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Who would be affected by reforming or abolishing IHT?

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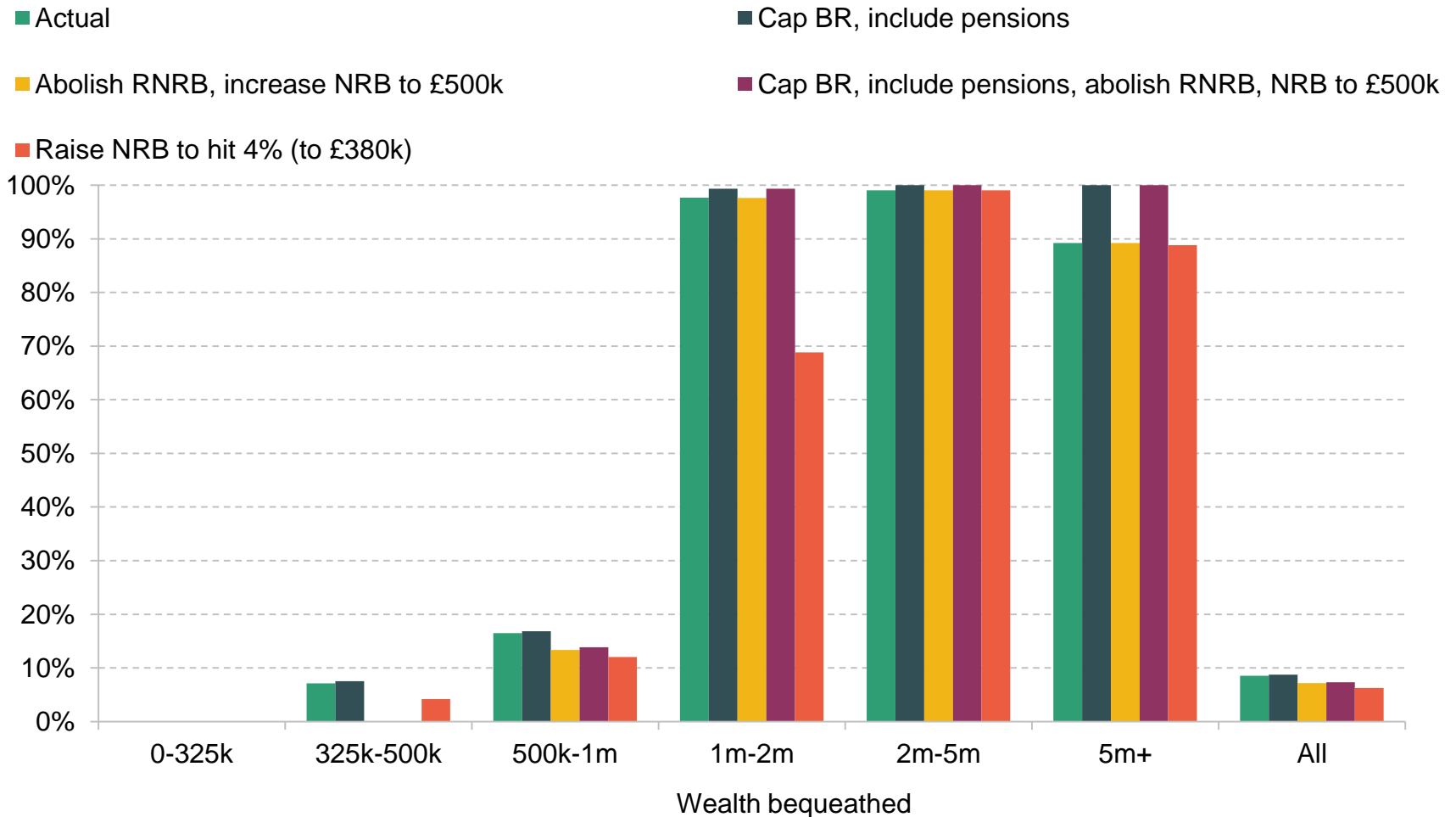
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Effects of reforms vary dramatically by wealth

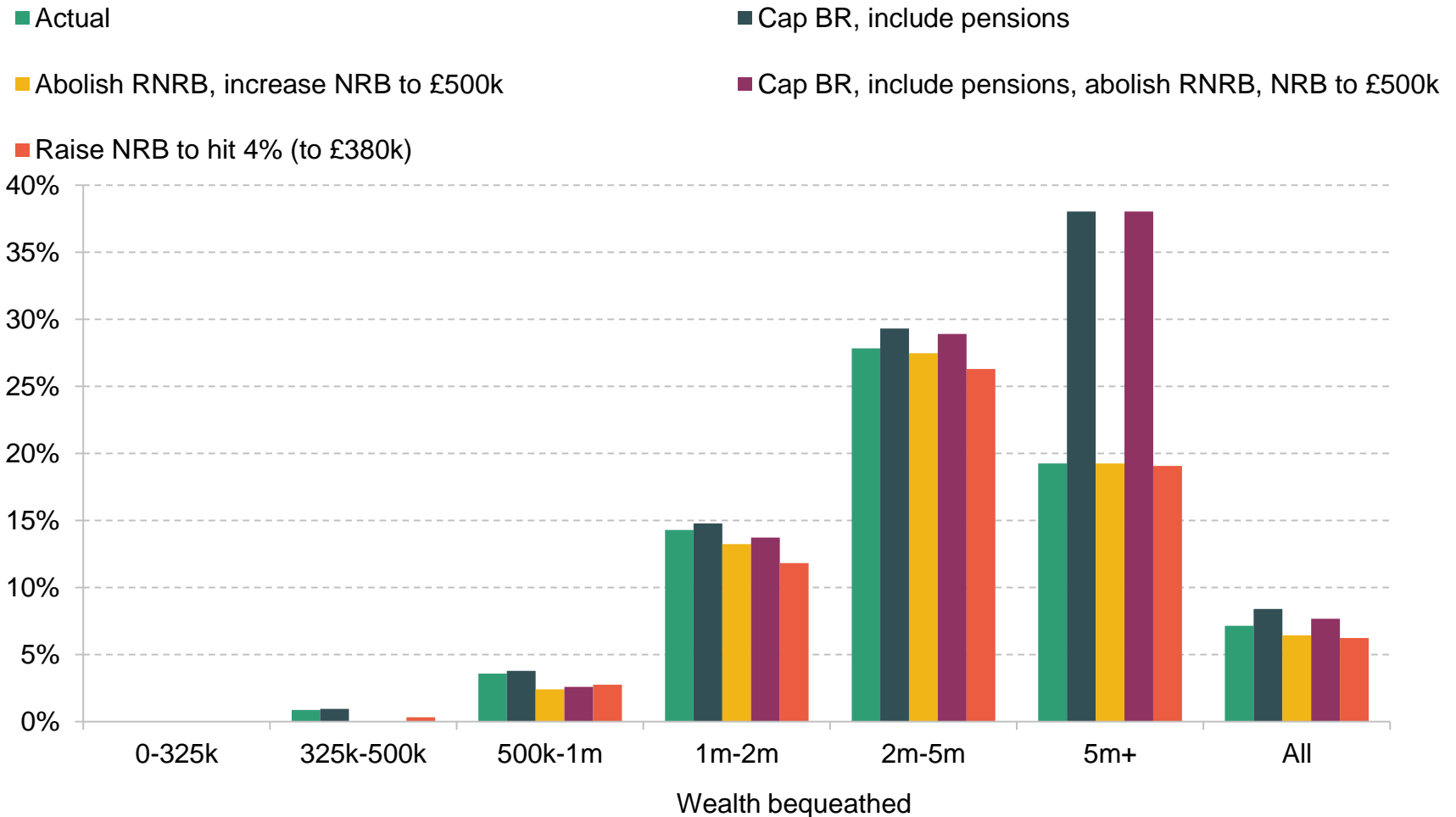
- **Abolishing IHT**
 - Half of gains would go to the wealthiest 1% at death
 - This group bequeaths wealth of over £2.1m
 - Average tax cut of over £1m each
- **Restricting business relief and bringing pensions into IHT**
 - 90% of business wealth bequeathed is held in estates over £2m
 - DC pensions will become commonly held across the distribution
- **Abolishing the residence nil-rate band and raising the nil-rate band to £500k**
 - Equalises treatment of those with and without housing/children

Percentage of deaths resulting in inheritance tax (or tax by partner)



Source: Figure 7.9, 'Reforming inheritance tax' from IFS Green Budget 2023, Arun Advani and David Sturrock, IFS Report R275

IHT paid as a percentage of wealth bequeathed (ex first deaths in couples) IFS



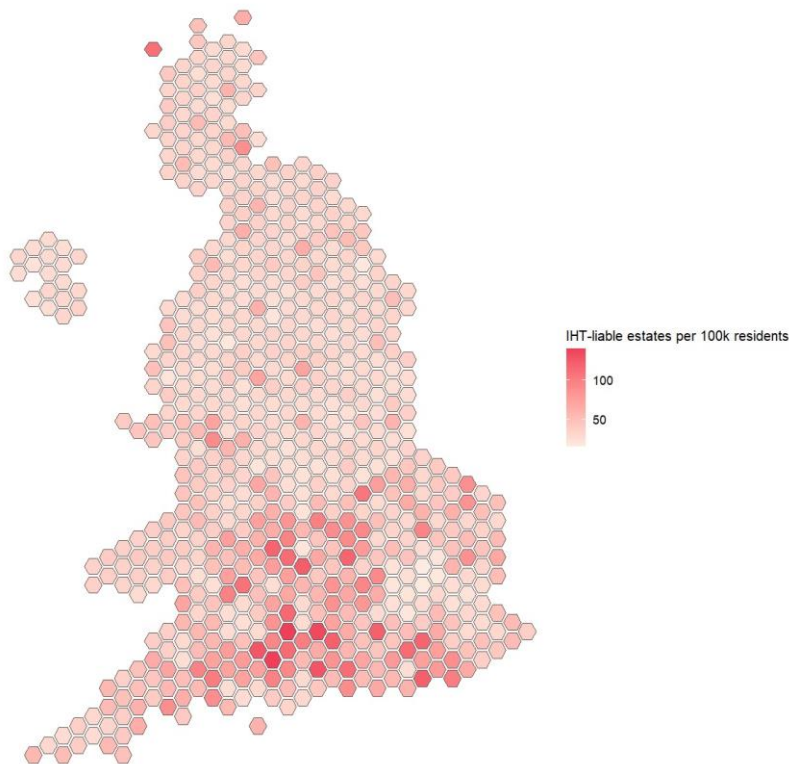
Source: Figure 7.10, 'Reforming inheritance tax' from IFS Green Budget 2023, Arun Advani and David Sturrock, IFS Report R275

Who would be affected by reforming or abolishing IHT?

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Inheritance tax revenues are concentrated in London and SE

Inheritance tax liable estates per 100,000 residents by Parliamentary constituency

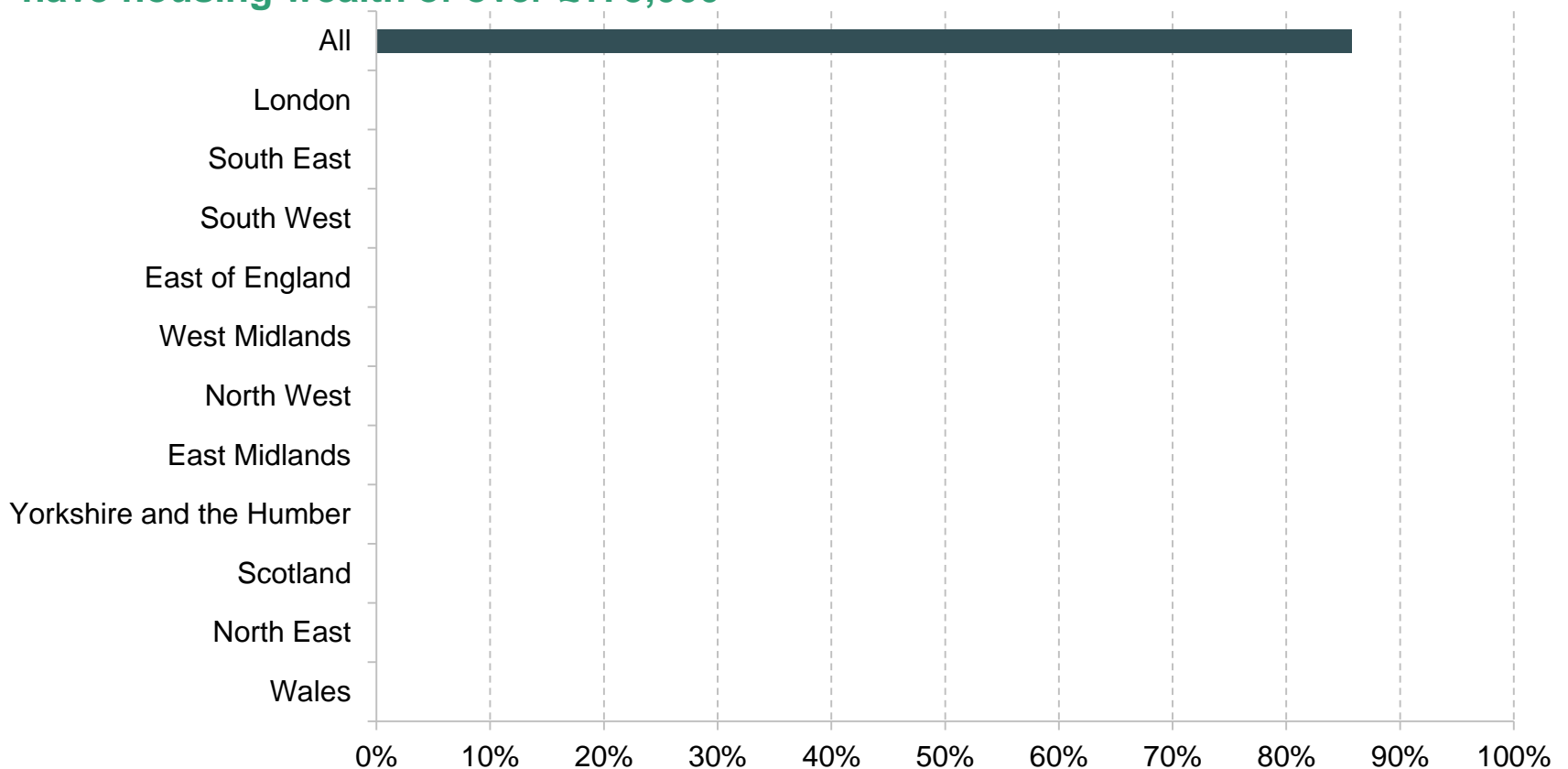


- 16% of individuals (or their spouse or civil partner) in London will pay IHT
- Around twice national average and eight times higher than in the North-East

Source: Figure 7.1, 'Reforming inheritance tax' from IFS Green Budget 2023, Arun Advani and David Sturrock, IFS Report R275

Big differences across the country in who can take full advantage of the residence nil-rate band

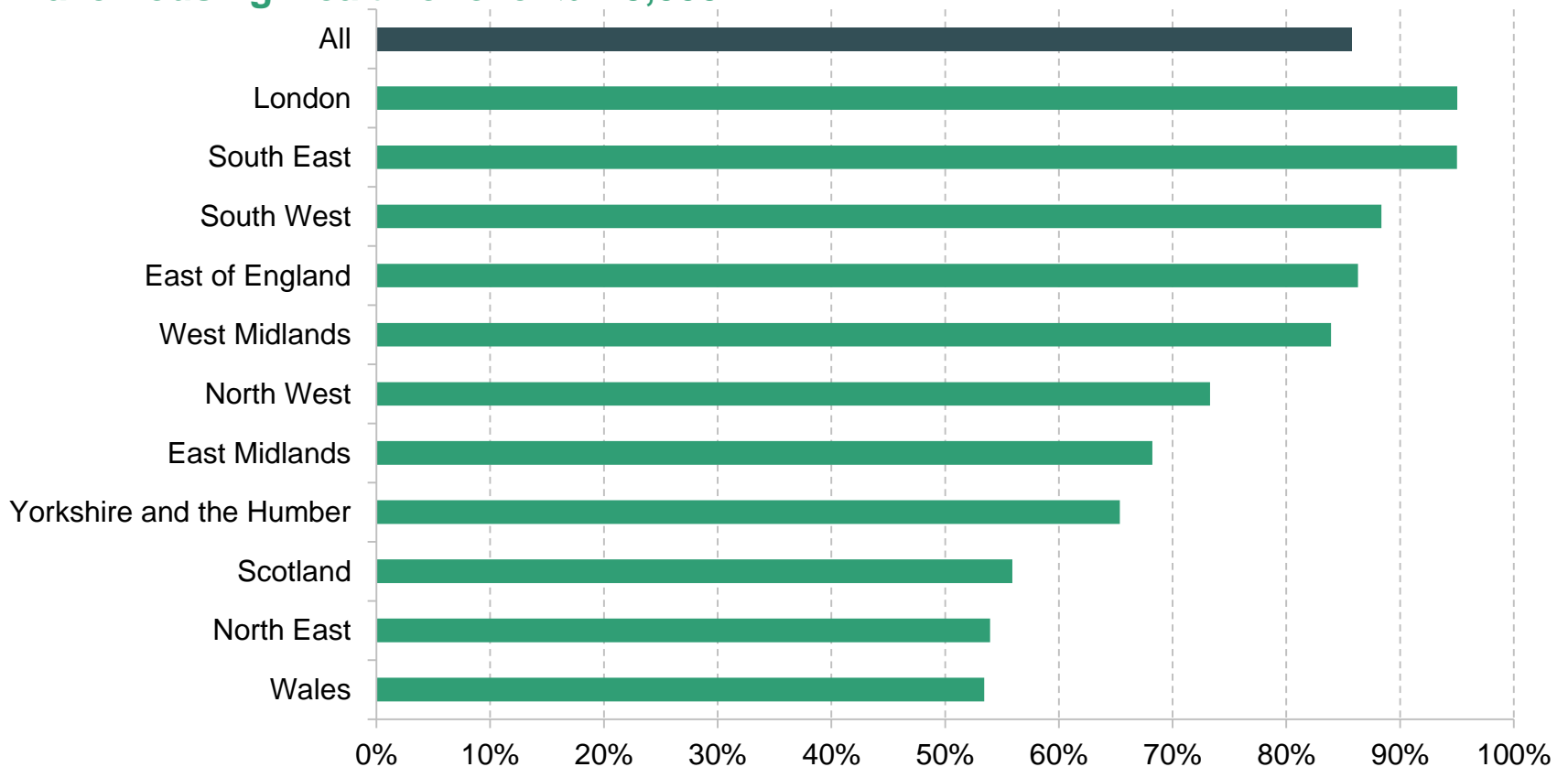
Percentage of individuals those with non-pension wealth over £500,000 who have housing wealth of over £175,000



Source: Figure 7.7, 'Reforming inheritance tax' from IFS Green Budget 2023, Arun Advani and David Sturrock, IFS Report R275

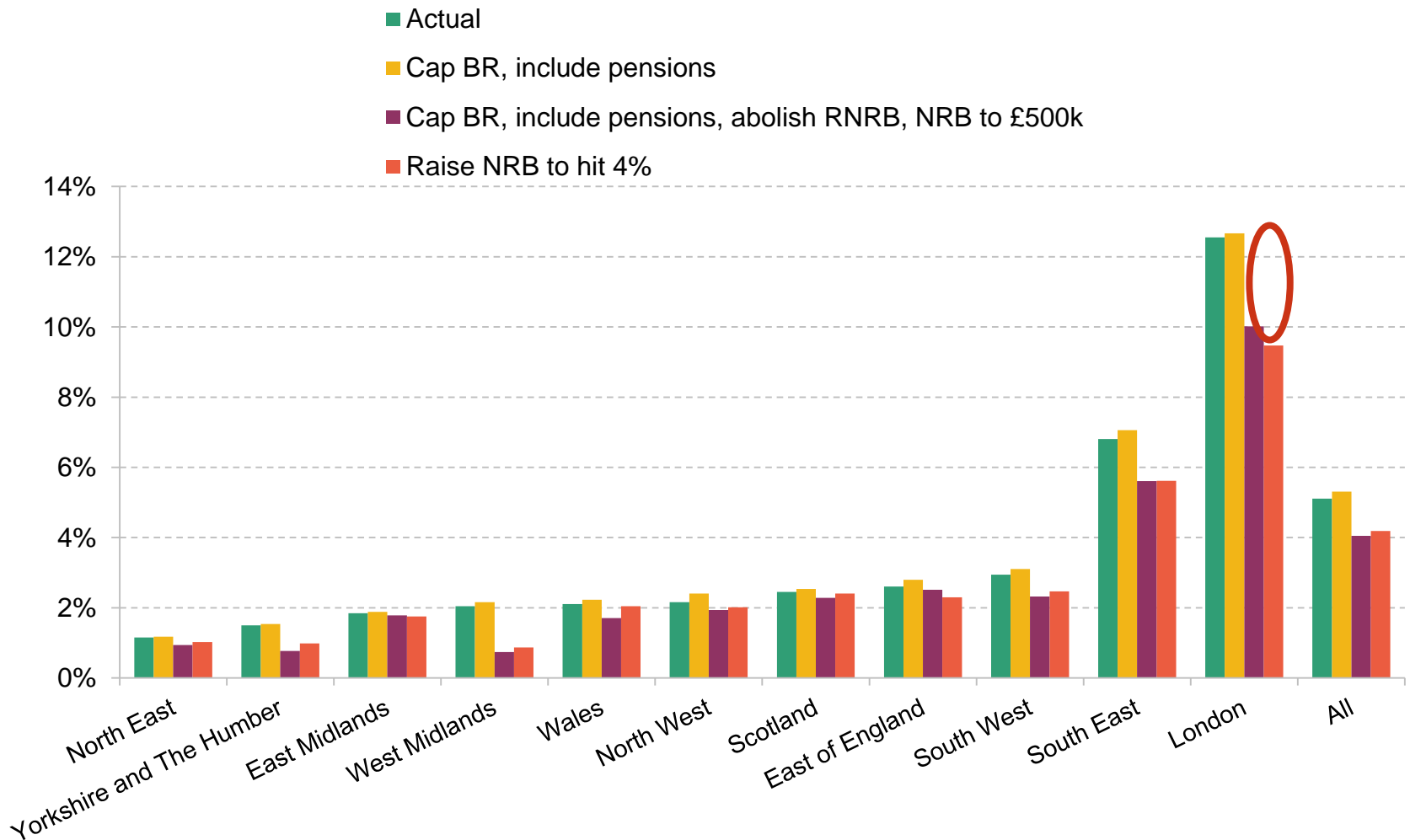
Big differences across the country in who can take full advantage of the residence nil-rate band

Percentage of individuals those with non-pension wealth over £500,000 who have housing wealth of over £175,000



Source: Figure 7.7, 'Reforming inheritance tax' from IFS Green Budget 2023, Arun Advani and David Sturrock, IFS Report R275

Percentage of deaths resulting in IHT relief over £100k (ex first deaths in couples)

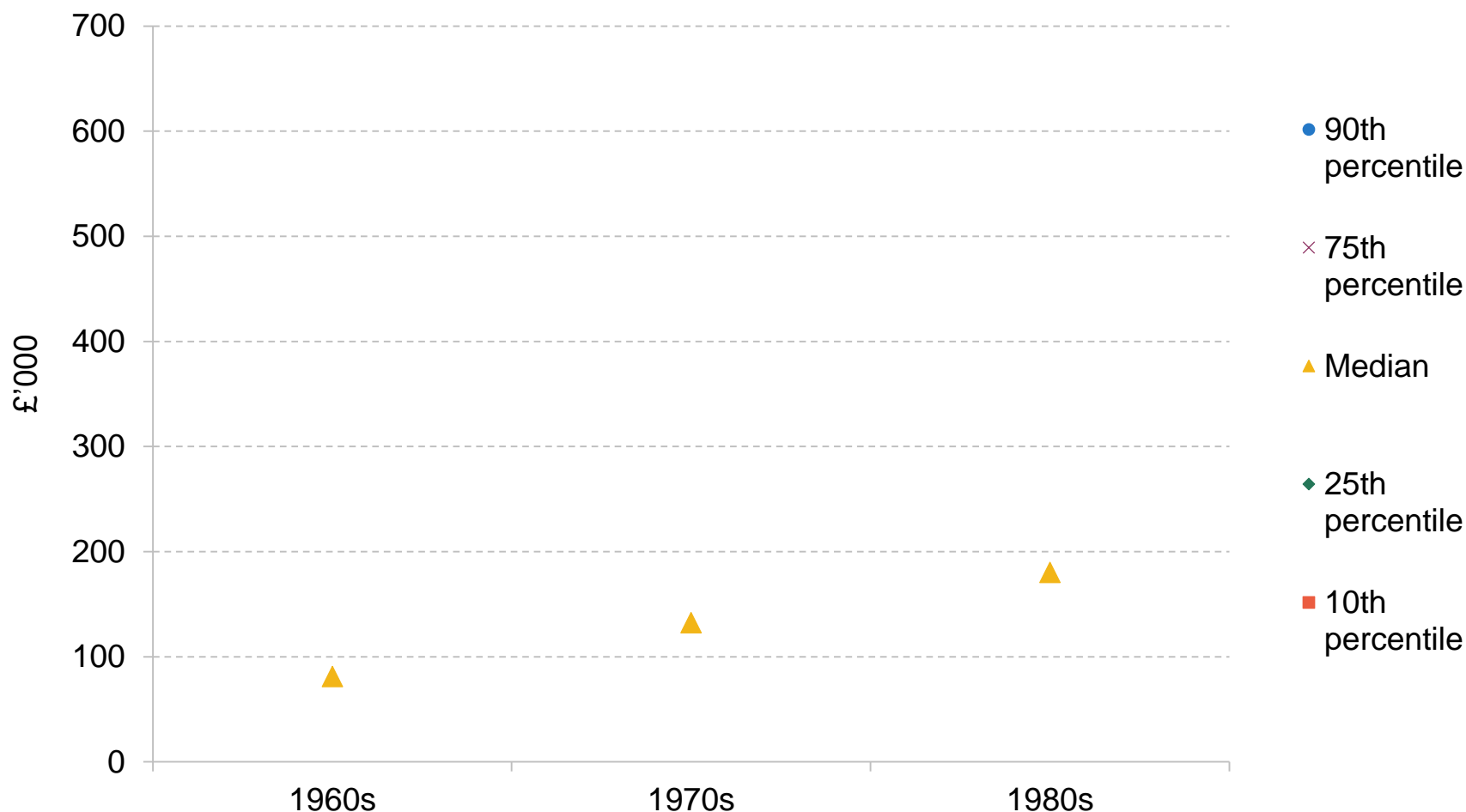


Source: Figure 7.11, 'Reforming inheritance tax' from IFS Green Budget 2023, Arun Advani and David Sturrock, IFS Report R275

What are the effects of reform on social mobility?

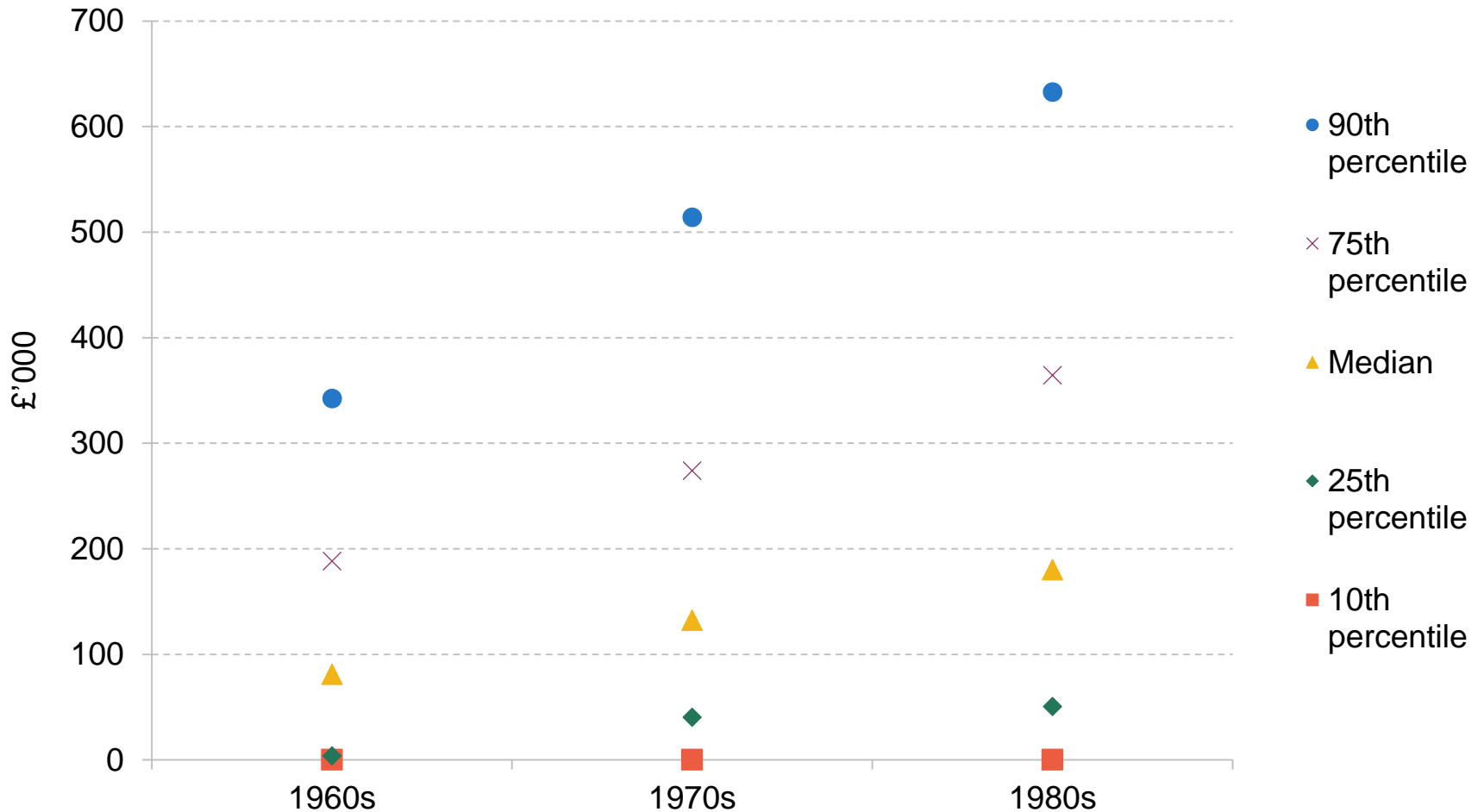
- One of the main justifications for inheritance tax is to reduce inequalities between those with richer and poorer parents
 - i.e. increase social mobility
- As inheritances grow compared to earned incomes, they are having a **growing negative impact on social mobility**

Parental wealth per-heir, when parents aged 65, by generation



Source: Figure 7.2, 'Reforming inheritance tax' from IFS Green Budget 2023, Arun Advani and David Sturrock, IFS Report R275

Parental wealth per-heir, when parents aged 65, by generation

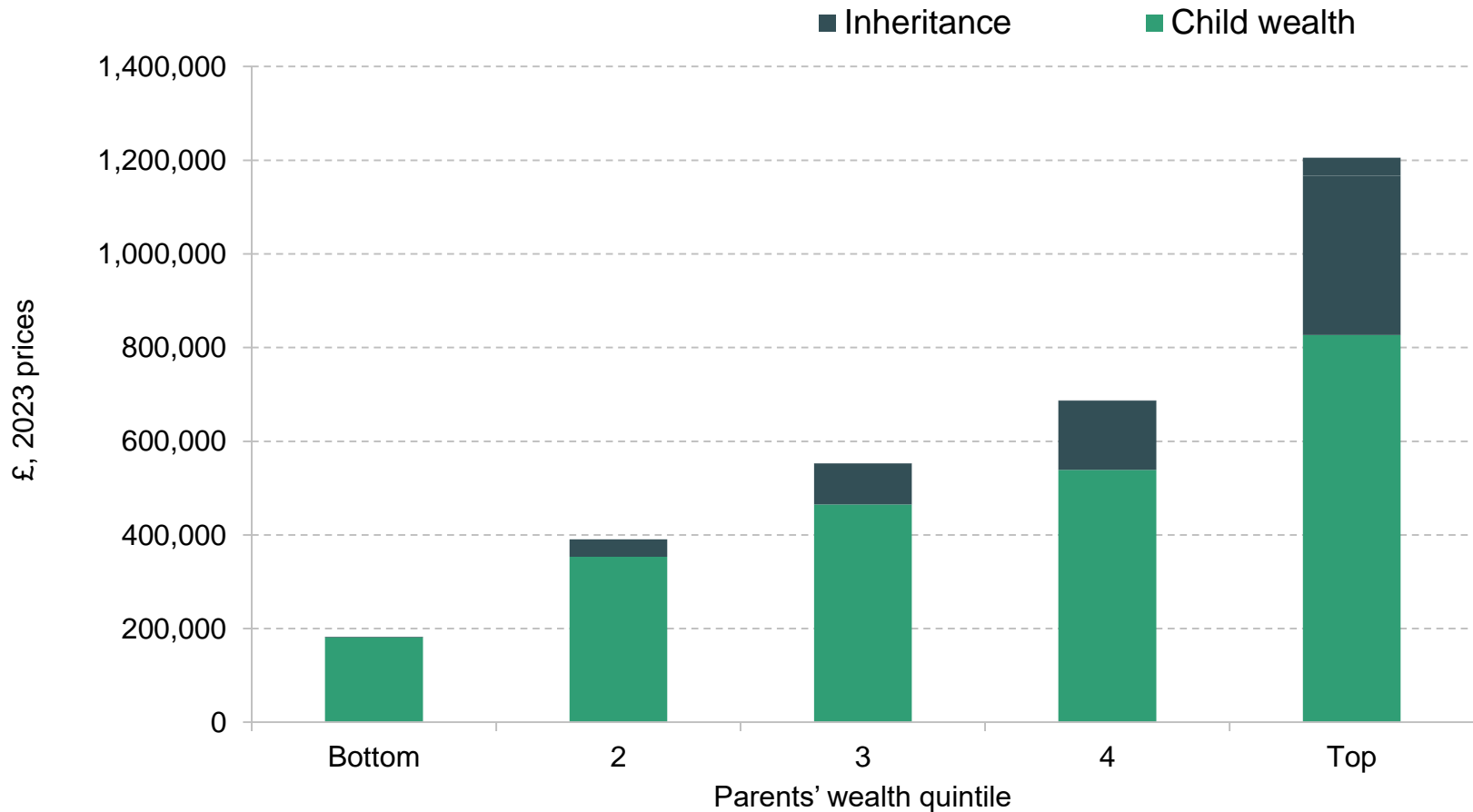


Source: Figure 7.2, 'Reforming inheritance tax' from IFS Green Budget 2023, Arun Advani and David Sturrock, IFS Report R275

What are the effects of reform on social mobility?

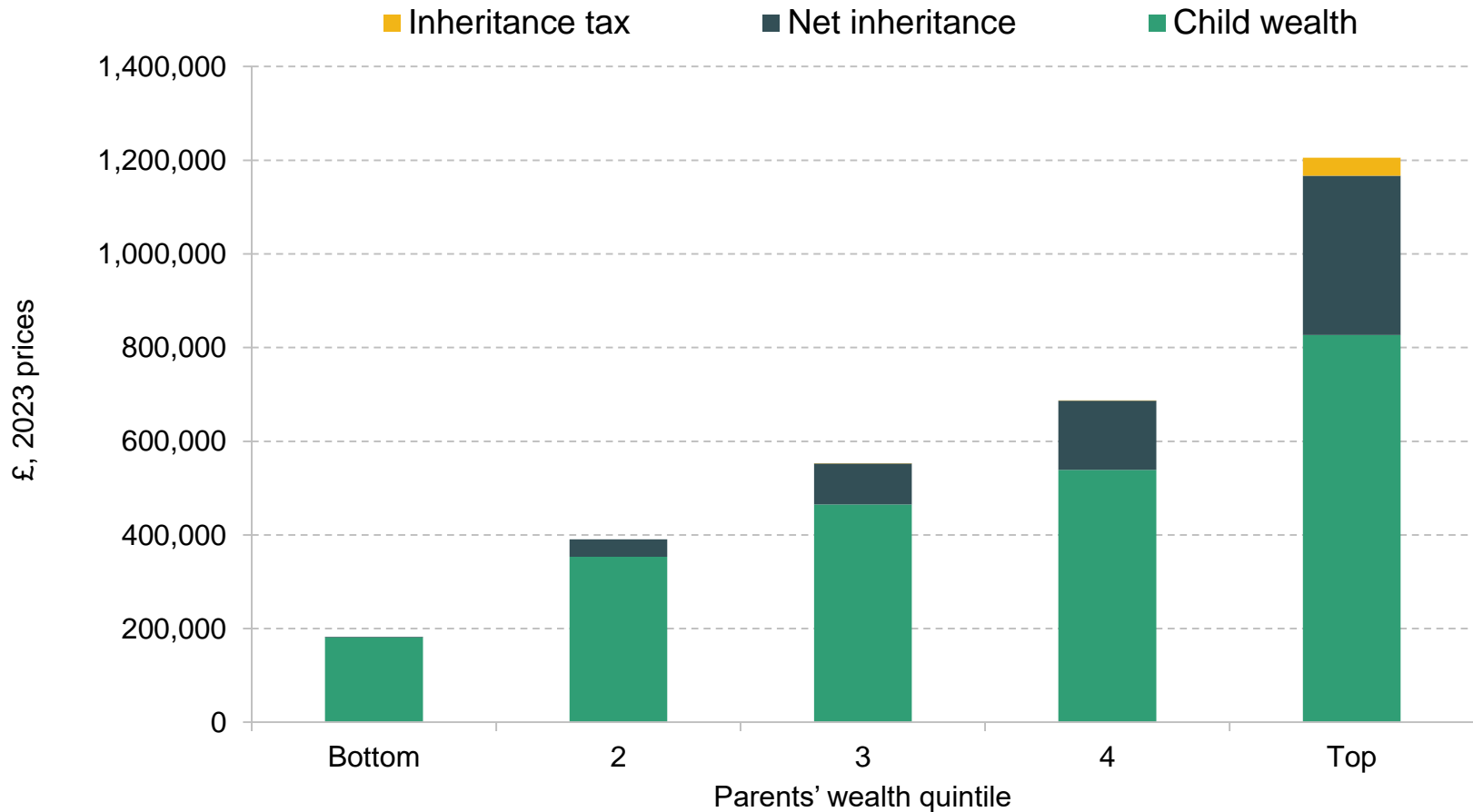
- One of the main justifications for inheritance tax is to reduce inequalities between those with richer and poorer parents
 - i.e. increase social mobility
- As inheritances grow compared to earned incomes, they are having a **growing negative impact on social mobility**
- **Inheritance tax in its current form does very little to offset these impacts**

Average wealth, net inheritance and inheritance tax paid by parental wealth quintile



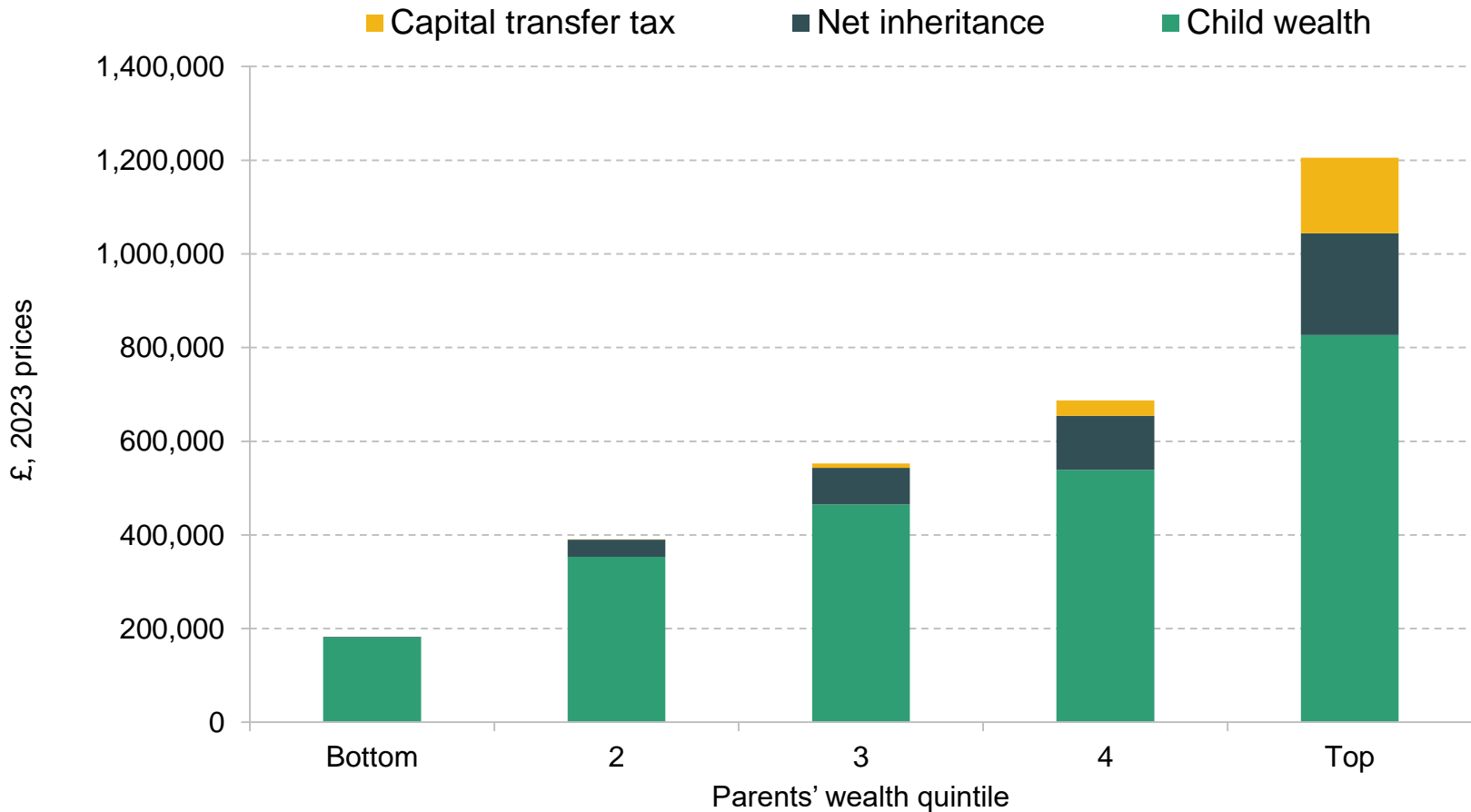
Source: Figure 7.12, 'Reforming inheritance tax' from IFS Green Budget 2023, Arun Advani and David Sturrock, IFS Report R275

Average wealth, net inheritance and inheritance tax paid by parental wealth quintile



Source: Figure 7.12, 'Reforming inheritance tax' from IFS Green Budget 2023, Arun Advani and David Sturrock, IFS Report R275

Effects would be larger under a stylised 1985-86 capital transfer taxation system



Source: Figure 7.13, 'Reforming inheritance tax' from IFS Green Budget 2023, Arun Advani and David Sturrock, IFS Report R275

Summary

- Inheritances and inheritance tax revenues are set to grow quickly over time
 - Scrapping the tax would have a growing fiscal impact
 - It is of growing importance that the tax is well-designed
- There are several reforms that would improve the design of the tax
 - These could raise revenue to fund public spending or tax cuts or be used to reduce the scope of inheritance tax
- Abolishing IHT would be £1m tax cut on average for wealthiest 1%
 - Much of the gain would go to London and SE
- Scrapping business and agricultural reliefs and bringing pensions into estates would raise taxes on the largest estates
 - Could fund raising the tax-free threshold to £500k for all
- In its current form inheritance tax has small effects on social mobility

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