

Distribution of Personal Wealth

A. Introductory Note

1. This section presents estimates of the distribution of personal wealth, based on inheritance tax, capital transfer tax and other data. The notes that follow describe the methods used to estimate the distribution and explain the contents of the tables.
2. The methods used were improved in the early nineties. Details are given in articles in *Economic Trends: Estimates of the Distribution of Personal Wealth* by F J Good (October 1990) and *Estimates of the Distribution of Personal Wealth II: Marketable Wealth and Pension Rights of Individuals 1976 to 1983* by I Stewart (November 1991).

B. Estimates of the Distribution of Personal Wealth

The estate multiplier method

3. The estate multiplier method is used to estimate the wealth of the living by regarding those who die in a year as a sample of the total population. This method was considered by the Royal Commission on the Distribution of Income and Wealth to be the most appropriate method of estimating the distribution of wealth in the personal sector. People of different age, sex and marital status have different rates of mortality and therefore different probabilities of appearing in the sample. For each sex and marital status and within 10 year age groups, however, the sample can, subject to the qualification mentioned below (paragraph 5), be regarded as random. The estates of all those dying in a year are therefore treated as a sample, stratified by age, sex and marital status, of the estates of the living. Details of these estates are reported through the administration of inheritance tax (or capital transfer tax before 1986).
4. To arrive at estimates of the value and distribution of the wealth of the living the estates of those dying in each stratum are multiplied by the reciprocal of the mortality rate for that stratum. As the mortality rates for the young age groups are low, the numbers dying are small and the multipliers are large. Conversely, in the older age groups with higher mortality rates, the numbers dying are larger and the multipliers smaller.
5. Two multipliers are used within each stratum. Mortality is affected not only by age, sex and marital status but also by other factors including social class. To allow for this, different sets of multipliers are used for estates above and below a cut-off point which has been increased gradually since 1977 from £10,000 to £25,000.
6. The multipliers come from data provided by the Office for National Statistics' Longitudinal Study of social class and occupational mobility. The mortality rates of people with estates greater than the cut-off are assumed to be similar to those obtained from the study for people living in owner-occupied housing. For the estates under the cut-off, the multipliers are halfway between those used for the larger estates and those for the population as a whole.
7. The inheritance tax sample of estates reported to Inland Revenue (IR) Capital Taxes (formerly known as the Capital Taxes Office) includes all the estates of younger people and all the largest estates. In the largest estates, there is a wide variation in size and composition. The statistical errors of the wealth estimates for these strata are therefore large. Newer sources of wealth, for example the wealth of winners of the national lottery, windfall gains associated with privatisations, demutualisations and company re-organisations, will not be accurately reflected in the inheritance tax data underlying the estimates. The statistical errors are smaller for older people with estates of moderate size.

Identified wealth

8. The description of the inheritance tax statistics in paragraphs 14 to 22 of the 'Inheritance tax' section shows that estimates of personal wealth derived from these statistics alone cannot represent the wealth of the whole population. The estimates cannot include people whose wealth is either so small, or held in such a form, as to make a report to IR Capital Taxes unnecessary when they die. The estates reported belong to less than half of the people who have died and the estimates of personal wealth based directly on the inheritance tax statistics cover about 40 per cent of the total population aged 18 or over. Those so covered are referred to as the "identified" population and their wealth so far as estimated from the inheritance tax statistics is referred to as "identified wealth".

9. Further adjustments to the estimates of identified wealth are necessary after the use of multipliers. These involve adjustments to compensate for unrecorded or under-recorded information and for valuation differences (e.g. difference between the maturity value of a life policy on death and the equity value during life). The estimates of identified wealth after this process of adjustment are referred to as "adjusted wealth".

Excluded wealth

10. The part of the population not included in the estimates described above are known as the "excluded" population and "excluded wealth" is the net value of assets of adults in the excluded population plus the net wealth in certain types of trust for which no information is included for probate purposes.
11. The estates of the excluded population are those administered without a grant of representation. The assets which can be transferred without a grant are National Savings, cash, some bank and building society accounts, consumer durables and insurance policies. Since May 1984, the amount of any individual asset could not exceed £5,000 and the estate would rarely exceed £25,000. An excluded estate can therefore include a dwelling only if it is owned jointly in such a way that the deceased's share passes automatically to the surviving joint owner. The wealth system therefore distinguishes between:
 - i. "excluded joint property" i.e. excluded estates which include joint property in the form of a dwelling; and
 - ii. "small estates" i.e. excluded estates which do not include joint property in the form of a dwelling.

Excluded joint property

12. The number of joint owners of houses is estimated from the General Household Survey. The difference between this number and the number of joint owners in the identified population is the number of owners of excluded joint property. The value of the houses allocated to them is broadly the difference between the Office for National Statistics balance sheet estimates (see paragraph 16) of the value of houses owned by households and the value of those of the identified population. This implies that the average value of the houses of owners of excluded joint property is lower than for identified joint property owners.
13. As well as houses, owners of excluded joint property are assumed to have other assets that are of similar value, on average, to those in the identified population whose assets could have been realised without a grant of representation

Small estates

14. The type and value of the assets of the "small estates" were initially estimated, using various data sources, for 1983 and 1985; the values for other years are estimated by increasing or reducing these values by 90 per cent of the change in the retail prices index.

Excluded wealth in trusts

15. Wealth in trusts not reported for probate (mainly discretionary trusts) is estimated separately. Robson and Timmins made estimates (in Discretionary Trusts - a Research Study - issued by Inland Revenue in 1988). Figures are based on these estimates but uprated for changes in equity prices.

The reconciliation with the ONS Balance Sheet Estimates

16. The Office for National Statistics (ONS), as part of their estimates of national and sector balance sheets, produce independent estimates of the assets and liabilities of the personal sector in aggregate broken down by type of asset. A reconciliation process is carried out to show the extent to which the estimates described above agree in aggregate with the ONS balance sheet of personal wealth. Because of difference in coverage and timing, certain adjustments to the ONS figures are necessary to arrive at mid-year estimates of household wealth which are used for reconciliation purposes. This reconciliation process is also used to fine-tune some of the adjustments made for under-recording and valuation discussed in paragraph 9.

Marketable wealth (Series C estimates)

17. After the reconciliation process, the "identified" wealth adjusted as outlined above together with "excluded" wealth gives an estimate of the "marketable" wealth. The Royal Commission on the Distribution of Income

and Wealth called estimates of the distribution of marketable wealth "Series C estimates". In arriving at this distribution, the excluded wealth in trusts referred to in paragraph 15 is assigned to a proportion of the "identified" population.

18. Marketable wealth excludes all rights accruing to individuals under occupational and state pension schemes. These are usually contingent rights which cannot be immediately realised, unlike the assets included in marketable wealth - houses, stocks and shares, and other saleable assets. These rights, however, are a deferred command over resources and must influence the economic behaviour of those entitled to them. The Royal Commission on the Distribution of Income and Wealth considered that for some purposes, therefore, it would be useful to include them in the estimates of the distribution of wealth.

Occupational and State pensions (Series D and E estimates)

19. The estimates of the distribution of marketable wealth plus occupational pension rights are known as Series D. The Royal Commission on the Distribution of Income and Wealth developed the methods used for valuing pension rights (Report No.1 : Initial Report on the Standing Reference (Cmnd 6171) 1975 pp 88-93 and Report No.4 : Second Report on the Standing Reference (Cmnd 6626) 1976 pp 65-70). Estimates for years 1980 to 1994 were published in Table 13.6 of the 1998 volume, the basis for the estimates were set out in paragraphs 19 to 23 of that volume. The table has not been reproduced since then. The estimates of the distribution of marketable wealth plus all pension rights, occupational and state, are known as Series E. Estimates for years 1980 to 1994 were published in Table 13.7 of the 1998 volume, the basis for the estimates were set out in paragraphs 19 to 30 of that volume. That table has also not been reproduced since then. The aggregate value of accrued pension rights continues to be published in [Table T13.4](#) . The aggregate occupational figures exclude personal pensions. Their inclusion is being investigated.
20. All estimates are on a "year of death" basis, i.e. they are based on deaths in a given year. There is commonly a delay of 3 or 4 months between death and details being recorded for inheritance tax purposes but some cases can take longer. There are also further delays due to the processing of these records. Because of these time lags, a reasonably complete set of records covering deaths in a calendar year is not available until up to 4 years later.
21. In this release, the estimates for 1999 and 2000 have been updated and provisional estimates for 2001 are given for the first time.

Gini coefficients

22. Gini coefficients have been calculated for each of the distributions in Table T13.5 and are shown as percentages. The Gini coefficient is a summary measure of the distribution and ranges between 0 and 100. The larger its value the more unequal is the distribution

Changes to tables

23. Since the printed version of Inland Revenue Statistics 2000, changes have been made to some of the tables. An analysis of identified wealth is now shown only for the latest year in [Table T13.1](#) (revised figures for earlier years are available on request). The old table 13.2 is renumbered [Table T13.3](#) and a new [Table T13.2](#) introduced showing a breakdown of wealth by age and sex. The asset breakdowns used in all three tables are the same as in [Table T12.4](#). [Table T13.5](#) has been restructured for greater clarity and now gives a time series back to 1976.

C. Enquiries and Further Information

24. A telephone enquiry number and email address for this section is given in the http://www.hmrc.gov.uk/stats/update_calendar/enquiry_2.htm page.