

The last thing we need is a reduction in taxes on wealth...

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The [All-Party Parliamentary Group on Inheritance and Intergenerational Fairness](#) published a report on [inheritance tax reform](#) this week.

The report gives rise to lots of questions. The first is, who is in the APPG? It had only four members and one, at least, has lost his seat. So who is behind this?

Another is, who funded the report? It seems likely it was the Society for Trust and Estate Practitioners (STEP), who sound like an innocuous bunch until you realise that for a long time their biggest branch was reported to be in Jersey and they did, undoubtedly, help spread offshore 'innovation' from tax haven to tax haven.

And then there's the report itself. [It says](#):

Having considered a number of options, many of which merit further exploration, the APPG suggests replacing the current inheritance tax regime (which combines a high flat-rate of 40% with an array of associated reliefs), with a flat-rate gift tax payable both on lifetime and death transfers. The APPG suggests a rate of 10% but accepts that policymakers should determine the appropriate rate as they have better access to the data necessary to determine the rate at which taxpayer behaviour changes. The key principle is that it should be low enough for the tax to be broadly based without the need for complex reliefs. A flat-rate gift tax with fewer reliefs would be simpler, more broadly based, lead to less avoidance and ensure the UK's competitiveness in attracting wealthy people to live (and die) in the UK. Aligned to this change, all reliefs other than spouse and charity exemptions would be abolished and the tax-free capital gains tax (CGT) uplift on death would be abolished. There would be a death allowance at a similar level to the current nil rate band to ensure that small estates not currently paying tax will remain unaffected by the changes. There would also be an annual lifetime allowance of £30,000 on lifetime gifts.

Why propose such a low rate? The report says:

The tax rate would be set at considerably lower than the current 40% IHT headline

level, which would encourage less avoidance. Small estates would therefore not pay the gift tax, and larger estates could not avoid it as donors can do at present by making gifts and surviving seven years.¹¹ The main home would continue to be included in the tax base, as would all businesses and farms.

In essence the report is saying that tax avoidance should be priced out of the market. This makes it the most bizarre variant on Laffer logic: effectively it is saying cut tax until no one wants to avoid it because almost no one is paying it. This does not surprise me coming from STEP: this is their reason for being. But it is not a sound policy for government.

Nor do the proposals make sense. Permitting annual gifts of £30,000 is a literal gift to the well off - because only tiny numbers can afford to do that.

And whilst removing reliefs on business and agricultural property would be exactly the right thing to do, cutting the rate at the same time makes no sense: the reason for cutting these allowances is that they reinforce wealth inequality and so does the proposed change.

Whilst the suggestion that small estates will not pay is exactly true now, when well over 90% of all estates have no charge on them.

So this report asks the wrong question to get to the wrong solution. It asks how can inheritance tax be tinkered with to preserve wealth inequality? And the answer is it cannot be. Inheritance tax is a flawed tax that is largely beyond redemption.

The answer is fourfold.

First, abolish inheritance tax.

Second, have an annual wealth tax on estates over, say, £2 million.

Third, have a tax on gifts charged on the recipient, ideally as income.

And fourth, charge capital gains on death, including on the family home, having allowed for surviving spouse, civil partner and maybe limited carer exemptions.

Those are the reforms we really need. But a move that reduces taxes on wealth is the last thing we need. And that is what this report promotes. It's bad news.