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# Inheritance Tax

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In a series of infinite generations, we have always heard one quote- “Hard work really pays off”. I think this line needs multiple interpretations- “Does your hard work pay you or?”, “How hard it is for the earners to pay their work to some big institutions of the economy?” Taxes are an integral part of the various combined economies in the world. If the governments would have an option they will tax the universe also. If someone is as lucky as Sunita Williams to go to space, I think multiple governments will come together to tax the ISS also on the basis of the duration of the journey, the space occupied, on the utilization of the services, etc. But let just delve deeper into the politics of the earth. India has imposed multiple taxes on the earners. They are direct taxes-income tax and indirect taxes for example GST, VAT, etc. But a new form of tax levying has been raised by one of our political parties which is Inheritance tax. Inheritance tax is the tax charged on the inheritor of the property/assets inherited from the deceased/close beneficiary. This tax was imposed in the pre-historic era and was banned in 1985 due to some obvious reasons. I think the concept itself doesn't promote equality because each person doesn't possess property to transfer but has skills to transmit and platforms to offer to get easy opportunities for their future genesis. I think if inheritance tax is imposed let's just tax the nepotism, let's just tax the archaeologists, the miners, the language learners who are indirectly inheriting the past resources through latest technologies. They are using the current progress to get access to the past resources for optimal utilization of the present.

## History of Inheritance Tax

Inheritance tax was also known as estate duty. Estate duty was levied on the total value of the property calculated at the time of the beneficiary's demise. Inheritance tax was levied for the first time in the 17th and 18th century by the kings to collect revenue from the common man on the property transferred to the heir. They are not the new concept but their origin has traces back to almost 3000 years. In 700 BC 10% tax was imposed on the property inherited by the heir in Egypt. In the 1st century AD, then ruler Augustus Caesar imposed a tax on the things presented to the successors but excluding the close relative possessions. Also, it is not a modern phenomenon in today's developed giants such as The United States of America. In America to cover up the expenses during the Civil War the Tax Act of 1862 imposed the federal inheritance tax in the country. When the war ended it was repealed in 1870. In England it was introduced in 1894 as a “back tax” which means it was considered the right to share some of the estate value to the state/government.

## Inheritance Tax in India

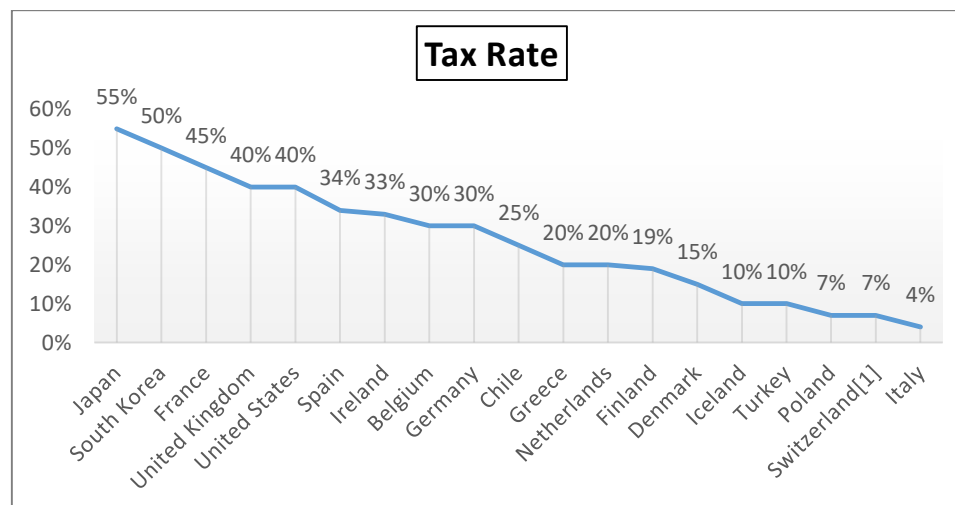
Inheritance tax was brought to India by the 1953 leaders led by then prime Minister Mr. Jawaharlal Nehru to reduce the economic inequality and to redistribute the wealth on equitable basis. It was called as estate duty/ death tax as it was imposed on the property inherited after the death of the transferor. It was imposed on both the movable and the immovable properties. The tax was paid by the inheritor after inheriting the property and if its value exceeded a prescribed limit as per Estate duty act, 1953. In India the estate duty tax was around 85% of the property's value. It was a progressive tax and also depended on the relationship heir held with the deceased.

## US Inheritance Tax

In US, there is no federal inheritance tax but currently 6 states impose inheritance tax for instance Iowa, Kentucky, Maryland, Nebraska, New Jersey and Pennsylvania. Rates range from 1% to 18% depending on the relationship with the deceased, value of the property held. The properties of the close relatives receive higher exemptions and lower rates. The spouses who are surviving are exempt from inheritance tax in all the 6 states.

### International Trends in Inheritance Tax

Inheritance tax is imposed in various international markets. For example: Japan is the highest inheritance tax imposing country with the tax rate of 55% followed by South Korea (50%), France (45%), etc. The main purpose of taxing the inherited properties is to reduce the wealth gap between the citizens of the country. Below is the graph showcasing the countries with inheritance tax.



## Loopholes of Inheritance Tax

The recent comment on revival of inheritance tax gained lot of criticism from the opposing party. But what sparked my concern over this tax is that how can the educated elite ignore or miss the many loopholes of the concept and can go against the notion



of equitable utilization of resources. According to me the inheritance tax is against the notion of economic and social equality. Following are the problems associated with such tax structure:

**Double Taxation-** The main reason the tax was abolished in 1985 was double taxation. The tax was imposed on both the property and the value of the inherited property. Also, in today's time or in past few years government collected some indirect taxes for instance VAT, GST, etc. So, taxing the inherited movable assets is a kind of double taxation by the generations of the same family. This opened the doors for inequitable access to your own resources.

**Qualitative aspect-** A country with multiple positive colors such as culture, compassion, empathy and understanding can never tax what a close one is giving his/her next generation to prosper as tax. In our textbooks, tax is always imposed on quantitative aspects such as income, wealth and goods and services purchased, etc. But taxing a qualitative aspect is against the norms of our country, and delivers wrong credibility for the economy.

**Over Land Utilization and Repercussions-** Inheritance tax can create excessive demand for lands which can lead to over utilization of resources. It can increase the value of real estate in India which can make the industry's services unavailable for the ordinary people. Also, over-usage of land can hamper the nature in the form of its climate, resources, etc.

**More Corruption-** People start registering their properties in the name of some other person to avoid taxation which is also known as "Benami properties which can create chaos in the market and encourages more corruption in the economy.

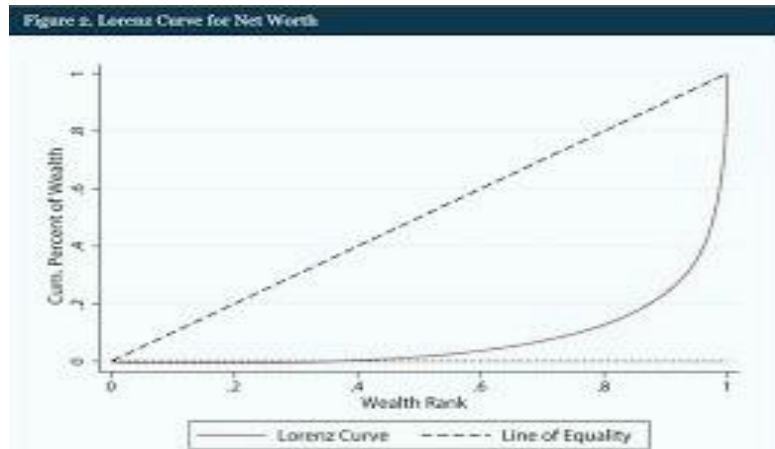
Thus, taxing the inheritance can create just one benefit- ending the nepotism but will it really end it?

### **Inheritance Tax- Inequality- Quantitative aspect:**

Whenever we delve into conversations on inequality, India is at the hotspot. In today's time India is ahead of other countries in terms of numerous positive aspects such as GDP growth, investment sector, manufacturing sector, etc. but I think the parameter "Inequality" is not leaving the India premises and is stuck with full passion with the country's aims. Though taxes are implied on progressive basis still implementation of some form of taxes plays a crucial role in widening the inequality gap of the country.

According to a 2024 study by the World Inequality lab 88.4% of India's wealth is controlled by the upper caste communities. The share of the lower caste groups is not even comparable to the holdings of the upper caste community. According to News click, India's Lorenz curve for unequal wealth distribution has expanded. according to 2024 report. Also, its Gini coefficient has increased from 0.633 in 2014 to 0.689 in 2028 which showcases widening income inequality in India.





The concept of inheritance tax is another gateway for the tax evaders to minimize their tax payments through various means which can be both legal and illegal. There is a commonality among human beings- the vision of future gains over losses, in technical terms known as prospect theory when you want to maximize your gains over losses.

Inheritance tax is a way for illegal registration of properties, a way for people to become impassive towards their business, which indirectly hampers the economic growth of the country. Already India is a tax loaded economy in which taxes are imposed on multiple parameters such as income, property, goods and services, etc. Evading taxes through illegal means can widen the Lorenz curve further.

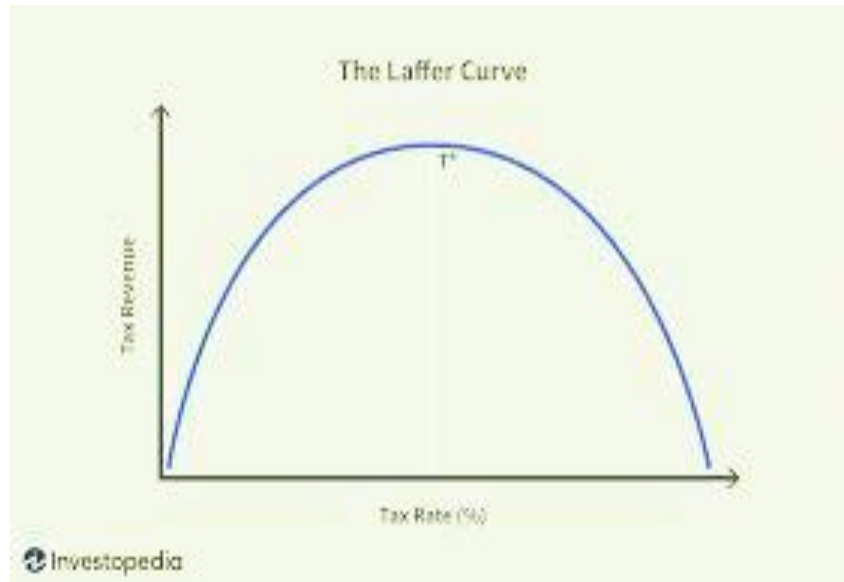
Corruption perception index which rate countries on the basis of corruption level is a parameter to judge and improve the prospectus of multiple nations. Increase in taxes, wrongful evasion of the same can cause corruption in the real estate world which can hamper the rank of the nation in CPI. Currently the score is 93 out of 180 countries which is still not an ideal value.

The inclusion of an indefinite tax structure in the Indian economy is a bad gateway for the economy. India's real estate sector is another milestone sector it is exploring with full consciousness. According to CREDAI President India's real state sector is witnessing a K- shaped recovery after COVID 19 with some segments doing well, therefore inclusion of inheritance tax can slowdown the recovery of real estate sector in which inheritance is the biggest player.

## Laffer curve

How increase in taxes hampers the economy is supported by a model- Laffer curve. Laffer curve shows that very high taxes can lead to 0 revenue for the government. Charging taxes at optimal level can in fact increase the wealth of the government and economy. It is an inverted U- shape curve which showcases optimum level of tax which a country should charge from its citizens. According to this model, huge amount of taxes can cause people to develop disinterest in running their businesses,

can increase the migration of Indian citizens to other countries, can increase black marketing and corruption levels in the nation. In all, a sound tax policy is crucial for optimal collection of tax revenue.



### Conclusion:

Government provides us resources, technology, and opportunities. It has rights to collect some part of it as return on the investments, but it's unusual and unrealistic ways to expand its revenue base is granting a pessimistic legacy to the future generations who are the ideal infrastructure for upcoming developments.

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