

DEMOS

**NOTHING  
TO FEAR**

THE LABOUR PARTY  
AND THE NEW AGE  
OF INHERITANCE

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OCTOBER 2023

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Any mistakes or errors in this paper are our responsibility.

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## ABOUT THE UNLOCKING INHERITANCE PROGRAMME AT DEMOS

With inheritances becoming increasingly important in people's lives, Demos is undertaking a long-term programme of work to explore what the UK's 'new age of inheritance' means for the country. This programme is supported by the abrdn Financial Fairness Trust.

This publication follows a recent report exploring the Conservatives and inheritances, *Lost Ideals: Conservatives in the New Age of Inheritance*, published by Demos in July 2023.

In upcoming research, we will expand that engagement, and advance the understanding of inheritance tax reform through deliberative public attitudes research and economic modelling.

We'd love to hear from you with any questions or thoughts about our work. If you would like to get in touch, please email Dan Goss at [dan.goss@demos.co.uk](mailto:dan.goss@demos.co.uk).



# AN INCLUSIVE ECONOMY

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

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

# INTRODUCTION

## Learning the right lessons from the past

Inheritance tax is back on the political agenda. It has been widely reported that the government is considering abolishing Inheritance Tax.<sup>1</sup> This follows calls for the tax to be abolished by more than fifty Conservative MPs in the Telegraph in April 2023, led by former Chancellor of the Exchequer Nadhim Zahawi.<sup>2</sup>

The political rationale for this change is often identified as the need for the Conservatives to retain 'Blue Wall' seats: those in the South of England that have traditionally voted Conservative, yet appear threatened ahead of the next General Election.<sup>3</sup> These developments leave significant and potentially challenging questions for the Labour Party.

There is a mythology surrounding Inheritance Tax and Labour that only heightens the sense of trepidation in the party, going back to Autumn 2007.<sup>4</sup> Gordon Brown is riding high in the opinion polls, after a successful transfer of power from Tony Blair during the summer.

But George Osborne, then Shadow Chancellor, ruins the fun, announcing that only millionaires will pay inheritance tax.<sup>5</sup> Alongside a dip in Labour polling ratings, this leaves Gordon Brown spooked and the much-expected General Election never happens.<sup>6</sup> As a result, Brown is painted as weak and indecisive by much of the media; an image he never truly fails to shake.<sup>7</sup>

Fast forward to 2023 and the similarities, at first, appear striking. Labour riding high in the opinion polls; the Conservatives seeking to make up ground through inheritance tax changes.

However, in many ways the political situation is considerably different. In 2007, Labour had been in

government for over a decade and was seen to be running out of steam. The Conservatives' inheritance tax pledge was seen as a bold idea to show they were on the side of aspiration. Today, the situation is reversed. The Conservatives have been in power for over a decade and seem to be running out of steam. Proposals to cut inheritance tax are not seen as a bold idea to show support for aspiring working and middle class voters, but a desperate attempt to appeal to their core vote. Unlike in 2007, the Conservatives are divided over the idea of cutting inheritance tax because of this changing political climate.<sup>8</sup> A promise to cut inheritance tax is unlikely to have the same appeal today as it did in 2007.

Indeed, as we explore in this report, the Labour Party in power has a proud record of reforming the taxation of inheritances, so that it's fairer and delivers higher revenues for the Exchequer. In the past Labour has taken on the challenge of reforming inheritance tax. Guided by core Labour principles of social justice and a desire to reduce inequality, the party pursued reforms to improve the fairness of the inheritance tax regime and its efficiency. For over thirty years after the Second World War, the Labour Party won the argument that reforming the taxation of inheritances was in the public interest. Labour should not now allow inheritance to become a 'no-go' policy area.

## No proceeds to share

The economic context has also substantially changed. David Cameron justified tax cuts by saying that strong economic growth had provided the fiscal room. "Sharing the proceeds of growth" was the mantra that justified the promise to cut inheritance tax.<sup>9</sup> However, we are now in a period of

1 The Guardian, No 10 reportedly in talks about making end of inheritance tax a manifesto pledge, 15 July 2023

2 The Daily Telegraph, Tories demand Rishi Sunak scrap 'morally wrong' inheritance tax, 31 May 2023

3 The Guardian, No 10 reportedly in talks about making end of inheritance tax a manifesto pledge, 15 July 2023

4 A. O'Brien, Lost Ideals: Conservatives in the New Age of Inheritance, July 2023

5 The Guardian, Only millionaires will pay inheritance tax, promise Tories, 1 October 2007

6 Prabhakar R, et al, How to Defend Inheritance Tax, 2008

7 BBC, The Brown Years, September 2010

8 The Daily Mail, Tories at war over call to scrap 'morally wrong' inheritance tax: More than 50 MPs tell Rishi Sunak and Jeremy Hunt they want it gone to help families but critics say the party should lower income tax for working people first, 1 June 2023

9 UKPol.co.uk, David Cameron - 2005 Speech to Launch Leadership Bid, accessed August 2023

low growth and rising debt. Between 1997 and 2010, annual economic growth was higher than 3% in five different years. Between 2010 and 2019 (before the pandemic) this was only achieved once. The economic environment that created the conditions for inheritance tax cuts as a viable political option simply does not exist today.

At the same time public debt has more than doubled. In 2007, gross consolidated public debt to GDP was 42%, but today it stands at 100.5%.<sup>10</sup> Even in 2017, when the threshold for residential property was increased a decade after the Conservatives promised it, debt to GDP was 20 percentage points lower than it is today.<sup>11</sup> We have seen in recent months that the public has a deep fear of unfunded tax cuts - with Liz Truss's shamed 'mini budget' likely consolidating that.<sup>12</sup> The world where cutting inheritance tax felt like a fiscally sustainable policy option has long gone.

### Growing levels of inheritance are a barrier to growth and opportunity

Keir Starmer has laid out his vision for the UK to achieve the highest sustained level of growth in the G7 and break down barriers to opportunity at every stage, expressed in Labour's fifth mission for government. However, the growing power of inheritances threaten both these missions.

Economically, an ever greater proportion of our resources are being tied up through inheritances. When Labour took office in 1997, inheritances reported to HMRC were equivalent to 2.7% of our GDP. Today, they stand at 4.5%.<sup>13</sup> In themselves higher inheritances do not necessarily act as a drag on the economy. However, inheritances in the UK are heavily weighted towards housing and property which is holding back the UK economy, unlikely to be productive sources of investment for our economy.

Again, we have seen significant shifts. In 2000, people were more invested in shares, bonds and other financial assets and less on property. In 2021, rising levels of inheritance are creating a negative feedback loop, where increasing levels of property investment further depress the overall growth rate in the economy, further encouraging investment in property as a 'flight to security' which in turn further depresses economic growth. The value of inheritance

is set to double over the next couple of decades, peaking at around £230bn.<sup>14</sup> If Labour wants to be the party of growth, it has to confront the present structure of UK inheritances.

The other side of the growing levels of inheritance in the UK are the barriers it is creating for opportunity; an aspiration the Labour Party is committed to through its fifth mission for government. The proportion of first-time buyers getting financial help from parents doubled between 2000-04 and 2015-19.<sup>15</sup> There are growing concerns that inheritance is excluding aspiring households from buying properties by bidding up the price of housing.<sup>16</sup> Amongst those parents who did not have property wealth, home ownership was a third the rate of those that did have property wealth.<sup>17</sup> All of this will make it harder for people to get on in life who lack the support that comes from inherited wealth – turning the clock back to the early 20th Century. A system of inheritance, unsurprisingly, favours those that already have considerable advantages. Labour must ensure that Britain does not become an 'inheritocracy'.<sup>18</sup>

The politics has changed and gives Labour the opportunity to be bold on inheritance. The fiscal environment further justifies such a stance. At the same time, Labour's missions make confronting inheritance a necessity.

The rest of this paper proceeds in four parts.

- **Chapter 1** describes the two periods in Labour history when the party undertook major changes to the taxation of inheritances.
- **Chapter 2** sets out what the public really thinks about taxing inheritance and shows that there is political room for manoeuvre.
- **Chapter 3** sets out why taxing inheritances is good for opportunity and delivering on Labour's missions.
- **Chapter 4** sets out a number of policy priorities that Labour should consider on inheritance tax.

10 Office for National Statistics, Government debt and deficit under the Maastricht Treaty: Summary tables, accessed August 2023

11 Ibid.

12 D. Goss & B. Glover, *Winning the Argument*, September 2023

13 D. Goss & B. Glover, *A New Age of Inheritance: What does it mean for the UK?*, January 2023 & Office for National Statistics, *Gross Domestic Product: chained volume measures - seasonally adjusted*, accessed August 2023

14 D. Goss & B. Glover, *A New Age of Inheritance: What does it mean for the UK?*, January 2023

15 Ibbetson C, 'How many people had help from their parents to buy their first home?', YouGov, May 2022, <https://yougov.co.uk/economy/articles/42453-how-many-people-parents-help-first-home-deposit>

16 L. Adkins & M. Konings, *Inheritance, not work, has become the main route to middle-class home ownership*, 9 November 2020

17 D. Goss & B. Glover, *A New Age of Inheritance: What does it mean for the UK?*, January 2023

18 T. Calver, *How house prices have made Britain an inheritocracy*, February 2023

# CHAPTER 1

## A RADICAL INHERITANCE: A SHORT HISTORY OF THE LABOUR PARTY AND THE TAXATION OF INHERITANCES

Labour cannot claim to have initiated the taxation of inheritances; that happened long before the party's foundation. However, twice when governing in the twentieth century, the Labour Party has undertaken significant, progressive reform of inheritance taxation.

### THE 1945-51 ATTLEE GOVERNMENT

The 1945-51 Labour government is well remembered for its institutional creations, particularly the National Health Service. There is less awareness, however, of its approach to taxation which paid for those innovations.

In the decades running up to the Attlee government, there was much interest in the taxation of wealth in Labour circles. In his influential *The Socialist Case*, Douglas Jay in 1937 argued for taxation as a means to achieving greater equality, with a particular interest in the taxation of inheritances.<sup>19</sup> Jay went as far as to claim that "taxation of inheritances must remain the crux of socialist policy".<sup>20</sup>

These views were shared by the Attlee government's first Chancellor, Hugh Dalton. In his 1946 Budget, Dalton reformed existing death duties in two

respects: first, increasing the rate for larger estates; second, exempting estates worth less than £2,000.<sup>21</sup> John Maynard Keynes, the groundbreaking economist and then-government advisor, argued against the higher rate for larger estates, describing how "this element of hate' in what could, and should, be a moderately cheerful and reassuring budget would be, psychologically, a false move and would spoil the tone of the rest of the budget message".<sup>22</sup>

Yet Dalton held his nerve, reassured by his understanding of the politics of inheritance taxation, as described by Whiting: "that Conservatives had never reduced them when they had been in office, and the wealthy had never made a significant agitation for their reduction in the twentieth century."<sup>23</sup> He was also supported by his colleagues, many of whom urged him to be even bolder. They included Hugh Gaitskell, later Labour leader, who urged that "Before he stops being Chancellor of the Exchequer I ask him to bring in a major reform, and strike a really hard blow at inheritances for the sake of social justice."<sup>24</sup>

Later in the Attlee government, Stafford Cripps - who replaced Dalton as Chancellor in 1947 - went further and sought to reform the system of inheritance

19 Douglas Jay, *The Socialist Case* (London, 1937), pp. 275; quoted in R.C. Whiting, *The Labour Party and Taxation: Party Identity and Political Purpose in Twentieth-Century Britain*, 2000

20 Douglas Jay, *The Socialist Case* (London, 1937), pp. 275; quoted in R.C. Whiting, *The Labour Party and Taxation: Party Identity and Political Purpose in Twentieth-Century Britain*, 2000

21 R.C. Whiting, *The Labour Party and Taxation: Party Identity and Political Purpose in Twentieth-Century Britain*, 2000

22 Ibid.

23 Ibid.

24 H. C. Deb., 421, col. 2001, 24 October 1946; quoted in R.C. Whiting, *The Labour Party and Taxation: Party Identity and Political Purpose in Twentieth-Century Britain*, 2000

taxation. Cripps inherited a system which used three different taxes for the treatment of inheritances. As he describes, the issue with this system was that it imposed “a proportionately heavier burden on the small than on the large estate” and that “three separate taxes on death causes a great deal of unnecessary work, both to the Inland Revenue and to executors.”<sup>25</sup> In response, Cripps undertook a significant simplification of the system, doing away with legacy duty and succession duty, with what was described as “a moderate lift in the scale of the new duty, as compared with the existing Estate Duty”.<sup>26</sup>

Higher rates of estate duties were remarkably durable. As Whiting writes, “the Conservatives in the 1950s respected these interests and did nothing to antagonise them. Death duties remained at a top rate of 80 per cent.”

## THE 1974-76 WILSON GOVERNMENT

Fast forward thirty years and we see a Labour government again grappling with the taxation of inheritances. In the regime inherited from Cripps, gifts - transfers made during one’s lifetime - were generally exempt. But to reduce avoidance, any gifts made within seven years of death were eligible for Estate Duty. The major issue with this provision is that those that are well-advised and organised, often the wealthy, make arrangements to give away much of their wealth, pre-death; thus avoiding tax.<sup>27</sup> It was this issue that Denis Healey, then Chancellor of the Exchequer, identified and sought to address:

*“Nothing is more offensive to the vast majority of ordinary taxpayers, most of whom are subject to PAYE, than the knowledge that people far better off than themselves are avoiding taxation by exploiting loopholes in the existing law. If the existing estate duty operated effectively, the great concentrations of private wealth would already have been broken up and with them many of the unfair advantages enjoyed by generation after generation of the heirs and relatives of wealthy men. In practice, however, estate duty has always been a largely avoidable, indeed, a voluntary tax. In particular, it does not bite on transfers of wealth made long enough before death to fall outside the charge ... I am determined to ensure that the new taxes will be effective instruments for redistributing wealth as a means to greater justice and equality in our society.”<sup>28</sup>*

Accordingly, Healey announced in March 1974 that in a second Finance Bill drawn up later that year a new tax would be introduced covering all transfers of capital, within lifetimes and at death. That tax was the Capital Transfer Tax, which differed from Estate Duty in two important ways. First, for the first time in UK history, it brought together a tax on all gifts made during life and estates at death, not just taxing gifts made in a period before death. Second, it was a cumulative system, so the amount paid on gifts depended on how much had been received in gifts previously, at progressive rates.

These changes proved less durable than Cripps’ reforms. With a change of government in 1979, a series of changes were made to CTT, eventually resulting in its replacement with the inheritance tax regime seen today. They also failed to deliver significantly higher revenues to the Exchequer than the regime CTT replaced. But they do represent a bold attempt to move to a both fairer *and* more efficient system.

## TACKLING INEQUALITY, BOOSTING OPPORTUNITY

These reforms happened during two rather different periods of British history; the first coming at the start of the forging of the postwar consensus, the second arriving as that consensus was very visibly fraying. What unites them in terms of their underpinning philosophy?

First, they represent a concern about inequality *in and of itself* and, as a result, a desire to reduce it. Yes, concerns about inequality have a long and deep association with the Labour Party, but they were significantly watered down during the last Labour government. This followed the ‘Third Way’ turn in Labour thinking in the 1990s, which Demos played a significant role in, and the prioritisation of other objectives - such as social exclusion - over inequality. This had real world implications: under New Labour the growth in income inequality seen under Thatcher was stalled but not reduced, and wealth inequality ballooned.

The post-crash era has seen a renewed interest among policy makers, intellectuals and the media in inequality, so much so that concerns about inequality are held far beyond the left today. Given this context, it’s not surprising that the discussed social science book of the post-crash period is surely Thomas Piketty’s *Capital*, a dense historical analysis of the evolution of inequality under western capitalism.

25 HC Deb 06 April 1949 vol 463 cc2088-90

26 HC Deb 06 April 1949 vol 463 cc2088-90

27 Antony Seely, Inheritance Tax, Research Paper 95/107, House of Commons Library, November 1995

28 Estate Duty Volume 871: debated on Tuesday 26 March 1974, Hansard

Looking back to the post-war period for lessons on tackling inequality no longer looks outdated or old fashioned, as it might have done under New Labour's heyday.

These reforms also appear motivated by concerns about how inheritances interfere with equality of opportunity. Pursuit of this goal, supported by initiatives such as the expansion of higher education, led to an extraordinary golden era for social mobility in the UK; 50% of individuals born in 1946 ended up in a higher social class than their fathers by 1986, a phenomenal achievement.<sup>29</sup> Again, this is an idea highly relevant to modern Britain, with recent Institute of Fiscal Studies analysis finding that social mobility is at its lowest for over 50 years.<sup>30</sup> In the next chapter, we explore in more detail the return of interest in social mobility to Labour thinking and why responding to the New Age of Inheritance should be at its heart.

## **A PROUD LEGACY**

These examples, from two different periods in Labour history, demonstrate the party's proud and courageous record on inheritance tax reform. They represent the best of Labour reforms, combining principles with practicalities. The principles are of social justice and equality, which in the New Age of Inheritance in the UK look more relevant than ever before; and the practicalities are of simplification and greater efficiency - goals still highly relevant today, given the UK's tax regime's extreme complexity.

But more than any of these, they demonstrate that being bold on the question of taxing inheritances is possible and - as we will explore in the next chapter - that the public can be won over. As Labour prepares for potentially its first transition to power for nearly thirty years, it would do well to be inspired by this honourable record.

29 Richards L, 'Can we ever return to the Golden Age of social mobility?', The British Academy, March 2016, <https://www.thebritishacademy.ac.uk/blog/can-we-ever-return-golden-age-social-mobility/>

30 <https://ifs.org.uk/inequality/intergenerational-mobility-in-the-uk/>

# CHAPTER 2

## NOTHING TO FEAR: WHAT THE PUBLIC REALLY THINKS ABOUT TAXING INHERITANCES

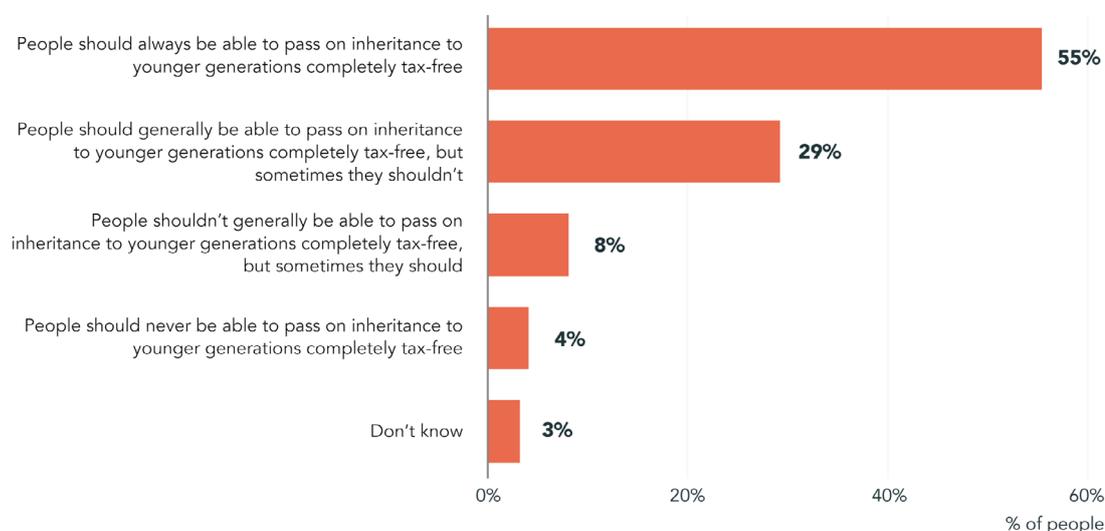
In this chapter we explore what the public really thinks about inheritance tax today. Drawing on recent research, we show why cutting inheritance tax is not the electoral slam dunk it is often presumed to be.

### TAXING INHERITANCES IS UNPOPULAR IN THE ABSTRACT, BUT VIEWS CHANGE CONSIDERABLY WHEN THE PUBLIC CONSIDERS SPECIFIC INHERITANCES

The idea that taxing inheritance is unpopular has become something of a truism in political and policy circles, but this is not supported by the data.

In the abstract, taxing inheritances appears unpopular. A Demos survey of 2,000 UK adults, conducted in December 2022, found that a majority of people (55%) think inheritances should always be tax-free.<sup>31</sup> Only 29% support the current system, in which the vast majority but not all inheritances are tax free (currently, only 3.8% of deaths result in an inheritance tax charge).<sup>32,33</sup>

**FIGURE 1**  
EXTENT OF PUBLIC SUPPORT FOR TAX-FREE INHERITANCE



Q4. Which of the following do you most agree with? Base, all respondents (n=2,037)

31 D. Goss & B. Glover, The Inheritance Tax Puzzle: Challenging assumptions about public attitudes to inheritance, 14 June 2023

32 Ibid.

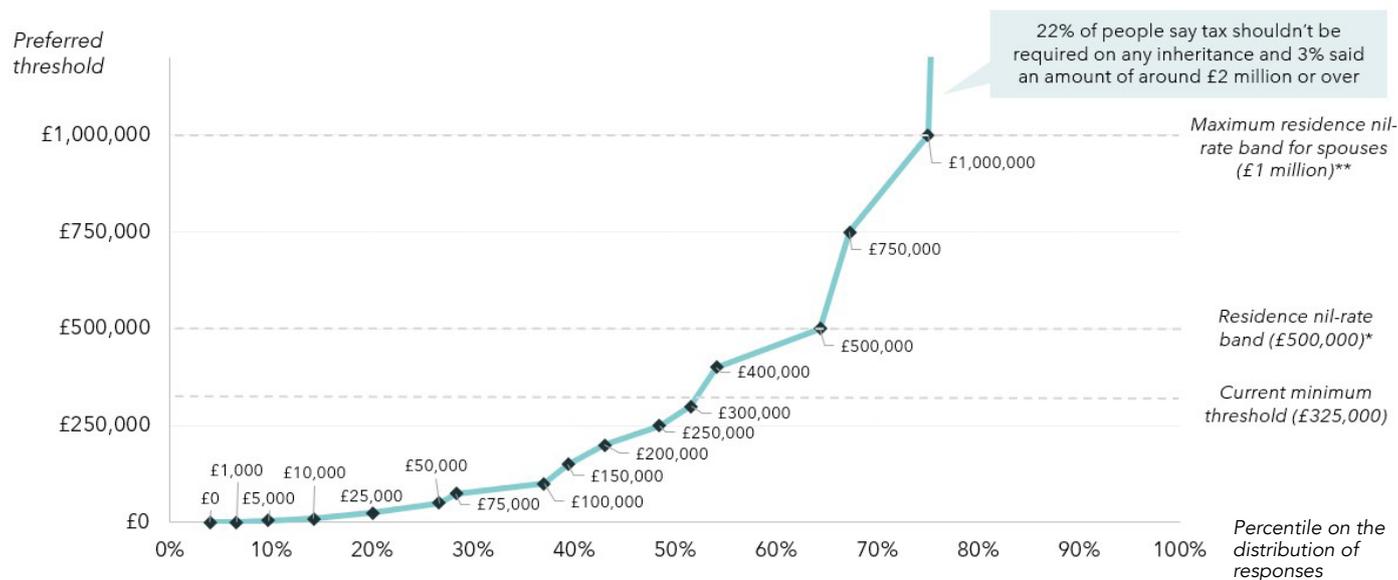
33 Ibid.

It is also relatively unpopular in comparison to other taxes. Polling by More in Common finds that Council Tax is the only tax less popular than Inheritance Tax.<sup>34</sup> Although it is important to note that it is only slightly less unpopular than VAT, a tax that we are not likely to abolish in the foreseeable future. Other surveys find similar results.<sup>35</sup>

Yet, beyond the headlines, there is strong evidence to suggest that attitudes are more nuanced.

When presented with various specific amounts of inheritance, only 22% (excluding 4% 'don't know') say all inheritance should be tax-free, regardless of the amount - 78% of people say some amounts of inheritance should be taxed; far less support for tax-free inheritance than when the public are asked in the abstract. This suggests that public opinion is more nuanced than top line survey findings often represent, and that how the issue is framed is likely to considerably affect public opinion.

**FIGURE 2**  
PREFERRED TAX THRESHOLDS FOR INHERITANCE

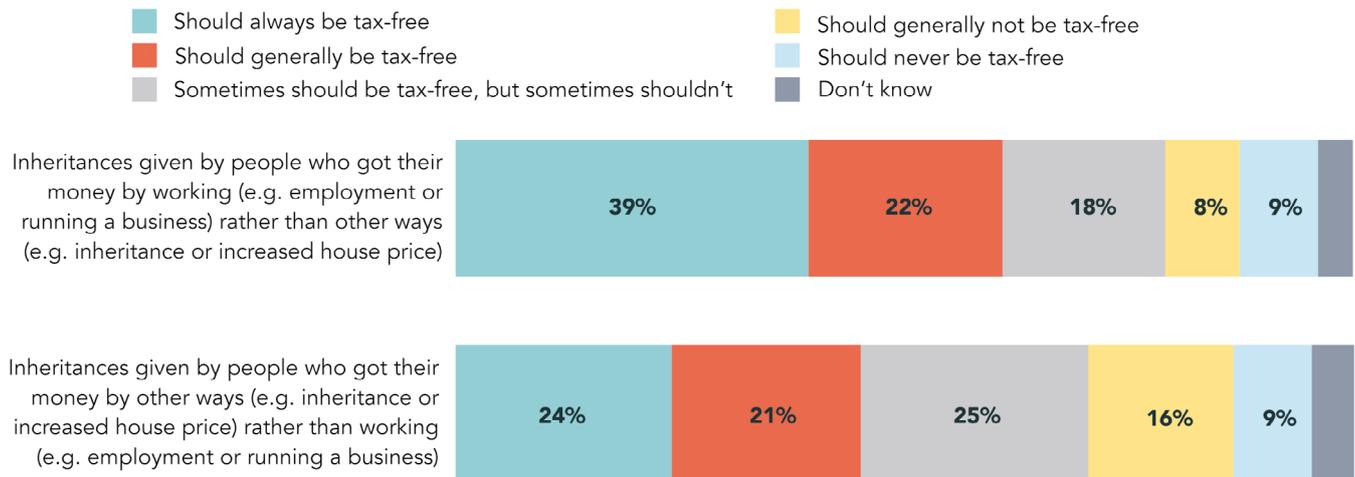


Q5. Around how much inheritance do you think people should generally be able to pass on to younger generations tax-free? Any more than this amount, a portion would be paid in tax. Base, all respondents other than those responding 'don't know' (n=1,955)

We also find that attitudes differ in accordance with different types of inheritance. While 39% of people think inheritances should always be tax-free if given by someone who acquired their wealth through work, just 24% think so for people who acquired it through other ways (e.g. inheritance or house price increases). Almost three quarters of respondents say inheritances given to people who didn't work for their wealth should be taxed in some instances.

34 <https://twitter.com/LukeTryl/status/1664160469681053697> (accessed 27 September 2023)

35 B. Ansell, A Puzzling Inheritance, 27 January 2023

**FIGURE 3****PUBLIC SUPPORT FOR TAX-FREE INHERITANCE FOR THOSE GIVEN BY SPECIFIC PEOPLE**

Q7. We want to know how people feel about inheritances given by different people in older generations. To what extent should inheritance be given by the following people be tax-free? Base, all respondents (n=2,037)

There are also stark differences with respect to different assets. While just 31% of people say low value physical assets should be taxed in some instances, 78% say a secondary home that has doubled in value should be, including 47% saying they should generally or always be taxed. Even when asked about main residences, 55% say they should be taxed in some instances.

These findings suggest that framing is highly significant in shaping how the public thinks about inheritances. In turn, this suggests that public attitudes towards the taxation of inheritances are not as fixed as is often presumed.

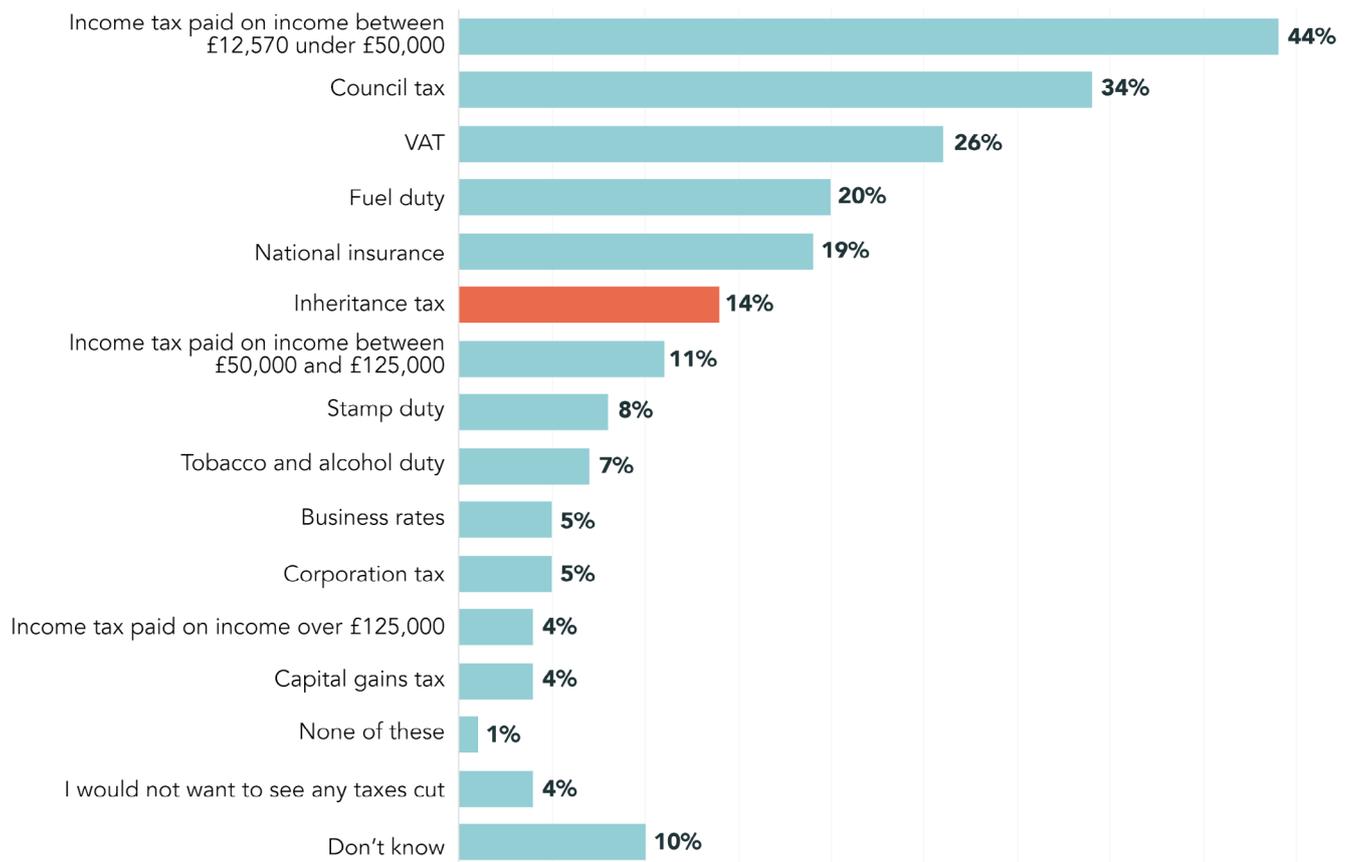
### **INHERITANCE TAX IS NOT A PRIORITY TAX CUT FOR THE BRITISH PUBLIC**

With this context in mind, it's perhaps unsurprising that cutting Inheritance Tax is not near the top of the list for the public's most preferred tax cuts.

Polling carried out by Ipsos in June 2023 finds that just 14% of the public wish to see an Inheritance Tax cut; with much higher support for Income Tax (44%), Council Tax (34%) and VAT (26%) cuts. Crucially, this finding holds across the political spectrum; 2019 Conservative voters (16%) were only marginally more likely to support an inheritance tax cut than Labour voters (12%). People also tend to significantly overestimate the proportion of people who pay inheritance tax - if they realised the small proportion who do pay, support for a cut may be even lower.<sup>36</sup>

36 D. Goss & B. Glover, The Inheritance Tax Puzzle: Challenging assumptions about public attitudes to inheritance, Demos, 14 June 2023

**FIGURE 4**  
PUBLIC SUPPORT FOR VARIOUS TAX CUTS



Source: Ipsos, June 2023. Q: Imagine that the government was in a position where it felt it could cut taxes. Which, if any, of the following types of tax would you most prefer to see cut? Base, 1,078.

This echoes our finding that, while people are highly opposed to inheritance tax when asked about it in an abstract sense, they are much more supportive when thinking about specific inheritances or which tax to cut. This may be because people answer the abstract question in terms of whether they personally would be happy to pay it - most wouldn't because of initial negative associations with the tax. Yet, when asked about specific amounts of money (as we did) or which tax to cut from the perspective of the Chancellor (as Ipsos did), many people start to think about it in terms of amounts much larger than what they personally expect to give, or as a government policy with trade-offs - and then their thinking shifts.

A national policy debate on this issue may be much more reflective of the latter frames of thinking. Our focus groups - whereby people's initial associations about inheritance tax quickly became less salient in more in-depth discussions - clearly showed that potential.<sup>37</sup>

37 D. Goss & B. Glover, *Winning the Argument: How to unlock public support for inheritance taxation*, Demos, 26 September 2023

## THE PUBLIC WANTS PUBLIC SPENDING OVER TAX CUTS

We have seen that public attitudes towards inheritances are more nuanced and complex than is often presumed. In this section we explore another challenge to those seeking to abolish or cut Inheritance Tax: what this would mean for the public finances.

This is because tax cuts do not operate in a vacuum; unless a tax cut can be expected to boost the economy, they can come at a significant fiscal cost, reducing the amount available for spending on public services. Tax cuts also influence the broader structure of the economy, a point we will address later in this paper. Given that there is little evidence a tax cut would stimulate economic growth to make up for the forgone revenue,<sup>38</sup> it is clear that the £7bn currently scored by Inheritance Tax per annum would be lost.<sup>39</sup>

And evidence suggests that the British public are concerned about these trade-offs when engaging with the issue beyond a survey. Demos explored this in our recent focus groups looking at different attitudinal groups around inheritance taxation (including those highly opposed and those relatively supportive). We found that people across all groups recognised the importance of inheritance taxation to public funds, and were very aware that cutting it would either mean cuts to public spending or increases in other taxes (particularly on earnings). The large majority of those we spoke to felt that, despite concerns about the tax, there should be some level of taxation - and even those most highly opposed often felt that it was a 'necessary evil'.<sup>40</sup> These views may better reflect how people would actually respond to a cut, rather than surveys asking about the issue in isolation.

*If we disagree with the inheritance tax and we scrap it, we've got to find that 7 or 8 billion pounds from somewhere else... If you're not taxed while you're working, it's better off to be taxed when you're dead.*

33, Male, West Midlands, Homeowner.

*If you keep taking away everything being given to the government, where's the money going to come from to support people or to support services.*

63, Female, East of England, Homeowner.

This is unsurprising. As a country, we have fallen back in love with the state. 52% of the public are in favour of higher taxes to spend more on public services, with 40% thinking we should keep tax and spend the same, and just 6% seeking lower taxes and spending. Indeed, this is a view popular across the political spectrum; there is only a small difference between Conservative (46%) and Labour supporters (61%).<sup>41</sup>

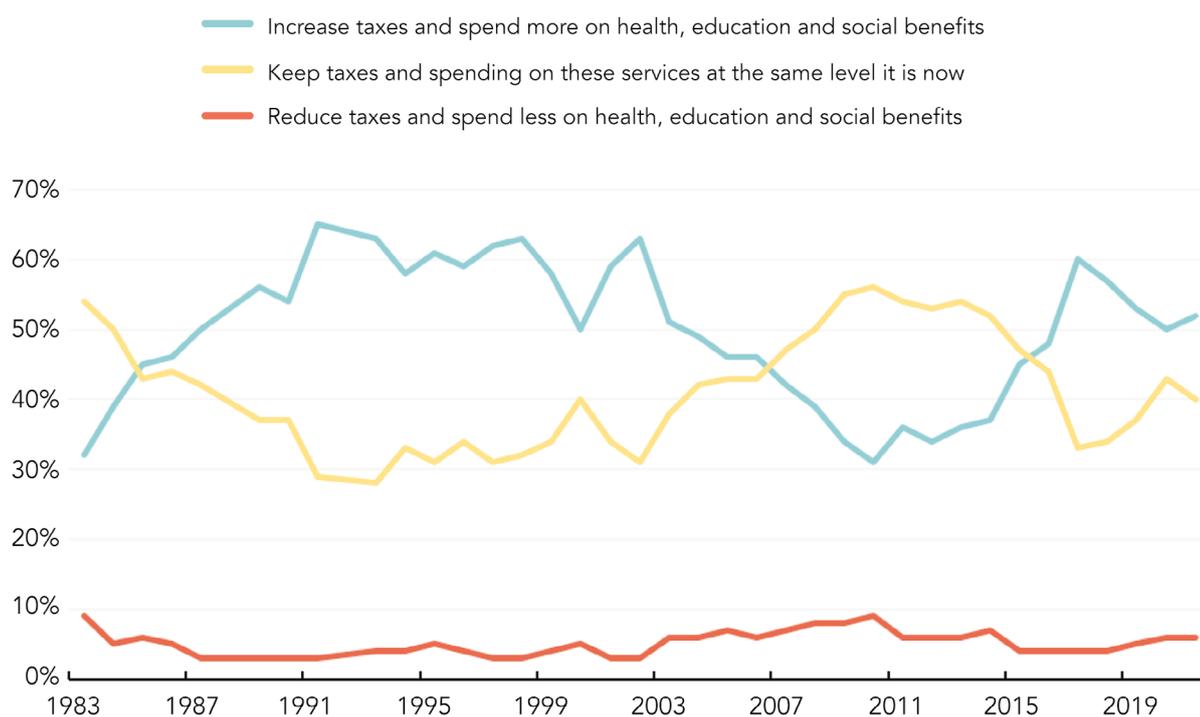
38 E. Fize at al, Can Inheritance Taxation Promote Equality of Opportunities?, 1 September 2022

39 Office for Budget Responsibility, Inheritance Tax, accessed August 2023

40 D. Goss & B. Glover, Winning the Argument: How to unlock public support for inheritance taxation, Demos, 26 September 2023

41 National Centre for Social Research, British Social Attitudes 39 - Taxation, welfare and inequality, 202

**FIGURE 5**  
ATTITUDES TOWARDS TAXATION AND SPENDING ON HEALTH, EDUCATION AND SOCIAL BENEFITS 1983-2021



Source: British Social Attitudes apart from additional data points in 2020 and 2021 from NatCen Panel

This is not a recent phenomenon. Since 2016 the British public have preferred higher taxes and spending to other alternatives, after around a decade - starting in 2007 - in which the preferred stance was for taxes and spending to remain the same. This shift remains post-Covid, a period which has done little, it appears, to alter public attitudes towards taxation.<sup>42</sup>

### **INHERITANCE TAX CUTS AREN'T A PRIORITY**

Cutting or abolishing inheritance tax is far from the electoral slam dunk it is often presumed to be.

First, public attitudes are more complex towards inheritance tax than is often presumed. Yes, it is a relatively unpopular tax compared to others, but once you move towards the specifics with the public, their views shift considerably. There is also strong evidence that framing is likely to significantly alter how the public thinks about inheritances, suggesting the public's views on this issue are not as fixed as they might first appear.

Second, cutting inheritance tax is not a priority for the vast majority of the British public. They would

much rather see other taxes cut, such as income tax, council tax, VAT, fuel duty or national insurance.

But, third and perhaps most importantly, tax cuts just aren't a priority for the British public today. Support for higher taxes and spending has been consistently the preferred position among the public since around 2016; a view which looks fairly settled and has survived major shocks such as Covid.

This is not 2007, where a well articulated proposal to cut inheritance tax can spark an electoral resurgence for a political party. The Labour Party would do well to remember this today when considering how to respond to the potential abolition of inheritance tax.

42 Ibid.

# CHAPTER 3

## THE PRO-OPPORTUNITY, PRO-ASPIRATION ARGUMENT FOR TAXING INHERITANCES

Having considered short-term political challenges and how Labour should respond, we now turn to longer-term questions. In doing so, we consider Labour's renewed interest in the notion of 'opportunity' and how it relates today to inheritances.

### THE RETURN OF OPPORTUNITY

A perennial idea in recent Labour thought, speeches and announcements has signalled the return of the concept of opportunity in Labour circles. The party has indicated its desire to organise government around the delivery of five 'missions', the fifth of which relates to opportunity. As Starmer described when launching his party's opportunity mission in July 2023, this is about:

*"...[fighting] the pernicious idea that background equals destiny. That your circumstances, who you are, where you come from, who you know, might shape your life more than your talent, your effort and your enterprise."<sup>43</sup>*

Starmer has gone on to describe how this is rooted in his own experience, going as far as describing it as his "personal cause".<sup>44</sup> This is, in essence, a classic argument for equality of opportunity: the principle that places in a social hierarchy should be determined by some form of competitive process, in which all members of society are free to compete on equal terms.

### THE PRO-OPPORTUNITY ARGUMENT AGAINST TAXING INHERITANCES

Given the return of opportunity to Labour thinking, many would argue that this leads you towards a position of opposing the taxation of inheritances. The argument often goes something like this: people work hard to be able to pass on something to their children and grandchildren. As a consequence, any attempt to tax inheritances is therefore a tax on aspiration and opportunity. This line of argument calls for the reduction or even abolition of taxes on inheritances.

It is an argument that has found supporters across the political spectrum, particularly on the right of British politics. Today, The Telegraph regularly decries inheritance tax as a "tax on aspiration".<sup>45</sup> Returning to 2007, senior Conservative figures, including George Osborne, frequently applied the same label to inheritance tax.<sup>46</sup> While such arguments are less common on the centre-left, some have made the case. In 2006, Stephen Byers, a former Cabinet Minister under New Labour, called Inheritance Tax "a penalty on hard work, thrift and enterprise". Also in the late 2000s, Ed Balls pushed for changes to inheritance tax on the basis they were "aspirational".<sup>47</sup>

Although politics is important, the truth is that cutting or scraping inheritance tax would directly undermine Labour's efforts to spread opportunity. According to The Institute for Fiscal Studies' (IFS) modelling of UK households led by people born in

43 K. Starmer, Keir Starmer unveils Labour's mission to break down barriers to opportunity at every stage, 6 July 2023

44 Ibid.

45 D. Johnson, The death tax is not just bad economics, it's immoral, 4 June 2023

46 G. Osborne, Shadow Chancellor: We WILL scrap death tax on family homes, 18 August 2007

47 P. Waugh, Few people pay inheritance tax - but it's still a tricky topic for Labour, 1 June 2023

the 1980s from the wealthiest backgrounds (with parents in the top fifth), just 7% are expected to end up with the lowest lifetime incomes (in the bottom fifth).<sup>48</sup> In contrast, 40% of households from the least wealthy backgrounds (parents in the bottom fifth) are expected to end up with the lowest incomes, making them six times more likely than those from the wealthiest backgrounds to end up in this group. Yet once inheritances are taken into account, this picture becomes even more unequal. Accounting for inheritances, UK households led by those born in the 1980s from the least wealthy backgrounds are expected to be 12.5 times more likely to end up with low lifetime. Not only do inheritances fail to be a force for opportunity, their uneven distribution means they limit opportunities for people with less wealth to rise up in society.

There are other ways that Labour can show it is on the side of 'opportunity' that does not involve giving in to calls to scrap or cut taxation on inheritances. In the rest of this chapter we set out how this argument is wrong and why a pro-opportunity Labour Party must not be drawn to it.

## DEBUNKING THE PRO-OPPORTUNITY CASE AGAINST TAXING INHERITANCES

### 1. The vast majority of inheritances are not taxed and that should continue

Despite being widely framed as a tax on aspiration, it's worth drawing attention to the fact that very few people actually pay Inheritance Tax. Currently in the UK, just one in every 25 deaths result in an inheritance tax charge.<sup>49</sup> For those outside London and the South East, it's one in every 50.<sup>50</sup>

In the North East, only one in every 71 deaths results in an inheritance tax bill

**FIGURE 6**  
DEATHS PER REGION, BY INHERITANCE TAX STATUS (2020/21)



48 D. Goss & B. Glover, *The Inheritance Tax Puzzle: Challenging assumptions about public attitudes to inheritance*, 14 June 2023

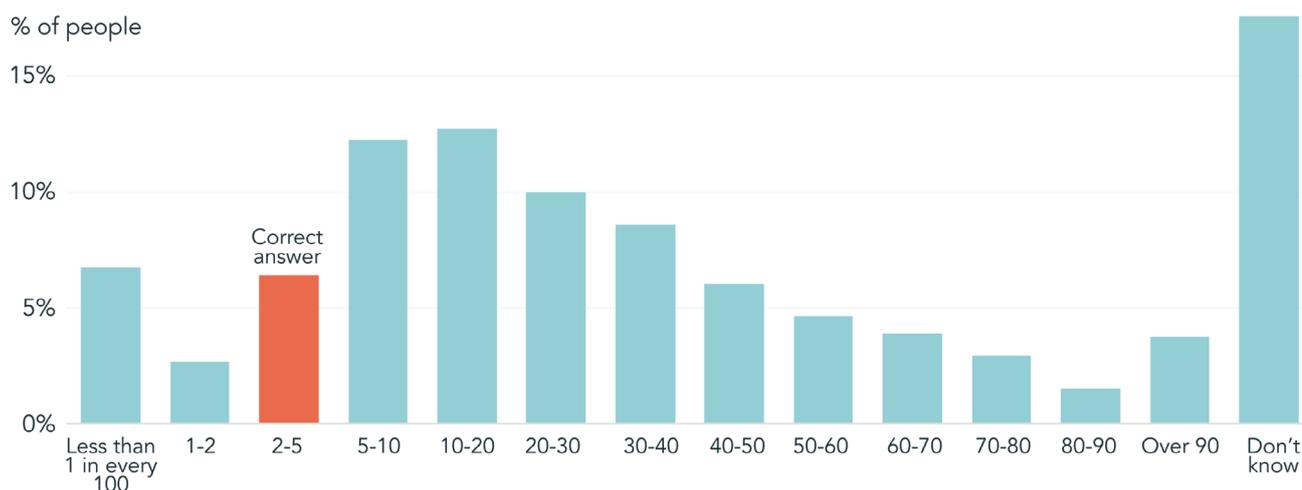
49 HMRC, *Inheritance Tax statistics: commentary*, 28 July 2022

50 Goss D, 'In Wales, Scotland, the North West, and Yorkshire, just one in every 50 inheritances are charged the tax. In the North East, it's just one in every 71.' Twitter, September 2023

This is important because we know the public believe that significantly more deaths incur an inheritance tax than happens in reality. In recent Demos polling, 81% of the public estimated that at least 5% of deaths result in inheritance tax being due, with the median estimate at between 20% and 30% of deaths. Just under a fifth of people did not provide an estimate, suggesting a significant proportion of people feel too uncertain about the correct answer.

**FIGURE 7**

ESTIMATES OF HOW MANY DEATHS PER 100 RESULT IN INHERITANCE BEING DUE



Q43: We want to understand your views on how often people have to pay inheritance tax. For every 100 deaths in the UK, in how many do you think inheritances tax is due? Base, all respondents (n=2,037)

## 2. Most inheritances are not built up through 'hard work'

It is a common view that most people in the UK built up their wealth through hard work and saving and that taxing their inheritance undermines those efforts. However, this is not the case, as most wealth in the UK has been accumulated through rising asset prices rather than people saving.

All household wealth in the UK was worth around three times as much as GDP in the mid-1980s, but this had increased to eight times as much by 2021.<sup>51</sup> Resolution Foundation analysis finds that savings accounted for only a quarter of this increase; the rest was caused by rising asset prices, associated with low interest rates.<sup>52</sup> Without the increased prices throughout this period, total wealth would have been nearly £8 trillion lower in 2021.

The benefits of this are also shared among a very small minority of people. Only 0.5% of UK adults built wealth through taxable capital gains in 2017/18 - and 62% of that went to just 9,000 people, each receiving gains of over £1 million.<sup>53</sup>

51 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

52 Ibid

53 Corlett A, Advani A and Summers A, Who gains? The importance of accounting for capital gains, Resolution Foundation, May 2020

### 3. Inheritance taxation could keep some people in work

At a time when the UK is facing severe labour shortages and the government is taking on large costs to incentivise people back into work (e.g. through pension tax relief), inheritance taxation could help keep in work this while bringing in revenue.<sup>54</sup> Inheritances can, on occasion, lead people to leave work.

IFS modelling finds that receiving an inheritance does cause a small proportion of people in the UK to leave work, mainly via early retirement, and this is supported by various international studies.<sup>55,56,57</sup>

Taxing inheritance could therefore reduce this negative impact on labour supply.<sup>58</sup> Research in Germany, for example, shows that for every euro raised from inheritance taxes, the government raises 9 cents in income tax revenue due to higher labour supply.

Increasing the labour supply, given our labour shortages, is an important way that we can generate economic growth which in turn is one of the most effective ways to boost opportunity.

### 4. Inheritances are not a 'leg up' for working people

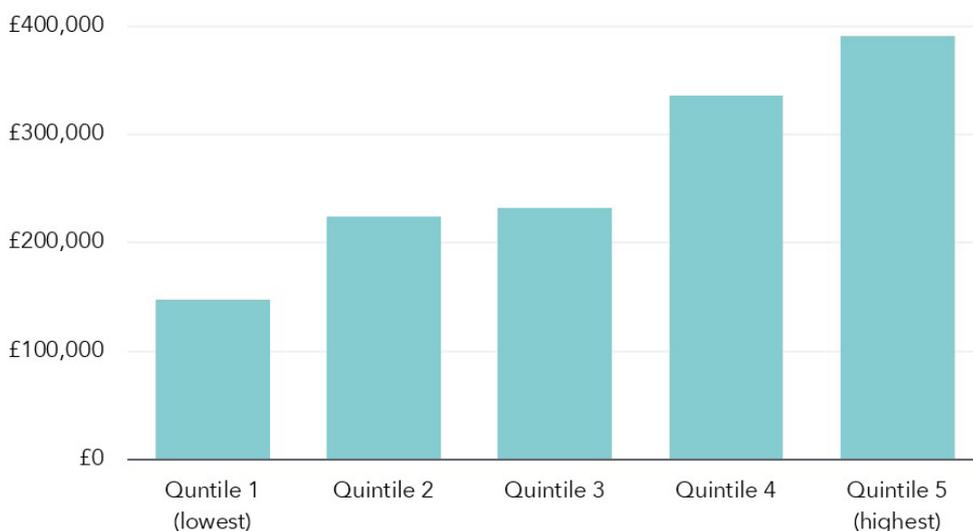
Underpinning the anti-inheritance tax argument is often a sense that they are a means for working people to build up a degree of financial independence. In reality, however, the lion's share of inheritances are received by those who tend to already enjoy significant privilege: those with higher incomes, living in more affluent regions and with higher education levels. Recipients of inheritance are also significantly more likely to not be from an ethnic minority background.

#### Income

Incomes are highly unequally distributed in the UK, but inheritances are distributed even more unequally. For people born in the 1980s, those with lifetime household incomes in the top fifth are expected to inherit two-and-a-half times as much as those in the bottom fifth.<sup>59</sup> The top fifth are ten times as likely to receive inheritance over £250,000 as those in the bottom half of the income distribution.<sup>60</sup>

## FIGURE 8

PROJECTED MEDIAN LIFETIME INHERITANCE RECEIVED PER UK HOUSEHOLD (IN 2018/19 PRICES) FOR THOSE BORN IN THE 1980S, BY QUINTILE OF LIFETIME (NON-INHERITED) INCOME



Notes: Based on IFS simulations using the English Longitudinal Study of Ageing and the UK Household Longitudinal Study. Does not include gifts.

Source: 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/publications/inheritances-and-inequality-over-life-cycle-what-will-they-mean-younger-generations>

54 HMRC, Policy Paper - Pension Tax Limits, 17 March 2023

55 Institute for Fiscal Studies, *Inheritances and inequality over the life cycle: what will they mean for younger generations?*, April 2021

56 K. Doorley, *Labour Supply after inheritances and the Role of Expectations*, 13 February 2020

57 J. Brown, *The Effect of Inheritance Receipt on Retirement*, May 2010

58 F. Kindermann, *Inheritance taxation and wealth effects on labour supply of heirs*, November 2020

59 Institute for Fiscal Studies, *Inheritances and inequality over the life cycle: what will they mean for younger generations?*, April 2021

60 P. Johnson, *We inherit too much and earn too little*, 6 January 2017

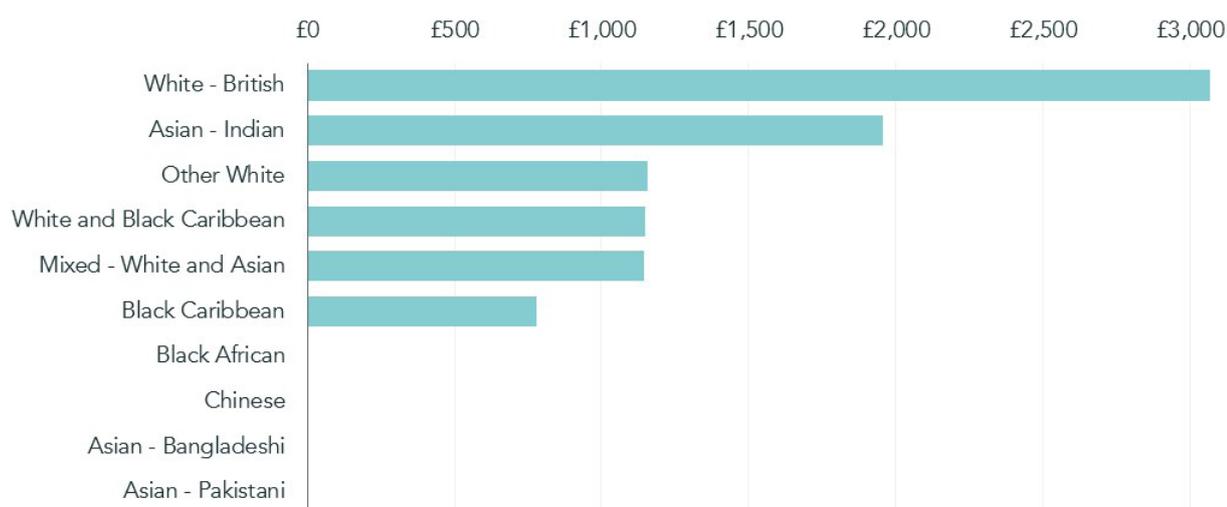
## Ethnicity

Recent years have rightly seen a light shone on racial injustice in the UK. Such injustice extends to the distribution of inheritances.

Taking a snapshot of inheritances received during 2016-2018, people of White British ethnicity typically received over £3,000 during this period, whereas people of Black African, Chinese, Bangladeshi and Pakistani ethnicity typically received nothing.<sup>61</sup>

### FIGURE 9

MEDIAN WEALTH TRANSFERS (INCLUDING INHERITANCES AND GIFTS) RECEIVED PER PERSON IN GREAT BRITAIN, 2016-18, BY ETHNIC GROUP



Notes: Based on ONS data on self-reported inheritances and gifts from the Wealth and Assets Survey. Only includes inheritances and gifts worth over £500.

Source: Bangham G, *A gap that won't close: The distribution of wealth between ethnic groups in Great Britain*, Resolution Foundation, 22 December 2020, <https://www.resolutionfoundation.org/publications/a-gap-that-wont-close/>

## Region

The government's levelling up agenda has sparked renewed interest in regional inequalities, with a particular interest in boosting regional economies outside the South East of England and London. Yet, the New Age of Inheritance may exacerbate existing regional inequalities.

A typical person born in the South of England in the 1970s is set to inherit around three-and-a-half times as much as a typical person born in the North East of England.<sup>62</sup> To put this in more concrete terms: a typical person born in the South East has parents with roughly £270,000 of wealth per child, whereas those born in the North East have only £80,000 per child.<sup>63</sup> These disparities have been expanded by recent changes in wealth; while wealth in London

<sup>61</sup> Resolution Foundation, *A gap that won't close*, 22 December 2020

<sup>62</sup> Institute for Fiscal Studies, *Inheritances and inequalities within generations*, July 2020

<sup>63</sup> Ibid.

and the South East grew in real terms by 62% and 43% respectively from 2006-08 to 2018-2020, it reduced by 17% in the North East during that period.<sup>64</sup>

Importantly, alongside differences between regions, there will also be stark disparities within regions. This is particularly the case in London, where the least wealthy 20% own just 0.2% of all wealth.<sup>65</sup>

### Education

Recent years have also seen policy and political interest in the divide between graduates and non-graduates.<sup>66</sup> Here too, inheritances look set to tilt the playing field in favour of the already-privileged.

It is widely known that those with higher levels of education tend to enjoy higher income levels. The data also tells us that those with higher levels of education have much wealthier parents, and can therefore expect to inherit more throughout their lives. According to IFS modelling of people in England born in the 1980s, a typical person with university-level education is expected to inherit £172,000 - almost twice as much as a typical person whose highest qualification is GCSE-level (£88,000).<sup>67</sup>

## 5. The inheritance landscape has changed since the 1990s; old ways of thinking don't apply

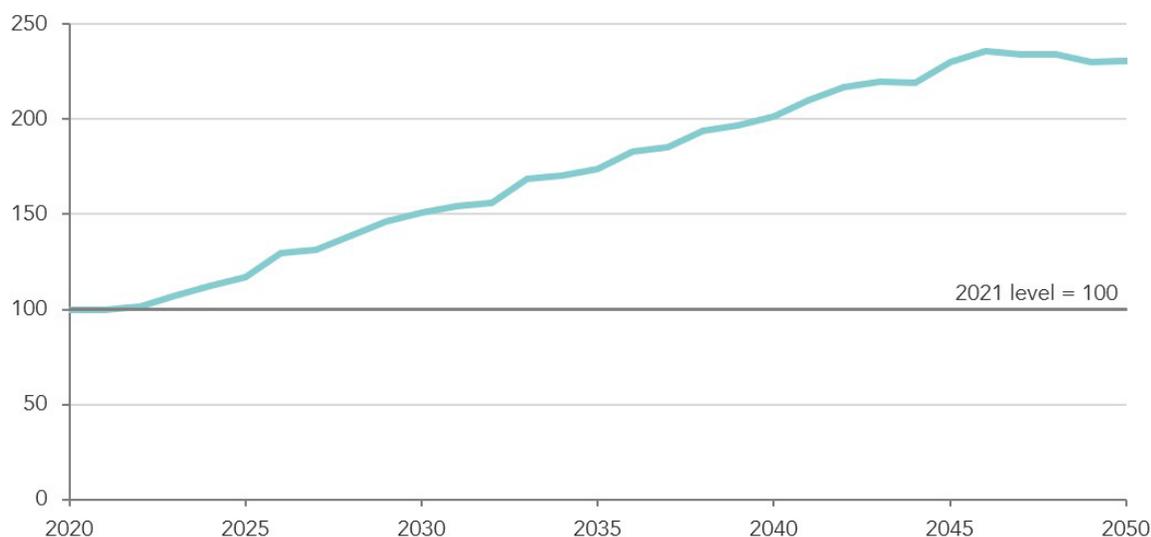
We have seen that inheritances are highly unequally distributed, according to incomes, ethnicity, region and education level. Given the intersectional nature of inequalities, this means inheritances are skewing life chances in favour of those already with power and privilege. These challenges are also intensifying, given the rapid growth in the value of inheritances.

In analysis of HMRC data conducted by Demos for *A New Age of Inheritance*,<sup>68</sup> we found that the value of inheritances reported to HMRC passed on annually in the UK doubled in real terms (in 2021/22 prices) from £24 billion in 1979 (FYE) to £48 billion by 1999, and then to £98 billion by 2020.<sup>69</sup> While the average reported estate was worth just £95,000 in 1979 (in 2021/22 prices), by 2020 it was £352,000.<sup>70</sup>

According to analysis by the Resolution Foundation, we can expect these trends to continue. The value of inheritances in England is expected to peak in 2046 at around 2.4 times its 2021 value (see Figure 2).<sup>71</sup> If the UK follows comparable trends, inheritances alone will be roughly worth over £230 billion each year.

**FIGURE 10**

INDEX OF EXPECTED BEQUESTS IN ENGLAND OVER TIME



Notes: Based on Resolution Foundation analysis of data on expected inheritances and distributional life expectancy from the English Longitudinal Study of Ageing and ONS National Life Tables

Source: Leslie J and Shah K, *Intergenerational rapport fair?: Intergenerational wealth transfers and the effect on UK families*, Resolution Foundation, 3 February 2022 <https://www.resolutionfoundation.org/app/uploads/2022/02/Intergenerationalrapport-fair.pdf>

64 Office for National Statistics, Household total wealth in Great Britain: April 2018 to March 2020, 7 January 2022

65 Trust for London, Proportion of total wealth held in each decile (2018-20), accessed August 2023

66 J. Green, 'Red Wall' Phenomenon At Risk Of Being A Red Herring, 24 May 2022

67 Institute for Fiscal Studies, Inheritances and inequalities within generations, July 2020

68 D. Goss & B. Glover, *A New Age of Inheritance: What does it mean for the UK?*, January 2023

69 Ibid.

70 Ibid.

71 Resolution Foundation, *Intergenerational rapport fair?* February 2022

## INHERITANCES ARE HOLDING BACK THE ECONOMY AND REDUCING OPPORTUNITY

The best way to spread opportunity is to get the economy growing strongly. The period after the second world war saw inherited wealth significantly reduced and was matched by one of the strongest periods of economic growth and improvement in living standards in British history.<sup>72</sup> This is why Labour has also committed to achieving the highest sustained growth in the G7.

Although there is no evidence that higher levels of inheritances directly lead to lower levels of economic growth (most likely due to a lack of study), higher levels of wealth inequality have been found to hamper growth. Analysis by Credit Suisse of 45 sample countries between 2000-2012 found that wealth inequality is negatively associated with cross-country economic growth.<sup>73</sup> The structure of UK inheritance currently is very unequal and is contributing to higher concentrations of wealth in our society. One solution to this is to spread inheritance more fairly across society, but given the fiscal context this is likely to be beyond the reach of the government.

Interestingly, given the Shadow Chancellor's commitment to 'securonomics', analysis has found that concentrations of wealth hinders wealth accumulation and leads to higher levels of indebtedness for the rest of the population.<sup>74</sup> Wealth concentration has been found to limit the ability of the less wealthy to invest in human capital.<sup>75</sup> At a macro-level, the 'savings glut' created through concentrated wealth also has to find its way into the rest of the financial system, which tends to happen via providing more finance - and thus debt - to the poorest in society.<sup>76</sup> If Labour wants to be the party of financial security, it needs to tackle wealth concentrations, which are strengthened and consolidated through inheritance.

The structure of UK inheritances also risks holding back the UK economy in another way. In 2000, around a quarter (24%) of inheritances were made up of financial securities (e.g. bonds, shares etc.). Securities are important because they provide access to investment capital and add liquidity to financial markets increasing their resilience. By 2020, this had fallen to 15%. Over the same period, property rose from 39% of assets to 54%.<sup>77</sup> As Figure 11 shows, this has been driven by the considerable growth in property investments.

**FIGURE 11**

GROWTH IN ASSET CLASSES (PROPERTY AND SECURITIES) IN INHERITANCES (100 = 2000 LEVELS)



72 T. Piketty, *Capital in the Twenty-First Century*, 2013

73 M. Islam & M. McGillivray, *Wealth inequality, governance and economic growth*, June 2020

74 R. Reeves, 'Securonomics', 24 May 2023

75 OECD, *In It Together: Why Less Inequality Benefits All*, 2015

76 A. Mian et al, *The Saving Glut of the Rich*, 4 March 2023

77 Demos analysis of estates reported to HMRC, the true levels of inheritance could be considerably higher

Repeated studies have shown property investment is unlikely to create technology spillover overs, reducing productivity and holding back growth.<sup>78</sup> Housing investment can also lead to misallocation of capital that further reduces investment in productive sectors that can create good work and opportunities.<sup>79</sup> The government is exploring a number of ways to boost investment in the UK, including through pooling pension funds together, but has ignored the role that inherited wealth is having on the structure of UK capital markets.

Given the UK's productivity crisis, Labour needs to confront those structural problems that are holding back the economy. The way that UK inheritances are accumulated is a challenge that Labour must confront if it wants to be the party of growth and opportunity.

## **HISTORY REPEATING ITSELF?**

With the return of opportunity and aspiration to Labour thinking, we expect to see claims, whether privately or publicly made, that this should lead Labour towards a position against the taxation of inheritances. This has happened in the past and we would expect it to happen again.

However, as we have outlined in this chapter, the arguments that cutting inheritance tax will support aspiration is weak. If anything, it is likely to undermine aspiration by enabling a small group in society to pull further away from the rest.

If Labour wants to be the part of growth and aspiration, it needs to be clear-headed in its thinking on inheritance.

78 D. MacLennan & J. Long, How does the housing market affect UK productivity? 23 February 2023

79 S. Doer, Housing Booms, reallocation and productivity, November 2020

# CHAPTER 4

## WHAT SHOULD LABOUR DO ON INHERITANCE TAX?

With Labour's attention turning to government, the party needs a plan for how it is going to engage with inheritances. In this chapter, we suggest an approach for the party in the short, medium and long term.

STAGE	GOAL	MESSAGE
<b>Pre-election</b>	Defend the principle of taxing inheritances and ensure IHT is not scrapped, and explore reforms to address concerns, such as closing loopholes, hypothecating it to compelling spending commitments, and easing the administrative burden.	It's right that inheritances are taxed to pay for vital public services.  But we recognise IHT is imperfect - we will consult in government on a new regime.
<b>New government (first two years of government)</b>	Developing and implementing a new regime to tax inheritances more fairly.	We are on the side of those that want to earn, save and leave something for their loved ones, but we need to design a tax system which is fair and proportionate.  Our current system is not fit for purpose.
<b>Established government (second half of Parliament &amp; second term)</b>	Establish an independent cross-party Royal Commission on Inherited Wealth to design a policy framework to spread wealth and opportunity fairly across the UK.	Inherited wealth is becoming an ever bigger part of our society and economy, and we need to develop a new policy framework for the 21st Century. If we duck this issue, we will risk reducing opportunity to future generations and holding our economy back.

## Short-term priorities

As we have seen earlier in this report, there is a high likelihood that the government will seek to abolish inheritance tax between now and the next election. How should Labour respond? As we have argued throughout this paper, we believe there are weaker political grounds for abolishing inheritance tax than is often presumed. Many of the negative associations that people initially have about inheritance taxation become less salient when discussing it as a policy. We have also seen that if you are committed to extending equality of opportunity, as Keir Starmer's Labour Party appears to be, then there is a need to at least maintain existing levels of inheritance taxation.

That being said, the current system of inheritance tax is riddled with unfairness and complexity. Estates worth over £10 million pay a lower effective tax rate than those worth £1.5m-£2m.<sup>80</sup> Equally, a small number of estates with agricultural and business property benefit from hugely valuable exemptions

to inheritance taxation - despite these exemptions being designed to protect smaller businesses and farms. In 2019/20, just 113 estates claimed over £1bn of business property exemption, while just 71 estates claimed around £325m of agricultural property exemption. People across Demos's focus groups expressed frustration with inheritance tax that not everyone is paying their fair share.

The exemptions and conditionalities are also overly complex.<sup>81</sup> Alongside agricultural and business property relief, there are different thresholds for married couples, for primary homes (with provisions to enable downsizing), for pension wealth and for inheritances with charitable donations. There are also complex rules around gifts (such as varying rates), capital gains, trusts, and assets that have been transferred but a person still benefits from them. The Office of Tax Simplification argues that many of these are too complex and recommends simplifications.<sup>82</sup> People in our focus groups also felt frustrated by the complexity of it - particularly in the context of a death.

### GIVEN THIS, LABOUR SHOULD:

1. Defend the principle of the taxation of inheritances.
2. Acknowledging the shortcomings and unfairness of the current Inheritance Tax regime, committing to consulting on a new, simpler, fairer system for taxing inheritances.

With respect to (1) above, through our public attitudes research we have identified the following arguments as likely being most effective for defending the principle of the taxation of inheritances:

- **Emphasising the trade-offs** - stressing that a cut to inheritance tax will be funded either by spending cuts or other taxes rising, both of which would be harmful during a cost of living crisis.
- **Emphasising current thresholds** - highlighting that the large majority of estates worth under a million pounds are not charged inheritance tax. This will help reframe it as a tax mainly on higher amounts of wealth. Meanwhile, the emotive - often negative - associations with inheritance tax often slip away when people discuss thresholds and estates of particular value, rather than discussing the tax in general..
- **Associate it more strongly with taxing wealth rather than work** – highlighting that huge sums of wealth are passed on in the UK and that inheritance tax means this - rather than workers' incomes - helps fund public services more. This would help tackle the feeling that it is an anti-aspirational tax on the hard-earned savings of workers.

80 HMRC, Inheritance Tax statistics: commentary, 26 July 2023

81 Office for Tax Simplification, Inheritance Tax Review - second report: simplifying the design of Inheritance Tax, July 2019

82 Ibid

## Medium-term priorities

As argued above, if the principle of taxing inheritances is to be defended, there is a need to reform the current inheritance tax regime.

Currently inheritance tax in the UK is charged on the value of an estate passed on at death (which includes gifts passed within seven years before death beyond an annual amount). Each estate gets a tax-free allowance of £325,000, but there is an additional allowance for primary homes (an extra £175,000), and couples can combine their tax-free allowances. This means the large majority of estates worth under £1 million are not charged inheritance tax. After an estate exceeds its tax-free allowance, a 40% flat rate tax is applied. The allowances are not affected by what people receive in inheritance - only what is passed on. There is also a capital gains uplift, meaning capital gains tax is only charged on the gains occurring after assets are inherited. However, there are a range of potential alternatives to this system.

- 1. The Spain example.** A progressive tax rate is applied to inheritances depending on how much is received, with the rates varying depending on the receiver's net wealth (prior to receiving the inheritance) and the relationship between the giver and receiver.<sup>83</sup>
- 2. The Germany example.** A progressive tax rate is applied to inheritances depending on how much is received, with the rates varying just depending on the relationship between the giver and receiver.<sup>84</sup>
- 3. The Ireland example.** A flat rate tax (33%) is applied on any gifts and inheritances received beyond a certain lifetime allowance (which is €335,000 for receipts from parents, but much smaller for receipts from others).<sup>85</sup>
- 4. No capital gains uplift.** Of the 29 OECD countries who have capital gains taxes, only 13 have capital gains uplifts at death.<sup>86</sup> In 15 countries - including Germany, Italy, and Japan - capital gains are seen as being transferred over at death, and the tax applies from when the asset was purchased.<sup>87</sup> In three countries, capital gains are taxed at death.

A new Labour administration should consult on and develop proposals for change and engage with the public to ensure that the new system has as wide a public consensus as possible. We at Demos will be continuing research to support this understanding.

83 EY, Worldwide Estate and Inheritance Tax Guide 2023, July 2023

84 Ibid.

85 Ibid.

86 OECD, Inheritance Taxation in OECD Countries, May 2021

87 Some countries have different systems in place for different asset types, so are counted twice

## Longer-term priorities

We have seen throughout this paper how and why the 'New Age of Inheritance' poses a significant risk to building an 'opportunity society'. In response, Labour must defend the principle of inheritances and reform the system of inheritance tax.

However, we need a long-term approach to dealing with inheritance and wealth. The diminishing importance of inherited wealth during the first half of the twentieth century has led policy makers to duck this important topic. However, repeated studies in recent years have highlighted that inherited wealth is back as a major factor in our economy and society. As we have noted, this could have a significant impact on the UK economy and restrict opportunities for future generations, particularly those from poorer backgrounds.

In order to tackle the build up of inheritances, we need to consider how inherited wealth is shaping our society and economy - and how we can design a fair approach to tax that allows people to earn, save and provide for their families whilst allowing a strong, vibrant economy.

The rough-and-tumble of politics means that this kind of question is unlikely to be one that Ministers have time to answer. It also needs to be a dialogue between government and the public, not just a technical matter. A solution to this would be to create a Royal Commission on Inherited Wealth, to investigate the questions outlined above. This Royal Commission should have cross-party appointments as well as a strand of public participation to provide the platform for a long-term consensus.

Crucially, Labour needs to be honest about the interactions between wealth, inheritance, social outcomes and our economic performance. Inheritance is not an unconnected by-product of our society and our economy. The size, type and distribution of inheritance actively shapes the economy and society. A Royal Commission could lay the groundwork for a comprehensive policy framework for inherited wealth, not just its taxation.

# CONCLUSION

Labour should not fear a debate about inheritance.

The public has a more nuanced set of views on inheritance than they are given credit for.

This is not 2007, Labour should not be spooked by those that are advocating a cut in inheritance tax as a potential vote winner. The public understands that such a cut in inheritance tax would create trade-offs and would merely shift the burden of taxation from wealth to some other means.

Indeed, Labour would be wise to look further back in its history, to attempts in the 1940s and 1970s to tackle inherited inequality. Motivated by a desire to reduce inequality and boost social mobility, we have seen how Labour in power combined fairness and efficiency to undertake major reforms of the UK's inheritance tax regime.

More importantly, if Labour is serious about being the party of opportunity and economic growth, it needs to confront the challenge that growing inheritance presents. The structure of UK inheritances is likely to be hampering, not helping, the UK economy to grow in the future. The uneven distribution of inheritances risks undermining aspiration and excluding many parts of our society, such as the poorest or those from minority backgrounds.

In the short term Labour needs to defend the principle of taxing inheritance. The good news is that there are plenty of effective arguments to do that. We also need to reform the system of inheritance tax. Again, there is good news, as there are plenty of examples of alternative systems from around the world and from our best economists.

Long term, we need to develop a comprehensive policy framework for the whole issue of inherited wealth. Britain has changed substantially over the past fifty years. The post-war period, where inherited wealth was reduced in significance is giving way to a New Age of Inheritance. This new age will present fresh challenges for our society and our economy. Labour must tackle these issues because they directly affect its own missions to revive our economy and build an opportunity society. At the present, we risk

sleepwalking into a low-growth, low-opportunity, unequal society.

To steal a line from Franklin D. Roosevelt, the only thing Labour has to fear is fear itself.

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#### 1 Definitions

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