

Why a cut in inheritance tax makes no sense and why cut...

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I posted [this thread](#) on what I still refer to as Twitter, this morning:

Of all the taxes in the UK that Jeremy Hunt could cut, inheritance tax is easily the most stupid right now. Doing so would save millions for a few already relatively rich people, do nothing for the economy, and increase inequality. A thread....

Inheritance tax is paid by about 27,000 estates of people who have died each year, according to the latest data. That means just 1 out of every 25 estates are subject to an inheritance tax charge.

In other words, inheritance tax is a tax on those who are most wealthy, whether they like to admit it or not. In fact, it is the only wealth tax that we have got.

And what Jeremy Hunt is now considering so strongly that the press is very obviously being briefed about it, is making cuts to the rate of this one and only wealth tax that we really have in the UK.

In the middle of a cost of living crisis when millions upon millions of families, most of them younger, with children, and with incomes that only barely cover their outgoings (if they even do that) are struggling, he is planning to give a bung to some of wealthiest in the country.

And let's be clear, that those who gain are not, of course, the people who have died. They are, after all, no longer with us. They can't enjoy the benefit. So, most commonly, it is their late middle age, usually already well-off, children who do so.

And this, it has to be said, will do nothing for the economy at all. That's because these people will either save what they inherit to boost their pensions - meaning that no new economic activity results from any tax bung they get.

Or, alternatively, they will use this money to buy their own children (the grandchildren of those who died) their own homes - meaning that wealth inequality when it comes to housing and access to it is perpetuated. That is a truly Tory policy, you have to admit.

The return to the economy from giving this tax cut will, in that case, be marginal at best. In fact, growth will be much smaller than the value of the tax cut given. In macroeconomic terms, that means that this cut is a complete waste of money.

It's also economically unjustified. This is despite all the claims that will be made for an inheritance tax cut. The first of these claims will be that everything subject to inheritance tax has already been taxed once already.

That is total nonsense. Inheritance tax is, in part, a tax charge on untaxed capital gains, which are cancelled on death. These gains have not, by definition, been taxed in any other way already.

And nor is the value of most estates made up of previously taxed savings. Most are made up of the value of homes - and these are never otherwise taxed at all.

What is more, most people who die will have paid a fraction of the value of their home at death to buy it - because house prices have gone up so much over time. The value at the time of death will, then, have been very largely untaxed. So there is no double tax there either.

And, let's also be clear - when 80% of UK savings are in tax-incentivised accounts - be they ISAs or pensions - much of the savings accumulated at death will have also arisen in untaxed ways as well.

So, the bleating about the unfairness of inheritance tax is just that: it is bleating by those already privileged who do not want to contribute to the society that gave them all the advantages in life that they have enjoyed, which they do not want to acknowledge.

The issue is bigger than this, though. If the Chancellor really has money to give away in the budget and he chooses to do so by tax cuts when ending much of the unfairness in the benefits system would be a better use of that money, then he has everything wrong about what to do.

For example, the basic personal allowance is frozen this year. It should have gone up by about 10% because of inflation. That increase should have been about £1,250, which would have given a £250 tax cut to most taxpayers in the UK. All 33 million of them.

The cost of that would have been a bit above £8 billion - near enough the same as the cost of abolishing inheritance tax. But the vast majority of those getting that £250 would have spent it straight away, unlike the person getting the gain from inheritance tax, who would have saved it.

The difference is really important. Spending the money keeps it in the economy. Each person's spending is another person's income. It is as simple as that when we think about the economy as a whole.

What that means is that the person getting a £250 income tax cut uses it to boost other people's income - meaning that the recipient of their spending also pays tax on it, as does the next person who gets it, and so on, giving a real boost to us all - and the Exchequer.

Instead, the person enjoying the cut in inheritance tax will almost certainly save it, meaning that there is no boost to the economy at all. It sits like dead money in a bank account somewhere.

And before you argue that the bank will lend it to someone else - that's not what banks do. They do not lend out money deposited with them. Every new loan creates new money, and savers' money is never involved in the process, which the Bank of England has confirmed.

So if you were a Chancellor who wanted to get your economy going by giving it a quick boost, cutting income tax for everyone would work, and cutting inheritance tax would be the worst option available to you.

So, why then is Jeremy Hunt thinking about cutting inheritance tax? It could be that he simply does not know this, which might be possible, but which would be scandalous if true.

Or, it could be that he does not care. He is, in other words, indifferent to the needs of real people and serves only the interests of the rich.

And it could be that he just does what the Telegraph, Mail and Express want him to do, and they all hate inheritance tax.

I am not going to speculate on these options. What I do know is that if Jeremy Hunt cuts inheritance tax he will have proved he is incompetent, biased to the rich, and represents the total indifference of the Tories to the needs of ordinary people, and maybe all three.