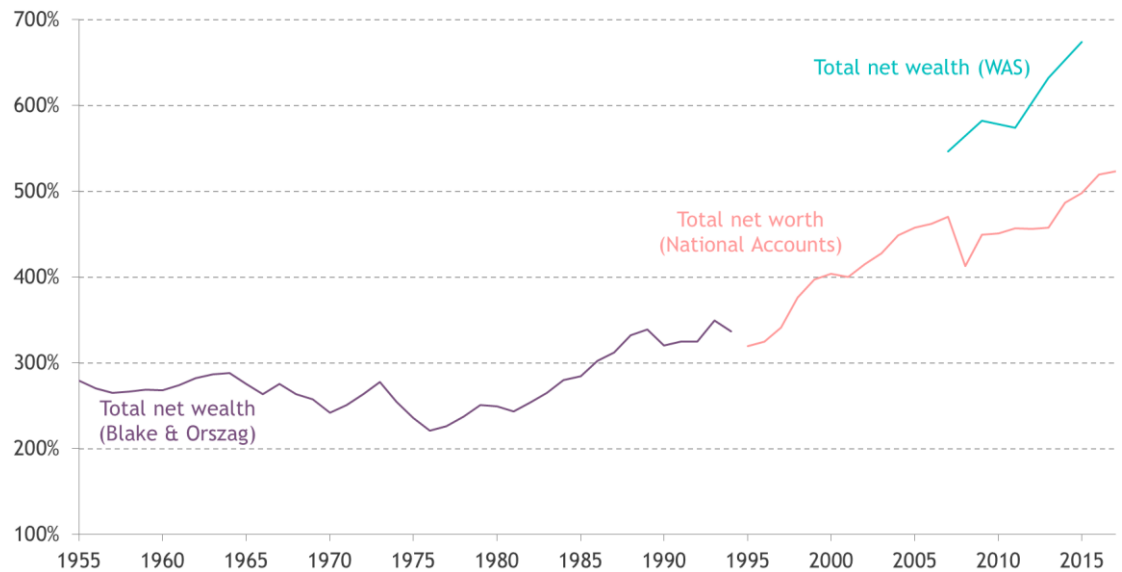
Source: HMRC, Inheritance Tax statistics Table 12.10

So it's a very regressive policy that exacerbates regional inequality. The lesson of the last ten years is surely that those are not desirable attributes for a policy. But even if you don't mind spending lots of money on the rich in the South East, there are other reasons for caution. Scrapping inheritance tax fundamentally fails to recognise one of the big trends shaping modern Britain – the growth in the importance of wealth.

Since the 1980s household wealth has grown much faster than our incomes, as Figure 2 shows. The result is that it's now very hard to become rich without making sure you had the right parents – or turned things around later by marrying someone that did.

Figure 2 **Wealth has grown considerably faster than incomes over the past few decades**

Aggregate household wealth as a proportion of GDP



Notes: Wealth measures cover net property wealth, net financial wealth, private pension wealth and physical wealth. Blake & Orszag and National Accounts measures, and GDP data, cover the UK; the WAS measure covers Great Britain.

Source: D Blake & J Orszag, 'Annual estimates of personal wealth holdings in the United Kingdom since 1948', Applied Financial Economics 9, 1999; ONS, UK National Accounts; ONS, Wealth and Assets Survey

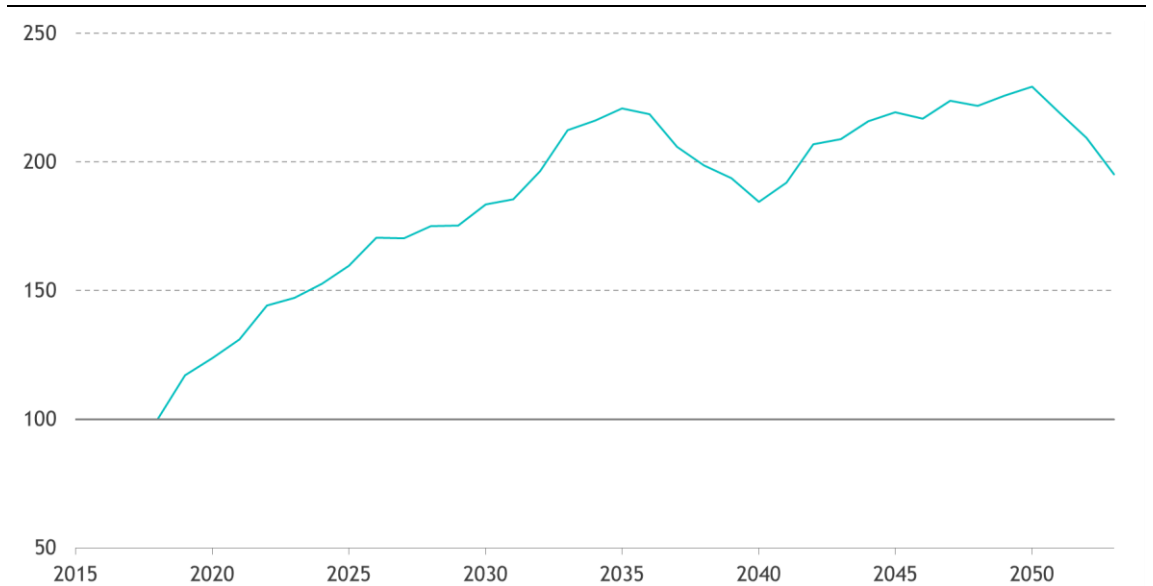
Figure 2 also tells you why inheritances have doubled over the past twenty years, and why we project they are set to double again over the next twenty. They will increasingly determine our lifetime living standards, both in terms of who can live where (parental wealth is [increasingly determining](#) young people's home ownership prospects) and the kind of lives they will have.

Key takeaway: Young people with property-owning parents are now three times as likely to have homes of their own.

Policy makers can't and shouldn't completely remove the impacts of wealth being passed down. But they do have a responsibility not to make it worse. And in the long term, lower or no inheritance tax for a few means higher taxes on earned income and consumption for everyone.

Figure 3 **Past wealth increases, together with demographics, mean the flow of inheritances is set to grow rapidly**

Index of total expected future bequests of adults aged over 50, by estimated year of bequest: 2014-15, England. Current prices, 2018=100



Notes: See L Gardiner, The Million Dollar Be-question, Resolution Foundation, December 2017 for more detail
 Source: RF analysis using UCL et al., English Longitudinal Study of Ageing; ONS, Life Tables

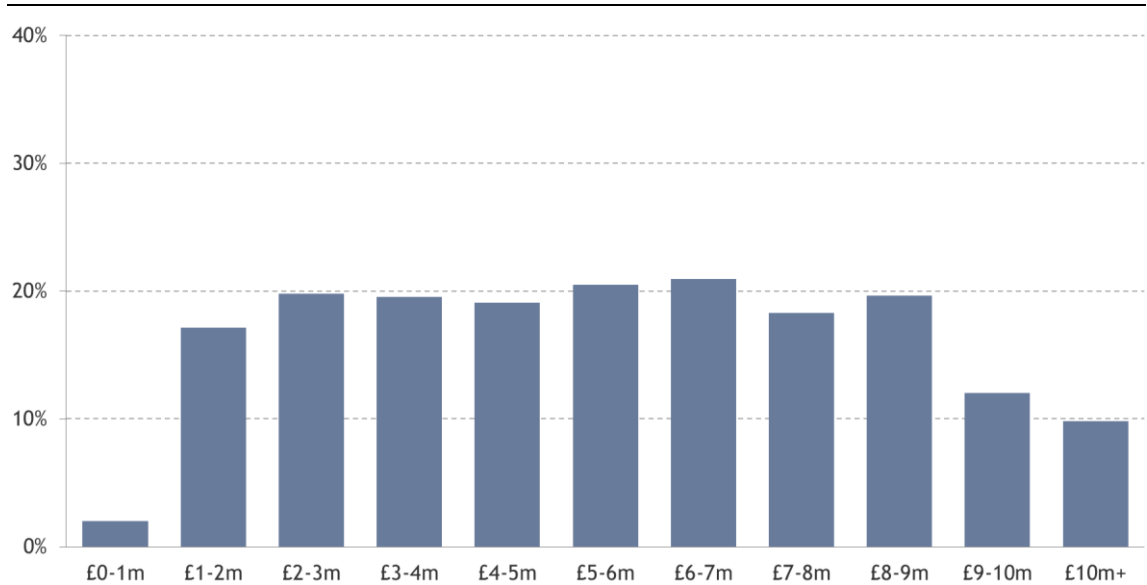
So this is a very bad idea, out of step with the trends shaping our country. But then why is the Brexit Party proposing it? There is a logic – it's a really unpopular tax, and not without good reason. Three stand out.

First, a tax on dying is a hard sell. Second, the headline 40 per cent tax rate means people fear they could lose up to half their estates, despite that being a marginal tax rate and effective tax rates for even the largest estates generally coming in below 20 per cent, as Figure 4 shows. Third, the wide range of exemptions that those with tax advisors and liquid assets are able to exploit also undermines faith that the system is fair.

Key takeaway: Inheritance tax should be replaced with one paid by those lucky enough to receive an inheritance, rather than those unlucky enough to pass away.

Figure 4 **Effective tax rates are far lower than the 40 per cent marginal rate might suggest**

Average effective tax rate by net value of estates, 2015-16



Source: Office of Tax Simplification, Inheritance Tax Review – first report

Policy makers should respond to the unpopularity of inheritance tax. But rather than scrapping it we should [replace it](#) with a tax paid by those lucky enough to receive an inheritance, rather than those unlucky enough to pass away. [Unjustified exemptions](#) that are widely abused should be removed or restricted, allowing the marginal rate of inheritance tax to be reduced to 20 per cent for most. Whether you're for leave or remain, it's crucial to recognise that fairer taxes on wealth are crucial to making a success of 21st Century Britain. Scrapping inheritance tax isn't.