



In Stark Relief

How inheritance tax breaks
favour the well off

About Tax Justice UK

Tax Justice UK is a campaigning and advocacy organisation. Our mission is to ensure that everyone in the UK benefits from a fair and effective tax system. We are not-for-profit and politically non-aligned. Tax Justice UK is a partner of (but independent from) the Tax Justice Network.

For more information visit: www.taxjustice.uk.

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Summary

The government is giving some of the wealthiest families in the UK up to £666 million a year in generous inheritance tax reliefs on land and business property, according to data uncovered by Tax Justice UK. This report provides evidence of how inheritance tax reliefs work to protect the assets of already wealthy families in a way that is hard to justify.

Our research finds that 261 families with agricultural property worth more than £1 million, shared £208m in tax relief in 2015/16 whilst 234 families with business assets worth over £1m shared £458m. Similar amounts of tax relief were claimed in each of the years TJ-UK analysed between 2013/14 and 2015/16. The findings are based on Freedom of Information Act (FOIA) requests to HMRC.

These tax breaks are on top of the inheritance tax threshold of up to £950,000 per couple.

Our report shows that a system of generous tax reliefs on the value of agricultural and business property is working to significantly reduce the inheritance tax bills of wealthy families. The total cost of these reliefs was £1billion in 2018/19 alone,¹ equivalent to the cost of employing 26,000 NHS nurses.²

The government provides a wide range of tax reliefs beyond inheritance tax, with the benefits largely going to the already wealthy, while at the same time poorer families have had their benefits cut.³ A recent report by the Fabian Society found that on average households in higher income brackets received more in tax reliefs than the poorest fifth of households receive in means-tested benefits.⁴ In addition wealth inequality is far greater than income inequality in the UK, with the richest 10% of households owning 40% of all household wealth.⁵

Our report recommends:

- A review of the fairness and effectiveness of inheritance tax reliefs with consideration given to whether they should continue at all;
- A cap on the amount of relief available to estates that have a value over £1m;
- An end to tax relief on shares invested in companies in which a family has no substantial or controlling interest;
- An end to the 'double whammy' of income and inheritance tax giveaways on Alternative Investment Market listed ISA share products.



Inheritance Tax: an unpopular tax on wealth

In 2015/16 the total value of gifts and inheritances passed on in the UK was £127 billion, a figure that is likely to double over the next 20 years.⁶ Inheritance tax is paid at 40% above the non-taxable threshold of the value of an estate upon death (£325,000 for single people, £650,000 for couples and up to £950,000 if a family home is included). However a series of tax exemptions mean that, by 2020, the tax will only effectively be levied on estates worth above £1m.⁷ Despite this, the tax is unpopular and viewed as unfair by the public.⁸ Part of its unpopularity lies in the fact that it is easily avoided by the wealthy,⁹ a view that is borne out by our report.

Analysis by the Office for Tax Simplification has revealed that the wealthiest estates effectively pay a far lower rate of inheritance tax than the 40% stipulated. The chart below plots the average effective tax rate paid by estates, with a notable drop off for the wealthiest.¹⁰

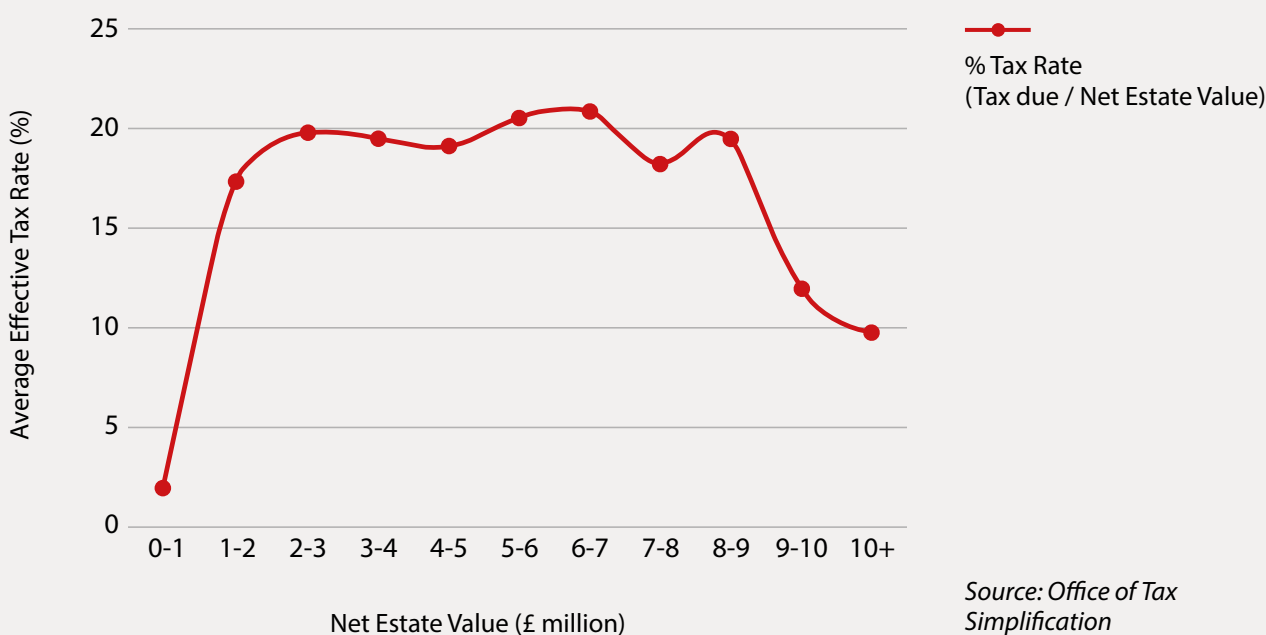
This is in part due to tax breaks on agricultural and business property but others exist too. For example, gifts made over seven years before death are tax free. Relief is also available on charitable gifts. Families can also use trusts to reduce tax payments, although the government has tightened up on this.

Agricultural property relief reduces inheritance tax on agricultural property at a rate of up to 100%, while business property relief reduces tax on business property and shares by between 50 and 100%. The special treatments for agricultural and business property are often justified as a means of protecting small family farms and businesses, but the reality is very different.

Farmland is an increasingly popular financial investment. In 2017 just 40% of agricultural land was purchased by farmers, down from over 60% in 2011, while investors have flocked to buy agricultural land and property.¹¹ Research has exposed ultra-rich

The average effective tax rate paid by estates

Shows the average effective tax rate paid by estates and how it changes according to the size of the estate.



tycoons like James Dyson buying up agricultural land, which comes with generous subsidies and tax breaks.¹² Meanwhile land ownership in the UK is deeply unequal and investigators have discovered that a mass of land is owned by often opaque companies, sometimes registered in offshore secrecy jurisdictions.¹³ In addition, estate agents commonly promote inheritance tax relief as a sweetener to investors interested in buying farmland,¹⁴ further fuelling suspicion that this tax break is driving up the cost of rural property, pricing poorer farmers out of the market.

Business property relief is justified as a means to ensure family businesses, including property and shares in those businesses, can be passed on to the next generation. However, the relief is not restricted to shares owned in a family business, it is also available against the value of shares in companies with no family connection at all, including those listed on the Alternative Investment Market.¹⁵ There are lots of examples of wealth management companies selling ISAs made up of AIM-listed shares. These provide a double whammy of tax relief: no inheritance tax¹⁶, on top of the usual tax benefits of an ISA.

What we found

Tax Justice UK tabled questions with HMRC under the Freedom of Information Act to see how the reliefs are distributed among estates. We found that the richest family estates are disproportionately benefiting from reductions to their inheritance liability, at a significant loss to the Treasury. (See the Statistical Annex for more detail).

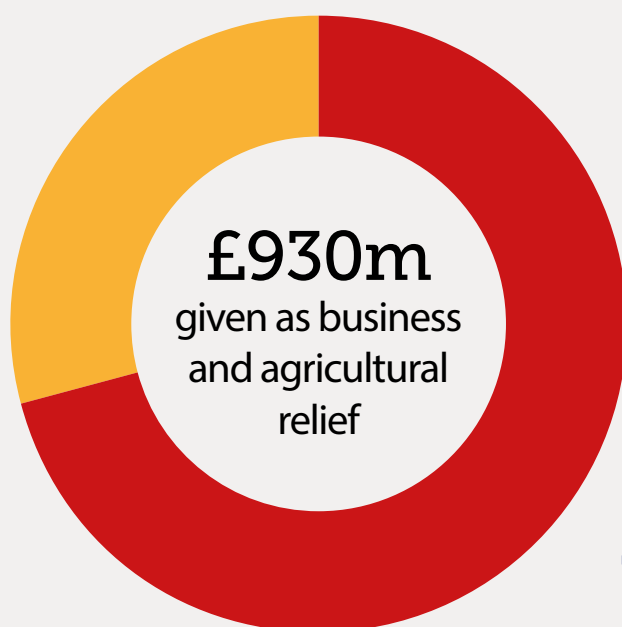
We estimate that in 2015/16 (the latest year that data is available for):

- 261 families with agricultural property assets worth more than £1m shared a tax saving of roughly £208m in agricultural property relief, representing 62% of the relief given out that year;
- 234 families with business assets worth more than £1m shared a tax saving of roughly £458m business property relief, representing 77% of the relief given out that year;
- 62 families with agricultural property worth more than £2.5m shared an approximate tax saving of £107m, which works out as an average saving of £1.7m per estate;
- At the very top, just 51 families, with business property worth over £5m shared an approximate tax saving of £327m, which works out as an average saving of £6.4m per estate.

It's likely that these figures are an underestimate as they do not include any agricultural or business property held in trust.

In 2015/16, **51** families shared a **£327m** tax break. Roughly **£6.4m** each.

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£666m
(71%)

went to some of the wealthiest families

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Conclusion

Our research puts into stark relief the extent to which the current inheritance tax system privileges the wealthy. The reliefs serve to dramatically reduce the effective rate of inheritance tax paid by some of the richest estates in the country, constituting a significant, and unfair, boon to already rich families. This is inexcusable during a period when poorer families have seen their incomes cut through benefit changes.

The reliefs available for business assets are particularly unjust, with the richest estates benefiting disproportionately. The relief has also given rise to a class of ISA shares listed on the Alternative Investment Market which benefit from a double whammy of income and inheritance tax relief.

The marketing of agricultural property as a tax sweetener is likely contributing to its rising value as an asset class, and stimulating more purchases by institutional investors which may be pricing less wealthy farmers out of the market.

There is a growing debate about reforming inheritance tax, with a range of think tanks and politicians calling for a complete overhaul.¹⁷ This report adds to the case for change including at the very least a cap on the amount of relief available to the wealthiest families. This should be part of a broader reform of the system to increase the share of tax coming from wealth. Tax Justice UK's 2018 report, *The World We Want*, sets out ways to achieve this.¹⁸

Recommendations

Tax Justice UK recommends:

- A review of the fairness and effectiveness of inheritance tax reliefs with consideration given to whether they should continue at all;
- A cap on the amount of relief available to estates that have a value over £1m;
- An end to tax relief on shares invested in companies in which a family has no substantial or controlling interest;
- An end to the 'double whammy' of income and inheritance tax giveaways on AIM listed ISA share products.

Statistical annex

2015/16 is the most recent tax year that HMRC has the distributional statistics for inheritance tax reliefs. The figures below represent the total value of property that attracts inheritance tax relief, as opposed to the value of tax saved. Tax Justice UK has calculated an estimate of the approximate tax saved (see below).

Table 1: Distributional spread of Agricultural Property Relief (APR), 2013/14 to 2015/16

These figures are for estates above the nil rate band (including the transferable nil rate band where this applies) claiming APR. Source: HMRC FOIA response.

	2013/14			2014/15			2015/16		
	Numbers	Amount (£m)	Median (£)	Numbers	Amount (£m)	Median (£)	Numbers	Amount (£m)	Median (£)
£0	565	59	90,000	536	61	100,000	444	46	101,000
£250,000	489	184	390,000	494	179	355,000	277	99	360,000
£500,000	564	382	650,000	456	321	688,000	316	232	695,000
£1m	295	438	1,380,000	257	386	1,400,000	199	300	1,450,000
£2.5m +	67	368	3,480,000	104	578	3,450,000	62	318	4,010,000
All	1980	1430	470,000	1,850	1,530	444,000	1,300	996	407,000

Table 2: Distributional spread of Business Property Relief (BPR), 2013/14 to 2015/16

These figures are for estates above the nil rate band (including the transferable nil rate band where this applies) claiming BPR. Source: HMRC FOIA response.

	2013/14			2014/15			2015/16		
	Numbers	Amount (£m)	Median (£)	Numbers	Amount (£m)	Median (£)	Numbers	Amount (£m)	Median (£)
£0	1,710	138	64,700	1,640	135	65,000	1,430	107	55,100
£250,000	387	134	336,000	428	155	365,000	314	111	345,000
£500,000	263	183	690,000	273	187	657,000	213	147	675,000
£1m	149	230	1,430,000	157	239	1,430,000	141	211	1,410,000
£2.5m	88	291	3,100,000	70	247	3,460,000	42	142	3,330,000
£5m +	46	1,020	8,910,000	37	1,330	9,570,000	51	879	10,200,000
All	2,640	1,990	136,000	2,610	2,290	149,000	2,190	1,600	120,000

Inheritance is levied at 40% of the value of an estate above the nil rate band. However, due to the complexities of inheritance tax, estates are likely to pay less than the 40% on property above the threshold. To calculate the tax savings as a result of inheritance tax relief, Tax Justice UK combined two data sets: the FOIA response from HMRC and the annual HMRC statistics on the costs of principal tax reliefs.¹⁹ The FOIA response gives information on the value of property subject to relief, and the annual relief statistics show how much these tax breaks cost the government. Combining these two gives an estimate of the effective tax rate of the reliefs for each year.

Table 3: Effective rate of tax relief on inheritance tax relief

	2013/14 (£m)	2014/15 (£m)	2015/16 (£m)	Source
Total value of estates gaining APR relief	1,430	1,530	996	FOIA
Total value of cost of relief to government	395	435	335	HMRC reliefs stats
Effective rate of relief	28%	28%	34%	TJ-UK calculation (cost of relief ÷ value of estates)
Total value of estates gaining BPR relief	1990	2290	1600	FOIA
Total value of cost of relief to government	580	575	595	TJ-UK calculation (cost of relief ÷ value of estates)
Effective rate of relief	29%	25%	37%	Calculation

We then applied these effective tax rates to the value of property subject to inheritance relief for different parts of the distribution.

Table 4: Value of inheritance tax relief for the largest estates

	2013/14 (£m)	2014/15 (£m)	2015/16 (£m)
Value of estates gaining APR relief valued above £1m	806	964	618
Estimate of tax saved at effective rate of tax relief	223	274	208
Value of estates gaining APR relief valued above £2.5m	368	578	318
Estimate of tax saved at effective rate of tax relief	102	164	107
Values of estates gaining BPR relief above £1m	1541	1816	1232
Estimate of tax saved at effective rate of tax relief	449	456	458
Values of estates gaining BPR relief above £5m	1,020	1,330	879
Estimate of tax saved at effective rate of tax relief	297	334	327

Endnotes

- 1 HMRC, Estimated costs of the principal tax reliefs, January 2019, www.gov.uk/government/statistics/main-tax-expenditures-and-structural-reliefs
- 2 Calculation based on the mean basic salary of an NHS staff nurse (£40,613). See University of Kent, Unit Cost of Health and Social Care 2018, IV, pg 156. <https://www.pssru.ac.uk/pub/uc/uc2018/hospital-based-health-care-staff.pdf>
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