

We need to reform inheritance tax now if rising inequal...

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The FT [had an article yesterday](#) in which it referred to what it called the great wealth transfer. As it noted:

Over the next 20 years, as baby boomers pass on assets to younger generations, we will see the largest wealth transfer in history. In the UK, £1tn is expected to change hands in the 2020s alone.

But for families, transferring wealth between generations is often a tricky task. There are many hurdles to negotiate, including tax and estate planning, while younger people receiving large amounts of money will need to make decisions about investing and saving that they have never had to make before.

The context in which it was discussing this enormous, upcoming transfer of wealth between generations was apparent from that second paragraph. What it wants to know from its wealthy readers is how they propose to plan this transfer of wealth and what steps, amongst other things, they are taking to mitigate their tax liabilities that might arise as a consequence.

I am well aware that there is a substantial business activity undertaken in the UK advising on how to mitigate inheritance tax liabilities. My own pension advisor, who knows my opinion on these things, still thinks it necessary to point out to my wife and me that we should plan our wills with care to ensure that those liabilities are mitigated. I suspect that we are not the most receptive audience.

That said, the fact that so much wealth is now changing hands is something that should be considered by a responsible government, and so far, we have heard nothing at all from Labour on this issue.

Inheritance tax statistics [published by HM Revenue & Customs](#) were recently updated to cover the year 2021/22 (yes, they are that far behind). As they noted:

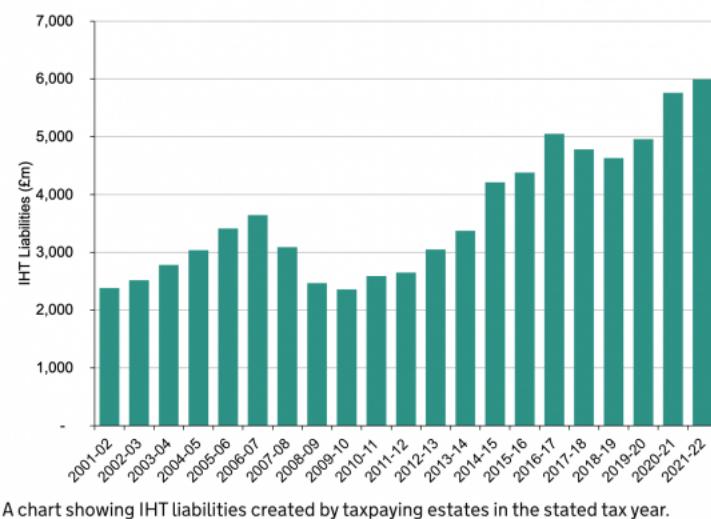
* 4.39% of UK deaths resulted in an Inheritance Tax (IHT) charge, increasing by 0.66 percentage points since the tax year 2020 to 2021.

* The total number of UK deaths that resulted in an IHT charge has increased. In the tax year 2021 to 2022, there were 27,800 taxpaying IHT estates, an increase of 800 (3%) since the previous tax year, 2020 to 2021. Fewer than half of all deaths in any given year require interaction with HMRC to establish whether there is a liability to be paid.

* IHT liabilities created in respect of the tax year 2021 to 2022 were £5.99 billion. This was a rise of £0.23 billion (4%) compared to the previous year.

The long-term data is:

Figure 1: IHT liabilities, tax year 2001 to 2002 to tax year 2021 to 2022



A chart showing IHT liabilities created by taxpaying estates in the stated tax year.

Much of the financial media was shocked to note that total inheritance tax liabilities paid in that year reached an all-time record of near enough £6 billion. Their obvious fear is that could increase substantially if, on average, £100 billion of wealth is to be transferred annually between generations over the next decade.

I have mentioned ways in which revenues from these transfers could be increased in the [Taxing Wealth Report 2024](#). In particular, I have suggested that the current extraordinarily generous treatment of sums in pension funds not expended at the time that a person dies should be brought to a close. The fact that these funds can, in some circumstances, be transferred without an inheritance tax liability arising, and in others can be transferred in a way that defers any potential tax liability for many years, or even decades, is absurd and should be brought to a close.

In addition, most tax relief for agricultural property now needs to end. There is absolutely no evidence at all that these provide any real benefit to the agricultural industry, which is what runs food production in this country now. There is, however, evidence that this relief is being abused by the wealthy who buy up large tracts of farmland as a mechanism to transfer wealth without inheritance tax liabilities arising.

I am of much of the same opinion which regard to business property relief. Whilst I would most definitely allow extended periods for the settlement of inheritance tax liabilities arising on the transfer of ownership of businesses on the death of an owner with a majority stake in a private company to prevent disruption arising, the need to totally cancel all such liabilities appears to be without merit. The idea that the ability to run a company is eugenically passed from one generation to the next is very largely unproven. Just watch Succession, and the antics of the Murdoch family on which it is believed to be based, and then observe the same thing happening time again in the economy and understand that planned transfers of ownership after the death of the founder of a company are usually in the best interests of that company, its employees and the next generation of the families involved. As such, this relief should also go.

In addition, serious questions have to be raised as to why many couples can now pass funds of up to million pounds to their heirs without tax being paid. I am not, in any way, opposed to the wish of parents to benefit the next generations of their families, but to do so in ways that can only reinforce inequality within the UK, which is deeply economically and socially destructive, makes no sense at all. This level of relief does that.

As a consequence, my response to the Financial Times is, 'Bring the taxation on'. We need to tax these transfers more because the needs of younger people in this country must be met, and that can only be done by the redistribution of wealth, which tax is capable of delivering. It's time for radical reform.