

If we need a tax cut, the last tax that needs cutting i...

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Rumours are spreading in newspapers and email comment columns that Jeremy Hunt thinks he might have 'fiscal headroom' for a tax cut this autumn. The money is on him halving the rate of inheritance tax from 40% to 20%.

I do not agree with the term 'fiscal headroom, which imagines that there is a long-term sustainable level of government spending that must be maintained, which can be compared with current tax receipts to determine whether the latter are appropriate. That there is a 'natural level' of spending is absurd. It ignores need and political choice. It also presumes a government has no ability to change matters, and that makes no sense. Much the same is true of the related ideas on taxation. As measures go, then, this one is hopelessly flawed. But that does not stop it from being much beloved and believed by those who, like the Office for Budget Responsibility, think the government a perpetual victim of circumstance where market needs must always be served first.

But even if the idea of 'fiscal headroom' made sense and there was, maybe, £15 billion to spend this autumn, the last thing that should be done with that money is to use it to cut inheritance tax.

As [I have noted](#) in the Taxing Wealth Report 2024:

In the tax year 2020/21, which is the last for which reliable statistical data is available, just 3.73 per cent of all estates in the UK were subject to an inheritance tax charge.

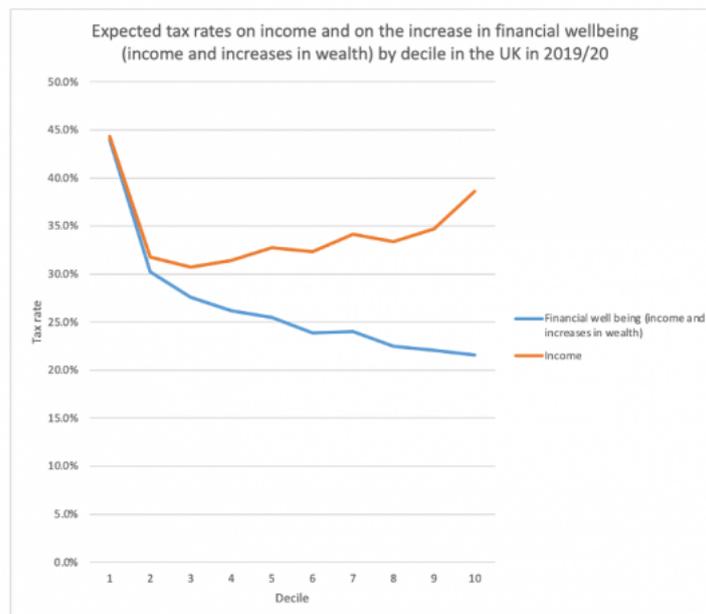
This means that inheritance tax is a tax on the wealthiest households in the UK, payable only when those in them, and most likely the last survivor in them, dies.

It applies to just one in twenty-five households.

It is the only real approximation to a wealth tax that we have.

And, as I have again shown in the Taxing Wealth Report 2024, the wealthy are massively undertaxed in the UK:

The following chart suggests the true scale of the regressivity of the UK's tax system:



Those in the lowest decile of income earners in the UK pay tax at around 44% on their income and gains in financial wellbeing, whilst those in the top decile pay at 21.5%, less than half that rate. That is why there is capacity to raise more tax from wealth in the UK.

The [full report that supports this note](#) is available here.

That data, based solely on information from the Office for National Statistics, shows the overall tax rate by decile of people in the UK when their income and their increases in wealth are considered. Few people take wealth into consideration when looking at the progressivity of tax, but a pound increases well-being from wherever it comes, so it is inappropriate that wealth increases are ignored.

Doing so makes it clear that the wealthy already have a massively favourable tax deal in the UK. And now, when there are pressing needs all around us, a cost of living crisis, and a claim that the country could not afford decent pay rises for doctors, teachers, nurses and other essential public sector staff, Jeremy Hunt might be giving away half of the inheritance tax yield - or £3.5 billion a year - to those who do not need it, who are otherwise called the well off children of already well off parents.

There is, I know, nothing I can do to stop Jeremy Hunt from making a fool of himself, but I can suggest that the evidence shows how stupid this idea really is. But then, maybe, that is its appeal to a party that has lost all touch with reality.