Inheritance Tax

Pros & Cons

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(The views expressed in the research paper are the personal view of the author and not of the organization he is working or institution to which he belongs)

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Dedicated to the Lotus feet of my Living God and Guru Jagadguru Kanchi Kamakoti Peedathipathi Sankaracharya Pujyasri Sri Sankara Vijayendra Saraswathy Swamyji.

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1. Introduction

Wealth distribution has assumed importance in India and in some emerging economies as leaders and thinkers are viewing it as a serious matter of concern in those countries. This paper is intended to analyse the concept and application of Inheritance Tax and to examine if the concept is successful in addressing the core issue. The paper concludes with focus on its efficacy for India, as it is poised to become the third-largest economy by end of this decade.

2. Evolution of Inheritance Tax

The evolution of Inheritance Tax may be traced back to Death Duties, which has its origins in the ancient civilizations such as Egypt and Rome, where wealth transfer taxes were enacted to fund public works and wars. However, it was not until the 17th century that England introduced the precursor to modern day inheritance tax. The Statute of Wills in 1540 marked the initial steps toward the taxation of wealth passed through inheritance. Subsequent Acts in the late 17th and early 18th centuries laid the groundwork for what eventually became known as the death duty.

The English legacy of death duties witnessed several pivotal moments in its development. The introduction of estate duty in the late 19th century revolutionized wealth taxation. It was during this era that the duty on the value of the deceased's estate began to take shape. The Finance Act of 1894 saw the formal imposition of a percentage-based tax on the estate of the deceased, setting the stage for a more structured inheritance tax system.

The evolution of death duties was not limited to England. The United States implemented its own version of estate taxation. This was initially introduced as a temporary measure during times of war, but it gained permanence during peacetime. The Revenue Act of 1916 ushered in a modern era of inheritance taxation in the US, laying the groundwork for a federal estate tax system.[1]

2.1 Evolution of Estate Duty in India

It appears that during 1860 the Government of India under the British rule contemplated the imposition of a succession duty as an alternative means of raising revenue, but the idea was abandoned because a duty on successions was likely to fall mostly on the natives of India to the exclusion of the Europeans, who generally went back to their country on their retirement from service in India. The Queen's Proclamation had just then been issued guaranteeing equality of treatment to all.[2]

Later Sir Charles Todhunter Committee gave a detailed report on Introduction on Indian Taxation System and recommended introduction of Estate Duty. Thus, the Origin of Estate Duty under the Indian Tax Laws can be traced to the Report of the Indian Taxation Enquiry Committee (1924-25)

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[1] Lennord Ray, The Evolution of Inheritance Tax: Unveiling the History and Legacy of Death Duties, https://fsxpert.com/news/the-evolution-of-inheritance-tax-unveiling-the-history-and-legacy-of-death-duties. Last accessed on 28 May 2024.

[2] Niyogi J P, *The Evolution of the Indian Income Tax*, P/S/King & Sons Limited, p 27. d

headed by Sir Charles Todhunter.[3] The Committee's recommendations[4] on Estate Duty are given below:

Para 356: The distinction between Mutation Duty and Succession Duty

An examination of the systems of inheritance taxation in force in different countries reveals two main forms which these duties may take, viz.-

1. *a transfer or mutation duty, which in principle is a duty payable by reason of the passing of property on death, regardless of its destination. the English estate duty is an example of this form; and*
2. *an acquisition or succession duty. The succession and legacy duties in England are an example of this form under which the tax is levied by reason of the acquisition · by a Beneficiary of assets belonging to a deceased Person.*

The mutation duty is levied because property has passed by death, and is graduated with reference to total amount of property passing.

The legacy or succession duty looks, not to the size of the estate left by the deceased, but to the size- of the separate shares received by the beneficiaries, and with the windfall element increases with the distance of relationship to the deceased, it is often graduated further on that principle.

357. The latter unsuitable to India

On the subject of the joint family system under the Mitakshara law and the many different laws of inheritance in India, the Committee, as laymen, speak with diffidence.

They are advised, however, that these two conditions generally put an acquisition duty on the lines of the English succession and legacy duties out of the question.

The joint family is in the nature of a corporation which continues to exist and enjoy the property irrespective of the death of any particular member. Meanwhile, the systems of inheritance both among the Hindus and among the Muhammadans recognise a plurality of heirs, and the calculations connected with the division of property among them, and. more particularly the minute fractions into which the shares of particular heirs may run, would render the imposition of a succession duty, as distinguishable from estate duty, impracticable. Nor would it be easy, the medley of laws and customs of inheritance that exist side by ·side, to arrive at a uniform classification of heirs and a satisfactory scale of graduation according to relat1onsh1p which would apply to all communities in India.

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[3] Other Members of the Committee were:
- Sir Bijay Chand Mahtab, Maharajadhiraja Bahadur of Burdwan
- Sir Percy Thompson, K.B.E., *C.B.*
- The Hon'ble Sardar Jogendra Singh
- Dr R P Paranjpye
- Dr L K Hyder, M.L.A., and
- Mr B Rama Rau, ICS, *Secretary.*

[4] Paras 356, 357 of the Committee Report.

For these reasons also a duty somewhat on the lines of the English estate duty appears to be more practicable, and may initially take the form of transfer or mutation duty on death.

2.1.1 Committee's Observations on the Reasons for Introduction of Estate Duty in India

The Committee noted the following reasons for Introduction of Estate Duty[5].

Duties on inheritance are by no means unknown in India. Under the Zamorins of Calicut a duty of 25 per cent was levied on the value of the estates of Muhammadan landholders. A death duty is levied in Bikaner at the present day, graduated by degree of relationship up to a maximum of 20 per cent.

The general introduction of similar taxation by the British Government was first considered in the year 1859 in connection with the discussions relating to the introduction of the income-tax, and the practicality and desirability of such a tax have since been discussed on numerous occasions. To a limited extent, that of the probate' duties leviable from certain communities, duties of this class have been. In force from an early period, and the rates of these duties were fixed in 1870 at the equivalent of the then English rates. The more general levy of inheritance taxes has, however, hitherto been thought inexpedient on various grounds, of which the chief were-

(a) *that they would fall with special Severity upon the landholding classes;*
(b) *that there would be great difficulty in the valuation of Chattels.*
(c) *that the habit of investment was in its infancy;*
(d) *that there would be no reliable figures of trading income on which the capital value of the concerns could be based.*
(e) *that the law of the Mitakshara joint family introduced complications which could not be surmounted.*

2.2 Estate Duty in India: Chargeability

The Estate Duty Act was introduced in India in 1953, aiming to address wealth inequality by taxing the estates of the wealthy when passed on through succession. This tax system functioned progressively, meaning larger the estate, higher was the tax rate applied. Under the legislation Estate duty was a form of tax which was levied on the total value of the property held by an individual calculated at the time of his/her demise. It was payable at the time when the deceased individual's property was passed on to the successors. Estate duty was payable only if the total value of the inherited portion of the property exceeded the exemption limit prescribed under the Estate Duty Act, 1953 ("the Act"). While calculating the total value of the property of the deceased individual, the market value as at the time of the death was taken into consideration subject to certain deduction. Based on the recommendations of the Todhunter Committee (which recommended Estate Duty), the Act had few provisions to counter any avoidance on payment of estate duty including the following transactions of gift before the death was contemplated as passing at the time of death subject to monetary exemption– (i) Gifts made by an

[5] Pages 262 and Para 354 of the Committee Report.

individual ‘in contemplation of death’ *(donatio mortis causa)* as defined in the Indian Succession Act, 1945, were treated as being passed on death of such individual. (ii) Gifts *inter vivos* for public charitable purposes made within a period of 6 (six) months before the death and gifts for other purposes made within 2 (two) years before death takes place, were also treated as being passed on death.

The rate of estate duty was set at a rate as high as 85% (eighty-five per cent). However, in 1985, estate duty law was abolished in India.

2.3 Abolition of Estate Duty

The Government in 1985 announced the abolition of Estate Duty. The then Honourable Finance Minister Mr V P Singh mentioned in his budget speech that Wealth Tax and Estate Duty were levies on the same wealth and hence the continuation of Estate Duty was not useful from an exchequer point of view and consequently abolished Estate Duty in India. The relevant para of the speech[6] of the then Honourable FM is reproduced below:

> *“As both wealth-tax and estate duty laws apply to the property of a person, the former applying to his property before death and the latter after his death, the existence of two separate laws with reference to the same property amounts to procedural harassment to the taxpayers and the heirs of the deceased who have to comply with the provisions of two different laws. Having considered the relative merits of the two taxes, I am of die view that estate duty has not achieved the twin objectives with which it was introduced, namely, to reduce unequal distribution of wealth and assist the States in financing their development schemes. While the yield from estate duty is only about Rs. 20 crores, its cost of administration is relatively high. I, therefore, propose to abolish the levy of estate duty in respect of estates passing on deaths occurring on or after 16th March, 1985. I will come forward in due course with suitable legislation for this purpose.”*

2.4 Raja Chelliah Committee on Estate Duty/Inheritance Tax

Subsequently Raja Chelliah Committee discussed the reintroduction of Estate Duty/Inheritance Tax and concluded in favour of keeping Estate Duty/Inheritance in abeyance. The Committee in its report concluded[7] on Estate Duty as follows:

> *“An argument given for the abolition of the gift tax is that it is anomalous or redundant to continue it after the abolition of the estate duty. Of course, one could argue the opposite case and plead for the re-introduction of the estate duty or an inheritance tax. While a theoretical case can be made out for the introduction of the inheritance tax with a moderate single rate of tax, given the many practical problems that are likely to be created as under the erstwhile estate duty and given the fact that even the existing direct taxes are not being enforced efficiently, the Committee does not recommend that a tax on estates passing at*

[6] Para 88 of the Budget Speech for 1985-86.
[7] Para 3.65 at page 28 of the Report.

death or inheritances should be contemplated in the near future. We should for the time being concentrate on bringing into existence a fairly clean, efficient and productive system of direct taxes containing only the four major elements, namely, tax on corporate profits, tax on personal income including the income of non-corporate business entities, the wealth tax on unproductive assets and the gift tax."

Subsequently the Wealth Tax was abolished and though the Gift Tax was abolished, yet it found its way in Income-Tax Act through the provisions of Section 56(1) (vii)(a) and other sections.

3. Inheritance Tax

At the present time, certain sections of the political/social thinkers have started a discourse on the introduction of Inheritance Tax in India along the same lines as some western countries, on the grounds of inequality in Wealth Distribution. Before we go analyse the landscape of Inheritance Tax in the western countries and in India from a socio-economic perspective, it is important to consider the following excerpts from the speech of Shri N C Chatterjee, the then Member of Parliament speaking against the introduction of Estate Duty.

[8]*"The common man feels that there is no hope for him. His frustration and his despair are deepening. It is very easy to tell him that by this kind of estate duty, the rich will be made poor. It may be possible to bring down some people to a lower level, but really the question is: shall we raise the standard of the many, shall we make the common man happier, shall we be able to improve his lot to any appreciable extent. That is the question which is asked by the common. The common man feels that there is no hope for him. His frustration and his despair are deepening. It is very easy to tell him that by this kind of estate duty, the rich will be made poor. It may be possible to bring down some people to a lower level, but really the question is: shall we raise the standard of the many, shall we make the common man happier, shall we be able to improve his lot to any appreciable extent. That is the question which is asked by the common*

I want also the Finance Minister's plain and frank answer if that is so. If it is meant to be a real front-line attack on private enterprise or property, then we should declare War on this Bill, and we shall have nothing to do with it in any shape or form. Has not the Constitution of India—in the wisdom of the makers of the great Constitution of the Republic of India—deliberately put in a clause making the right to hold property and dispose of property a guaranteed fundamental right.

A man who has property which he has earned himself, has a right to certain standards, to be immune from the daily tragedy of a grim existence. He can recreate in the intellectual hinterland

[8] Excerpts from the Speech of Shri N C Chatterjee (Representing Hooghly) on various points on Estate Duty in Rajya Sabha as part of Debate on Estate Duty Introduction. One of the finest debates on Estate Duty.

where he can develop his own faculties for the purpose of his self-expression. These are things which cannot be brushed aside. It is not right that we should mislead our fellow citizens that we are doing something which would destroy capital. That would do no good to either business or industrial development in the country or help any effort to build up a better state or a better community.

I shall read out to you the report of the Colwynn Committee for National Debt and Taxation in England. They have pointed out that the levy of an estate duty in England retarded savings and also hindered capital formation. We have got to be particularly careful that this kind of fetter on capital formation in this country should not take place as the effect of any unwise legislation. I shall quote here the exact words which the Colwynn Committee used.

"Taking physical and psychological facts together, we think that the estate duty is distinctly more damaging to saving than income tax. This result is due in part to the inherent nature of the estate duty as a deferred tax and in part to the fact that under the existing scale, the bulk of the duty is drawn from the larger estates."

In the author's humble view, the issues relating to Inheritance Tax persist even now. Will it kill the creation of Private Capital? Will it achieve the avowed objective of Equality of Wealth and also whether the concept is relevant to a country like India, which is marching towards becoming the third developed country by the end of this decade? Before we answer these questions, it is important to analyse the concept, practices, and impact on other countries and then arrive at the answer to whether it is required in India.

The transformation from death duties to the more encompassing concept of inheritance tax took place in the latter half of the 20th century. Countries around the world began to shift their focus from the deceased's estate to a broader view encompassing the transfer of wealth between generations. This shift expanded the scope of taxation to include gifts and lifetime transfers, culminating in the birth of what we now recognize as inheritance tax.[9]

Inheritance tax, a different version estate duty, is a levy imposed on the value of assets inherited from a deceased person. Essentially, the government collects a share of the wealth transferred from the deceased to their beneficiaries. This tax is typically levied before the inheritance is distributed to the heirs. It is important to distinguish inheritance tax from other taxes related to death, such as capital gains tax, which may apply when inherited assets are sold.

3.1 OECD's Perspective on Inheritance Tax

The OECD in its report[10] explains that Inheritance taxation is a specific form of wealth taxation. As opposed to net wealth taxes that are levied periodically (usually annually) on the ownership of wealth,

[9] Lennord Ray, The Evolution of Inheritance Tax: Unveiling the History and Legacy of Death Duties, https://fsxpert.com/news/the-evolution-of-inheritance-tax-unveiling-the-history-and-legacy-of-death-duties. Last accessed on 28 May 2024.

[10] OECD (2021), *Inheritance Taxation in OECD Countries*, OECD Tax Policy Studies, No. 28, OECD Publishing, Paris, para 2.1 at page 41. Available at https://doi.org/10.1787/e2879a7d-en. Last accessed on 28 May 2024.

wealth transfer taxes are levied when a transfer of wealth occurs and, in the case of inheritance and estate taxes, only upon the donor's death. Wealth transfer taxes can be further sub-divided into inheritance taxes, which are levied on the wealth received by heirs, and estate taxes, which apply to the total wealth transferred by donors. As with net wealth taxes, inheritance and estate taxes are typically levied on a broad range of assets, including immovable and movable property, as well as financial asset, and debts are deductible.

3.2 Need for Inheritance Tax in the International Tax Context

OECD in its report on "Inheritance Taxation in OECD Countries"[11] commented that "*Wealth inequality has become an increasingly prominent topic in recent years. Wealth is highly concentrated at the top of the distribution, much more so than income, and income and wealth inequalities can be mutually reinforcing. Moreover, household wealth inequality has remained persistently high and has even increased over time in some OECD countries, largely as a consequence of increases in asset prices and savings rates. In some OECD countries, wealth inequality is higher than it has been for several decades.*

Trends in wealth transfers are also likely to reinforce wealth concentration. The share of inherited wealth in total private wealth has increased in some countries in recent decades. Inheritances are also expected to increase in number, with the baby-boom generation getting older, and in value, if trends in asset prices continue. In addition, wealth is expected to remain concentrated among older cohorts for longer periods of time and the age at which people inherit will likely continue to rise due to longer life expectancies."

The economy of most Western countries was characterised by high levels of inequality coupled with concentration of wealth with a few. The inherited wealth was a key determinant of individuals' wealth rank in society. But the intense economic and political shocks during the first half of the 20th century put these dynamics to the sword. The end of the Second World War then marked the start of a period of high economic growth and relatively low inequality, which allowed for strong social and economic mobility. During that period, wealth accumulation was mostly driven by labour income, and inheritance played a relatively minor role in determining people's economic status. This trend has not been maintained, however. Over the last three decades, Western economies have witnessed the return of inheritance as a main driver of wealth inequalities at the top, with labour income quickly losing its capacity to fuel mobility across the wealth distribution.[12]

The author of the cited research paper concludes based on the data points of western countries, more specifically of US/UK/France/Germany

(i) the share of net private wealth in GDP has been rapidly rising over the last 50 years
(ii) net private wealth represented about 300% of the US, UK, and France's respective GDPs in the 1970s, it now represents around 600% in all three countries. Germany has also followed a

[11] OECD (2021), *Inheritance Taxation in OECD Countries*, OECD Tax Policy Studies, No. 28, OECD Publishing, Paris, available at https://doi.org/10.1787/e2879a7d-en. Last accessed on 28 May 2024.

[12] Etienne Fize Nicolas Grimprel Camille Landais, *Can Inheritance Taxation Promote Equality of Opportunities?* Available at https://ppr.lse.ac.uk/articles/10.31389/lseppr.73. Last accessed on 28 May 2024.

similar pattern, with net private wealth growing from around 250% of national income in 1970 to more than 450% today.

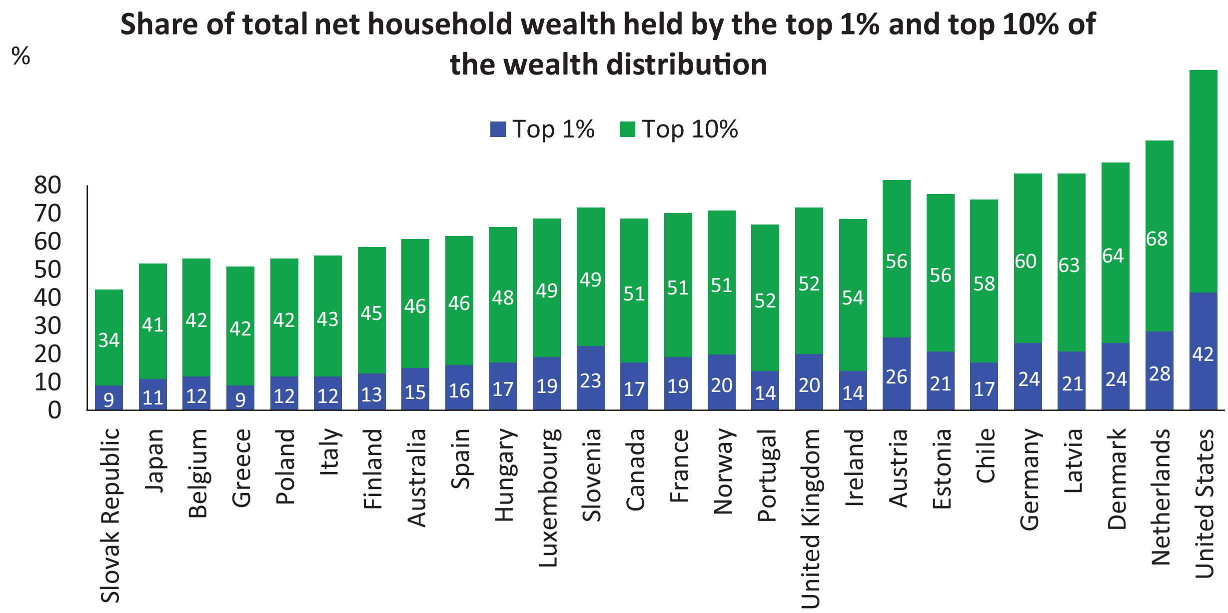
(iii) Wealth has therefore been accumulating steadily, and at a much faster rate than income. But this newly generated wealth has not been distributed evenly across individuals. On the contrary, wealth has become increasingly concentrated over the last 30 years. In 1985, France's one per cent richest individuals owned 15% of the country's total personal wealth, but today, they own 25%. A similar pattern is found in the US, with the top one per cent owning 25% of the personal wealth in the 1980s, to over 35% now.

(iv) Inheritance has returned to being a major source of wealth accumulation. The share of inherited wealth in the total wealth has indeed been rapidly increasing over the last 50 years. In the 1960s, inherited wealth represented 35% and 20% of France's and Germany's respective total national wealth, it has now reached over 50% of total wealth in both the countries.

(v) The author concluded that based on facts inherited wealth is once more becoming a key driver of wealth inequality, especially at the very top, similarly to what western economies experienced at the end of the 19th century. To this end, inherited wealth is extremely concentrated among the few.

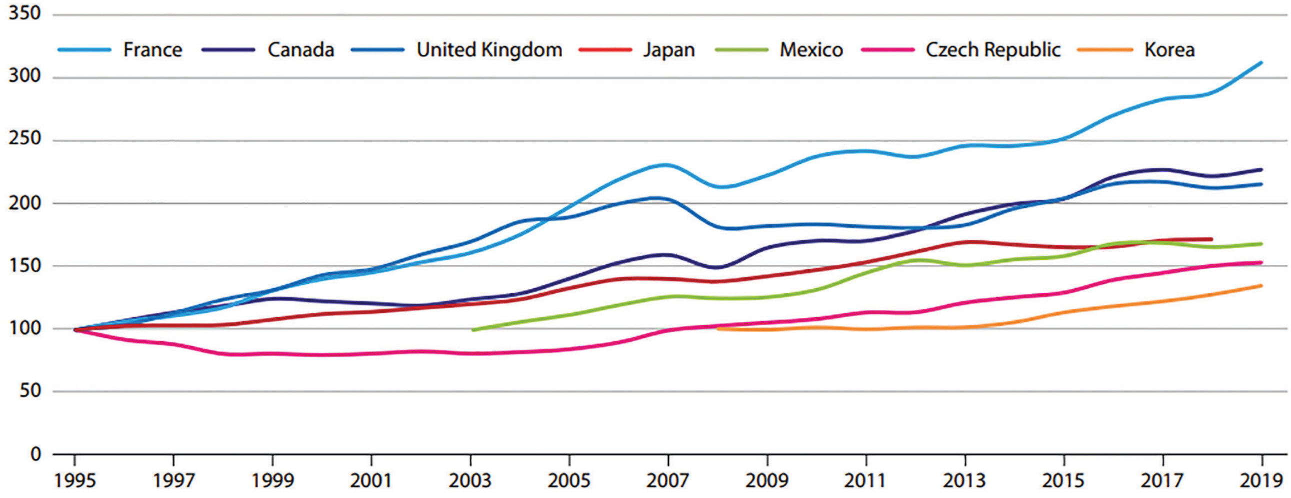
3.3 OECD Report on Wealth Distribution[13]

Across OECD countries, household wealth is highly concentrated at the top of the wealth distribution. The wealthiest 10% of households own half of all household wealth on an average across 27 OECD countries for which data were available and the wealthiest 1% own 18% of household wealth on an average. Financial wealth is particularly concentrated; while the wealthiest 20% of households own more than half of all real estate wealth, they own nearly 80% of all financial wealth.



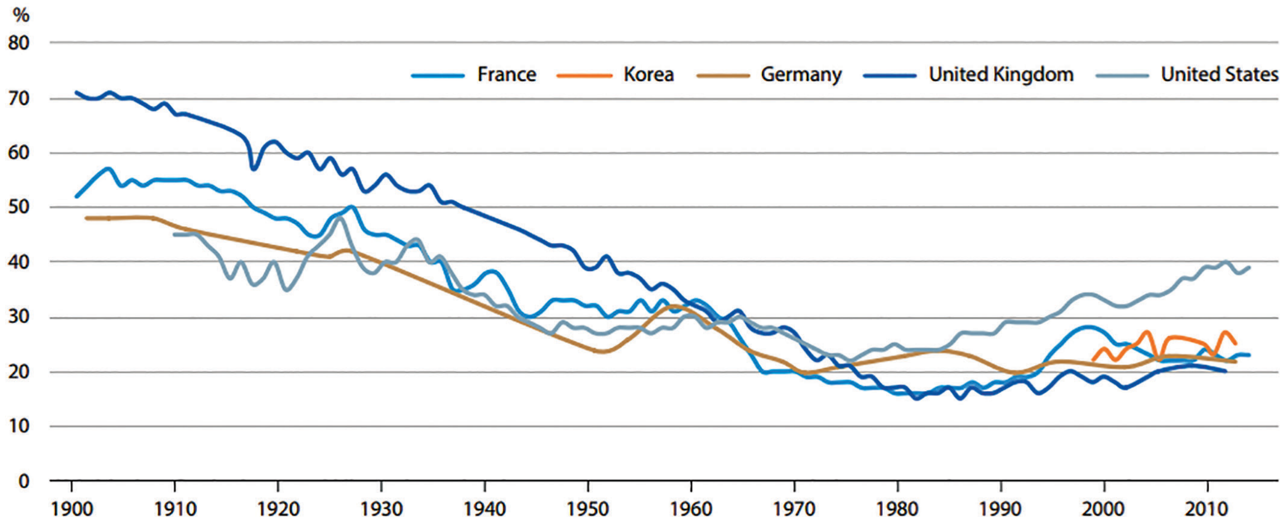
[13] OECD, *Inheritance Taxation in OECD Countries*.

Assets held by households, per capita, 1995-2019, selected countries (base year 1995=100)



Source: OECD National Accounts

Long run share of net wealth held by the top 1% wealthiest households, selected countries



Source: World Inequality Database, wid.world/data/, data for Germany in Albers, Bartels and Schularick (2020[6]).

OECD in its report on Inheritance Tax[14] points out that Household wealth has grown substantially in some countries over time. For example, between 1995 and 2019, per capita wealth nearly tripled in France and more than doubled in Canada and the United Kingdom. Rising asset prices were significant drivers of wealth growth, with countries experiencing larger increases in wealth growth, while household saving rates appeared more weakly linked to wealth growth. Rising household wealth has been accompanied by rising wealth inequality in some countries. Following strong declines in wealth inequality throughout the early and middle 20th century, top wealth shares increased during the latter part of the 20th century and the early 2000s in some countries. Further, the OECD in its report states that a long-run data on wealth inequality are only available for a few countries and, while the evolution of wealth inequality in these countries provides important insights, caution should be taken in generalising the trends, as the factors that drive long-run wealth inequality differ across countries and over time.

[14] Id.

3.3.1 Distribution of Wealth Transfer

OECD in its report comments that Wealth transfers include both gifts (i.e. transfers of assets made during the donor's lifetime) and inheritances (i.e. transfers of assets after the donor's death). Wealth transfers can affect wealth inequality and equality of opportunity, in part because wealthier people are more likely to receive an inheritance and typically receive higher value inheritances. While between one quarter and one half of households across OECD countries report receiving an inheritance or a substantial gift, wealth transfers appear to favour wealthy households. Among the wealthiest 20% of households, the portion of households who report receiving an inheritance or gift ranges from 39% (Canada) to 66% (Finland), compared to between 3% (Italy) and 26% (Finland) among the poorest 20% of households. Wealthy households also report receiving higher value inheritances and gifts. The average inheritance that households in the bottom wealth quintile reported receiving from around USD 300 to USD 11,000. For the wealthiest 20% of households, the average reported inheritance ranged from around USD 30,000 to USD 526,000.

The research paper *Inequalities in Household Wealth Across OECD Countries: Evidence from the OECD Wealth Distribution Database* authored by Carlotta Balestra, Richard Tonkin (OECD Statistics Working Papers 2018/01) concludes that:

> *"As household wealth in OECD countries has risen considerably over recent decades, older households today have much more accumulated wealth that they can leave to younger generations, either through inheritances or gifts (wealth transfers made during the donor's lifetime). This means that such gifts and bequests will likely have an increasing influence on household wealth and its distribution in the future. It is therefore important to understand more about their impact on wealth inequality, social mobility and the intergenerational transmission of advantages. Are inheritances and gifts received predominantly by those who are economically more advantaged? Do they reduce or increase levels of wealth inequality? To help address these questions, the OECD WDD has gathered information on which households receive inheritances and gifts and how much they receive.*
>
> *According to these data, members of one-in-three households have received some form of gift or bequest by the time they were interviewed, ranging from 25% of households in Latvia and 26% in Canada to 43% in France and 47% in Finland. These inheritances and gifts can be both financial and non-financial in nature, including bequests made up of real-estate and other physical wealth. There are also large cross-country differences in the average amount received in inheritances and gifts: In Austria, Spain and Italy, average inheritances per household are in excess of USD 120 000 among those that receive them, while, at the other end of the spectrum, the average value of inheritances in Hungary is less than USD 12 000.*
>
> *In all countries, households with higher incomes are more likely to have received an inheritance or gift, but the extent to which this is the case varies considerably across countries. In some countries, including Luxembourg, Canada, Germany and Austria, the relationship between current household income and the likelihood of having received an inheritance is strong. For example, in Luxembourg, 37% of households in the top income quintile report having received an inheritance, compared with 18% of those in the bottom quintile. However, in some Southern*

European countries (Portugal, Spain and Greece), the relationship between income and the probability of receiving an inheritance is much weaker; For example, 34% of households in the top income quintile in Portugal declare having received gifts or bequests in their lifetime, compared with 32% in the bottom quintile.

Among all households that report having received a gift or bequest, the value of that capital transfer is considerably higher for households in the top income quintile compared with those in the bottom quintile, with the average amount received by the top quintile varying between 1.4 times and 11 times that of the bottom group. Even in countries where the relationship between people's income and the likelihood they have received an inheritance is weaker, the value of those gifts is considerably higher for high-income households. In Spain, for example, the average inheritance received by households in the top income quintile is USD 179 200, compared with USD 47 700 for those in the bottom quintile. This indicates a strong link between households' current income and the amount they may inherit (and therefore the wealth of their parents or other relatives), implying low levels of intergenerational mobility."

3.3.2 Share of Inherited Wealth vs Total Wealth

OECD in its report conclude that the share of inherited wealth in total private wealth has increased in some countries in recent decades and, in the future, wealth transfers could further contribute to wealth inequalities. If the recent trends in asset prices continue and as the baby-boom generation ages, wealth transfers may increase in value and in number. This may lead to an increase in the intra-generational wealth inequality.

Moreover, as a result of longer life expectancies, wealth concentration among older cohorts is expected to rise. This may increase inter-generational wealth gaps between older asset-owning generations and younger generations. Low fertility rates and smaller families may also mean that there are fewer close family members among whom wealth may be divided, increasing the likelihood that heirs receive a larger share of donors' estates.

3.3.4 Introduction of Inheritance Tax by the Western Countries

The inequality in distribution of wealth prompted the western economists to introduce Inheritance Tax in their respective countries. Before we go onto the impact of inheritance tax on the distribution of wealth it is important to understand the nature and levy of Inheritance Tax by various countries.

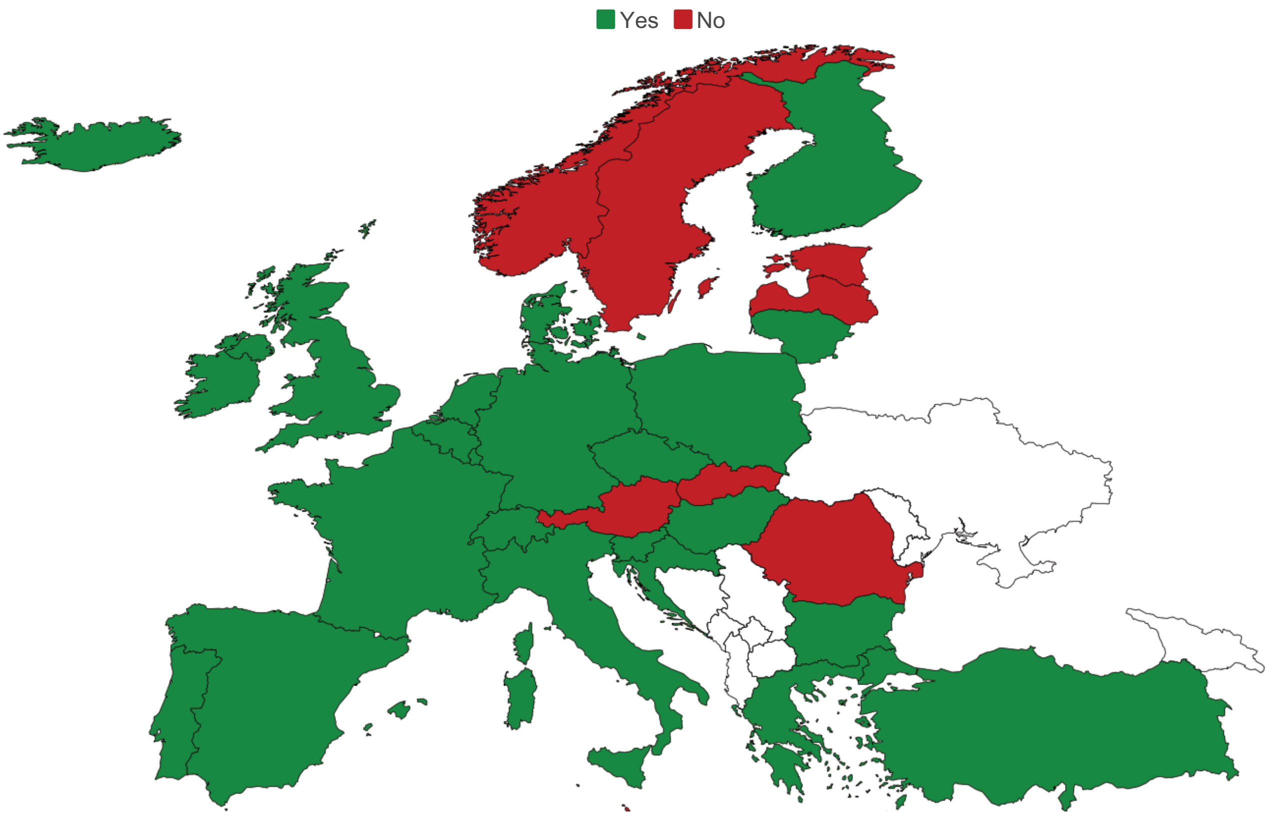
Across the OECD, 24 countries tax end-of-life bequests. There are two different approaches to taxing bequests: countries can impose donor-based estate taxes, levied on the deceased donor's total net wealth, or recipient-based inheritance taxes, levied on the value of the assets that beneficiaries receive from the deceased donor. The latter is the most common approach, with 20 countries levying recipient-based inheritance taxes. Denmark, Korea, the United Kingdom and the United States, on the other hand, levy estate taxes. All the countries that levy inheritance or estate taxes also tax gifts, typically through a beneficiary-based gift tax. Among the countries that do not levy inheritance or estate taxes, some have never levied such taxes (Estonia, Latvia), while others repealed them in recent decades.[15]

[15] Id.

3.3.5 Status of Wealth Transfer Taxes in OECD Countries

Type of Tax	Countries
Inheritance tax and gift tax	Belgium (Brussels-Capital Region), Chile, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Lithuania, Luxembourg, Netherlands, Poland, Portugal, Slovenia, Spain, Switzerland (Canton of Zurich), Turkey
Estate tax and gift tax	Denmark, Korea, United Kingdom, United States
Gifts taxed under personal income tax	Latvia, Lithuania (with a separate inheritance tax)
Repealed inheritance or estate taxes (repeal year in brackets)	Australia ('79), Austria ('08), Canada ('72), Czech Republic ('14), Israel ('80), Mexico ('61), New Zealand ('92), Norway ('14), Slovak Republic ('04), Sweden ('04)

Estate, inheritance and gift taxes (2022)



Sources: Tax Foundation,Worldwide Estate&Inheritance Tax Guide&PwC

Estate, inheritance and gift taxes (2022)

Flag	Country	Estate /Inheritance /Gift Tax	Tax Rate
	Austria	No	–
	Belgium	Yes	3-80% (depends on region)
	Bulgaria	Yes	0.4-6.6%
	Croatia	Yes	4%
	Cyprus	No	–
	Czechia	Yes	Income tax applies (inheritances are fully tax-exempt, but gifts may be taxed)
	Denmark	Yes	0-52%
	Estonia	No	–
	Finland	Yes	7-33%
	France	Yes	5-60%
	Germany	Yes	7-50%
	Greece	Yes	1-40%
	Hungary	Yes	9-18%
	Iceland	Yes	10%
	Ireland	Yes	33%
	Italy	Yes	4-8%

Flag	Country	Estate /Inheritance /Gift Tax	Tax Rate
	Latvia	No	No tax on inheritances / estates, but income tax can apply to gifts
	Lithuania	Yes	5-10%
	Luxembourg	Yes	0-48%
	Malta	No	No inheritance / estate / gift tax, but 5% transfer duty can apply
	Netherlands	Yes	10-40%
	Norway	No	–
	Poland	Yes	0-20%
	Portugal	Yes	10%
	Romania	No	No inheritance / estate / gift tax, except in relation to transfer of real estate in certain circumstances
	Slovakia	No	–
	Slovenia	Yes	5-39%
	Spain	Yes	7.65-87.6% (depends on region)
	Sweden	No	–
	Switzerland	Yes	0-50% (depends on canton)
	Turkey	Yes	1-30%
	UK	Yes	20-40%

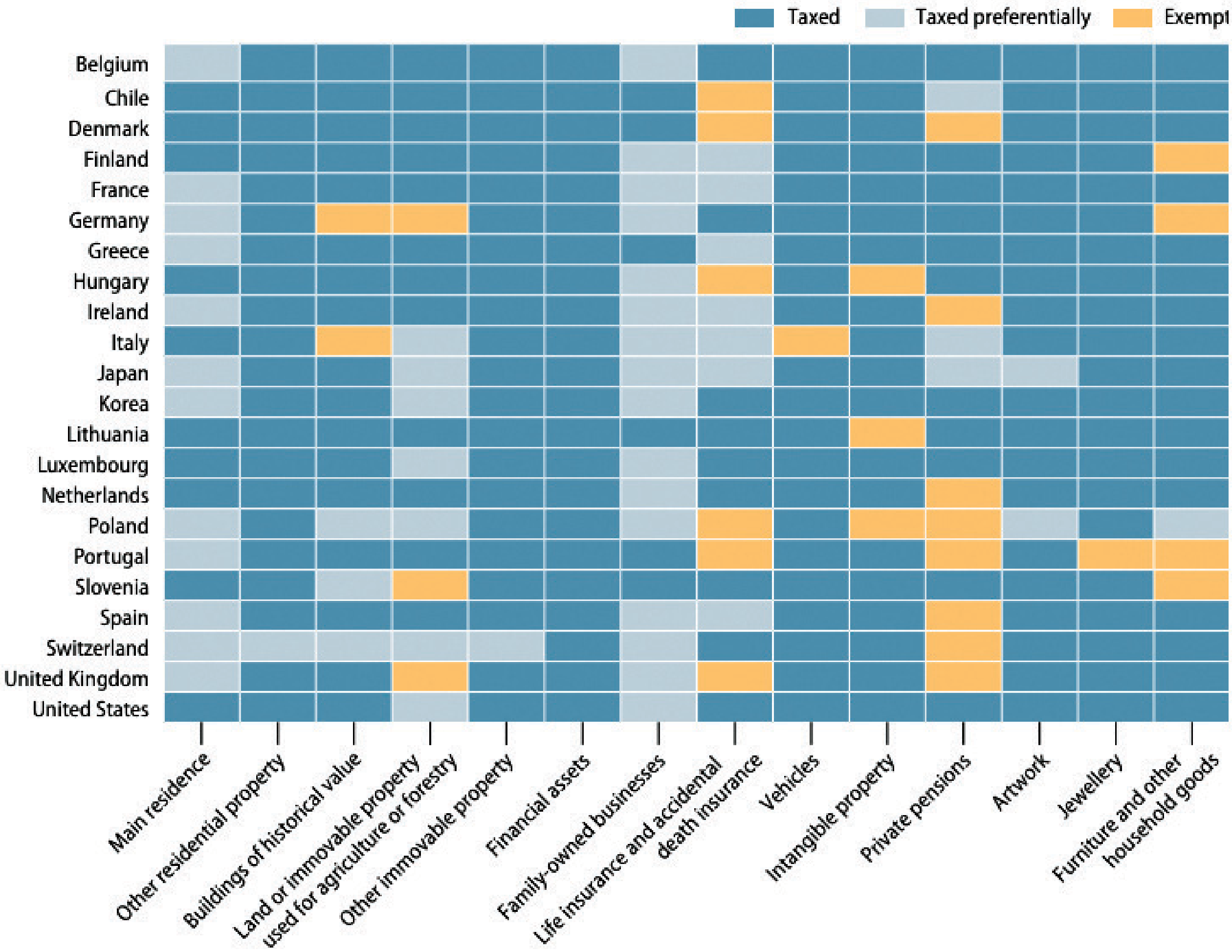
3.3.6 Levy of Inheritance Tax in OECD Countries

OECD in its report summarises that almost all countries provide a tax exemption threshold, allowing a certain amount of wealth to be passed on to the beneficiaries tax-free. Tax exemption thresholds tend to be higher for close relatives, particularly for the donor's spouse and children. Spouses are fully exempt from inheritance or estate taxes in thirteen countries and donor's children are exempt in six countries. Where they are not exempt, spouses and children benefit from the highest tax exemption thresholds. However, the level of tax exemption thresholds varies widely across countries. For instance, tax exemption thresholds for bequests to children range from around USD 17,000 in Belgium (Brussels-Capital Region) to around USD 11.6 million in the United States. Other family and non-related heirs usually have much less favourable tax treatment, although the gap between the tax treatment applicable to closely related heirs and that of other heirs varies across countries.

3.3.6.1 A Number of Assets Typically Benefit from a Preferential Tax Treatment

Preferential tax treatment in the form of full or partial exemptions, additional tax exemption thresholds, below market valuation, tax credits and lower tax rates, apply to specific assets in many countries. Assets that commonly benefit from preferential tax treatment include business and farm assets as well as donors' main residences, while full exemptions apply most commonly to private pensions and life or accidental death insurance. OECD in its report sums up the tax treatment of various assets for Inheritances Tax through the diagram.

Tax treatment of different assets under inheritance and estate taxes



3.3.7 Inheritance Tax in OECD and Europe Countries

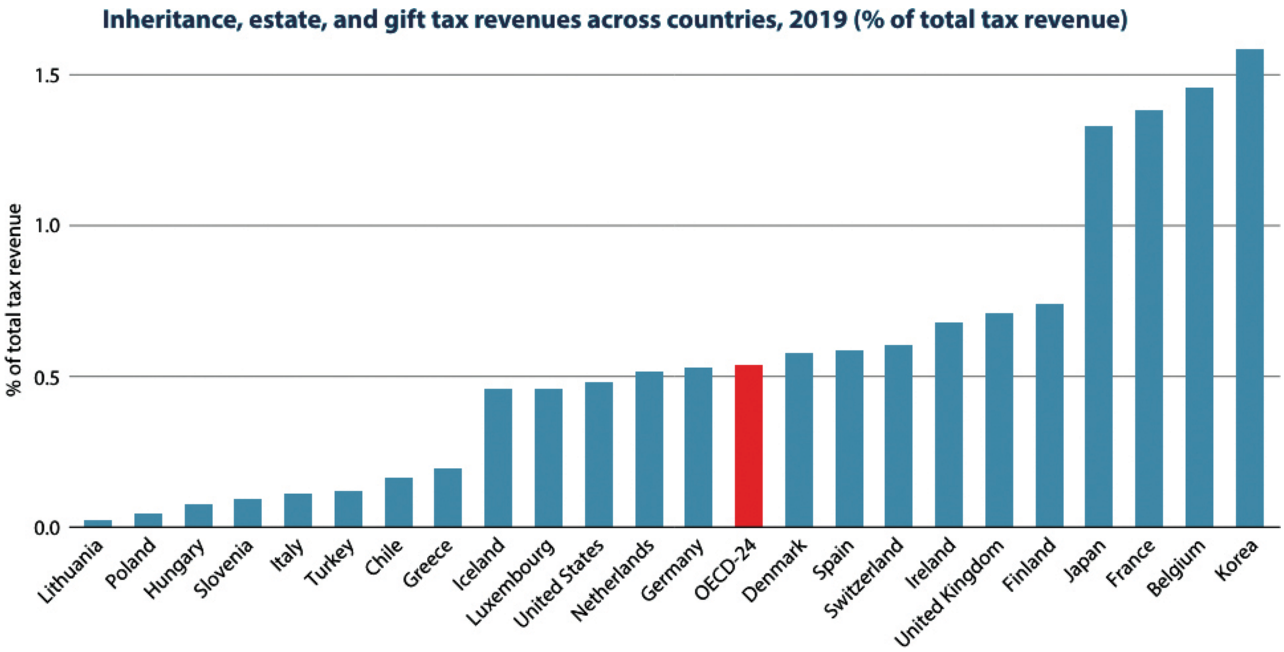
The OECD[16] research paper points out that revenues from inheritance, estate, and gift taxes form a very small portion of total tax revenues across OECD countries, representing only around 0.5% of total tax revenues on average in 2019 among countries that levy these taxes. Revenues from inheritance, estate, and gift taxes exceed 1% of total taxation in only four OECD countries (Belgium, France, Japan, and Korea), while revenues from these taxes raise less than a quarter of a percent of total taxation in nine countries. The share of total tax revenues collected from inheritance and estate taxes decreased sharply during the 1970s on average across OECD countries and has remained relatively stable since. According to the OECD Report on average (unweighted) across the OECD, 0.36% of total tax revenues are sourced from these taxes and, among countries that levy these taxes, 0.51% of total tax revenues on average are sourced from these taxes. According to the OECD Report twenty countries raise less than a quarter of a percent in total taxation from inheritance, estate, and gift taxes, and revenue is zero in eight countries (Australia, Estonia, Israel, Mexico, New Zealand, Portugal, Slovak Republic, and Sweden.

[16] Id.

While the maximum inheritance tax rate exceeds 50% in several countries, revenues from inheritance, estate, and gift taxes form a very small portion of total tax revenues in Europe. The percentage of total tax revenue derived from these taxes was below 1% in 2019 except for Belgium (1.46%) and France (1.36%). This figure was 0.71% in the UK, 0.58% in Spain, 0.52% in Germany and 0.1% in Italy, 0.60% in Switzerland, 0;58% in Spain, 0.57 in Netherlands etc.

According to OECD the reason why revenues from inheritance and estate taxes are typically low is that a majority of estates go untaxed in a number of countries. This is largely due to the highly preferential tax treatment applicable to transfers to close relatives and because of the relief provided for transfers of specific assets. For example, these include main residence, business and farm assets, pension assets, and life insurance policies.

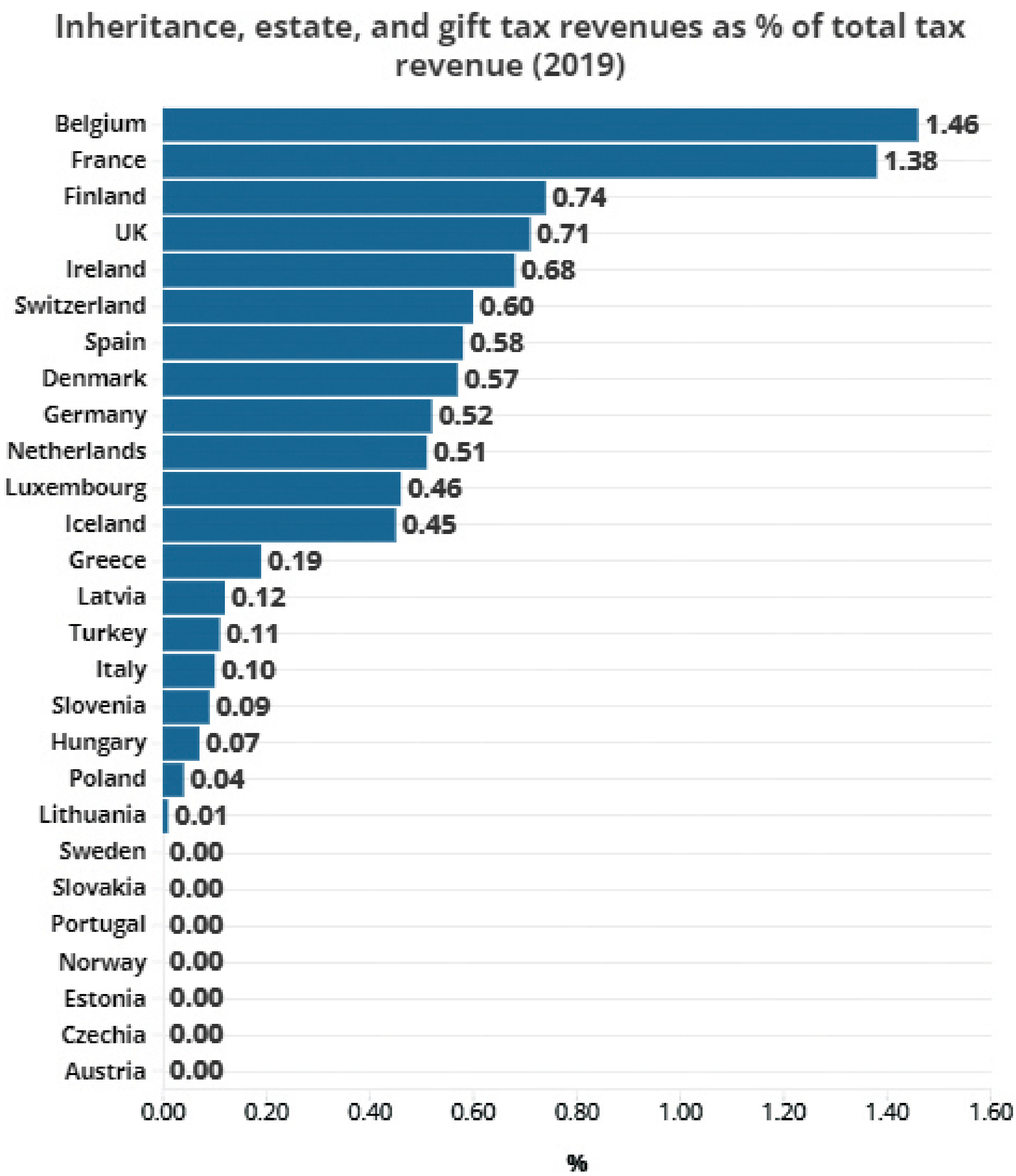
"In a number of countries, inheritance and estate taxes can also largely be avoided through in-life gifts, due to their more favourable tax treatment," the Report also found.



OECD in its report points out that one of the reasons for lower collection of Inheritance Tax as a percentage points out that low inheritance and estate tax revenues are in part due to the low shares of taxable estates amongst total estates and transfer.

In another research paper, Stefan Jestl, Dr[17] points out through the following chart that "Differences across countries become also visible when we look at the inheritance taxes as percentage of total taxation in selected European countries. The share of inheritance taxes ranges between 0 and 2% of total taxation. The highest shares can be found in France and the Netherlands, and the lowest in Italy and Denmark."

[17] Article JEL: D31, H21. Available at https://doi.org/10.3326/pse.45.3.3. Last accessed on 28 May 2024.



4. Trends in Few Countries in Inheritance Tax

Australia

Australia abolished Inheritance Tax in 1978. At the time of abolishing according to Tax Researchers in Australia Inheritance Tax did not serve the purpose. The tax had multiple loopholes and the beneficiaries need to sell the property to gain liquidity to pay taxes. Further, inheritance had been initiated with relatively low exemption thresholds with the result more estates were brought in but due to this many surviving widows who inherited relatively modest estates faced financial hardships.[18]

[18] Milosavljevic Filip, Mangan John, Jeffrey Lin "Back from The Dead: Australian Inheritance Tax", Australian Institute for Business and Economics, August 2018.

Canada

Canada does not have any Inheritance Tax.

Europe[19]

As of 2022, according to the Tax Foundation, which relies on "Worldwide Estate and Inheritance Tax Guide 2022" and PwC's "Worldwide Tax Summaries", there was no inheritance, estate and gift taxes in eight EU countries. They include Austria, Cyprus, Estonia, Latvia, Malta, Romania, Slovakia and Sweden. Among the EFTA countries, there were also no wealth transfer taxes in Norway.

Five countries have abolished their estate or inheritance taxes since 2000. They are Austria, Czechia, Norway, Slovakia, and Sweden. Estonia and Latvia have never levied inheritance or estate taxes.

Two Nordic, two Baltic and two island countries in the Mediterranean Sea do not impose inheritance tax.

The majority of countries levy recipient-based inheritance and gift taxes, but a minority levy donor-based estate taxes. Only Denmark, in the EU, levies estate taxes on deceased donors. The UK also has the same rule.

Most countries favour spouses and direct descendants through higher tax exemption thresholds and lower tax rates. The most commonly tax-favoured assets include the main residence, business assets, pension assets, and life insurance policies.

Inheritance tax rules and rates vary depending on the country and region, the value of the assets inherited, and the level of familial closeness between the deceased and the beneficiary.

For example, in France, different rates are applied to transfers to ascendants and descendants, transfers between siblings, blood relatives up to the fourth degree, and everyone else, according to the Tax Foundation.[20]

Estate, Inheritance, and Gift Tax Levies in EU Member States and European OECD Countries, as of 2020

Country	Estate /Inheritance/Gift Tax	Tax Rate
Austria (AT)	No	–
Belgium (BE)	Yes	3-80% (depends on region)
Bulgaria (BG)	Yes	0.4-6.6%
Croatia (HR)	Yes	4%
Cyprus (CY)	No	–

[19] Yanatma Servet, "Inheritance tax across Europe: How do the rules, rates and revenues vary?", euronews, 16 April 2024. Available at https://www.euronews.com/business/2024/04/16/inheritance-tax-across-europe-how-do-the-rules-rates-and-revenues-vary. Last accessed on 28 May 2024.

[20] EY, "Worldwide Estate and Inheritance Tax Guide 2021," June 14, 2021. Available at https://www.ey.com/en_gl/tax-guides/worldwide-estate-and-inheritance-tax-guide-2020; PwC, "Worldwide Tax Summaries,". Available at https://taxsummaries.pwc.com/. Last accessed on 28 May 2024.

Estate, Inheritance, and Gift Tax Levies in EU Member States and European OECD Countries, as of 2020

Country	Estate /Inheritance/Gift Tax	Tax Rate
Czech Republic (CZ)	Yes	Income tax applies (inheritances are fully tax-exempt, but gifts may be taxed)
Denmark (DK)	Yes	0-52%
Estonia (EE)	No	–
Finland (FI)	Yes	7-33%
France (FR)	Yes	5-60%
Germany (DE)	Yes	7-50%
Greece (GR)	Yes	1-40%
Hungary (HU)	Yes	9-18%
Iceland (IS)	Yes	10%
Ireland (IE)	Yes	33%
Italy (IT)	Yes	4-8%
Latvia (LV)	No	No tax on inheritances/estates, but income tax can apply to gifts
Lithuania (LT)	Yes	5-10%
Luxembourg (LU)	Yes	0-48%
Malta (MT)	No	No inheritance/estate/gift tax, but 5% transfer duty can apply
Netherlands (NL)	Yes	10-40%
Norway (NO)	No	–
Poland (PL)	Yes	0-20%
Portugal (PT)	Yes	10%
Romania (RO)	No	No inheritance/estate/gift tax, except in relation to transfer of real estate in certain circumstances
Slovakia (SK)	No	–
Slovenia (SI)	Yes	5-39%
Spain (ES)	Yes	7.65-81.6%
Sweden (SE)	No	–
Switzerland (CH)	Yes	0-50% (depends on canton)
Turkey (TR)	Yes	1-30%
United Kingdom (GB)	Yes	20-40%

UK[21]

The United Kingdom (UK) has a unified estate and gift tax called Inheritance Tax (IHT). IHT applies to the value of an individual's estate when he or she dies (in which case he or she is deemed to make a transfer of the whole estate immediately before such time) and to certain transfers or gifts made during the individual's lifetime. The tax applies on the basis of the loss of value to the donor's estate that arises by reason of the transfer of value.

Adjustments are made to take account of property that increases or decreases in value by reason of an individual's death (e.g., life insurance policies that mature on death and form part of the deceased's estate).

Certain other events may give rise to deemed transfers of value, including deliberate depreciatory transactions, sales at an undervalue, when a person's interest in certain trusts comes to an end, and when a close company (broadly, one in the control of five or fewer persons) makes a disposition. In addition, certain trusts are subject to 10 yearly inheritance tax charges and charges when an asset is distributed out of trust.

Types of transfer

Essentially, there are three types of transfers for IHT purposes. These are:

(i) **Exempt transfers**
Certain transfers, in a lifetime or on death, attract special exemptions, such as gifts to charities and between spouses. These attract no tax either immediately or upon the individual's death.

(ii) **Potentially exempt transfers (PETs)**
These are certain lifetime transfers that only become chargeable if the transferor dies within seven years of making the gift. Types of gifts that fall within this category include outright gifts from one individual to another (other than between spouses, which are exempt as noted above).
It should be noted that the potential tax exposure, which would arise on death, can normally be provided for *via* bespoke insurance policies that are often available at competitive rates depending on an individual's specific circumstances.

(iii) **Chargeable transfers**
These are immediately chargeable when made and will use the nil-rate band and any available annual allowances, with any excess being liable to IHT at 20% (and potentially higher taxes if death occurs within the following seven years). Common lifetime chargeable transfers include transfers to trusts or to a company that is not 100% owned by the transferor.

Transfers on death are fully chargeable at 40% to the extent they exceed the available nil-rate band and, if applicable, the residence nil-rate band for an individual's main home, unless specific reliefs are available (e.g., business relief) or the transfer is exempt (e.g., a bequest to a spouse (to the extent that

[21] EY, "Worldwide Estate and Inheritance Tax Guide 2021," June 14, 2021. Available at https://www.ey.com/en_gl/tax-guides/worldwide-estate-and-inheritance-tax-guide-2020. Last accessed on 28 May 2024.

the spouse's exemption is unlimited) or to an exempt person such as an EU charity)). IHT on death is generally levied on the deceased's estate, rather than the beneficiary(ies) thereof.

Inheritance Tax receipts for April 2023 to March 2024 are £7.5 billion, which is £0.4 billion higher than the same period last year. The total Income Tax, Capital Gains Tax & other receipts for April 2023 to March 2024 are £466.5 billion[22] thus constituting 1.60% of the tax collection.

United States[23]

The United States (US) imposes an estate tax on the transfer of a decedent's taxable estate at death. US citizens and residents dying after 31 December 2012 are subject to a top estate tax rate of 40% and are entitled to a USD 10 million estate tax exemption, which is adjusted annually for inflation (USD 12.06 million for 2022). Non-resident aliens are also subject to a top estate tax rate of 40%, but their estate tax exemption amount is only USD 60,000 and is not indexed for inflation. The US imposes an estate tax liability on all US citizens and residents. The estate tax will ultimately be assessed upon the taxable estate (i.e., the gross estate, less applicable deductions). For a US citizen or resident, the gross estate is the fair market value (FMV) of a decedent's worldwide assets at the date of death; the taxpayer may also elect an alternative valuation date six months after date of death.

5. Impact of Inheritance Tax on Distribution of Wealth

One of the avowed objectives of Inheritance Tax is to minimize the inequality in wealth distribution. The following pictures explain the status on wealth distribution. While one of the goals of inheritance tax is to promote wealth redistribution and reduce wealth inequality there is a view that it may not always achieve this goal effectively. The taxpayers may employ various strategies to minimize their tax liability, such as transferring assets to trusts or making gifts during their lifetime. Additionally, inheritance tax may not capture all forms of wealth and Inheritance Tax has its own set of exemptions. OECD in its report highlights the challenges on effective implementation of Inheritance Tax.

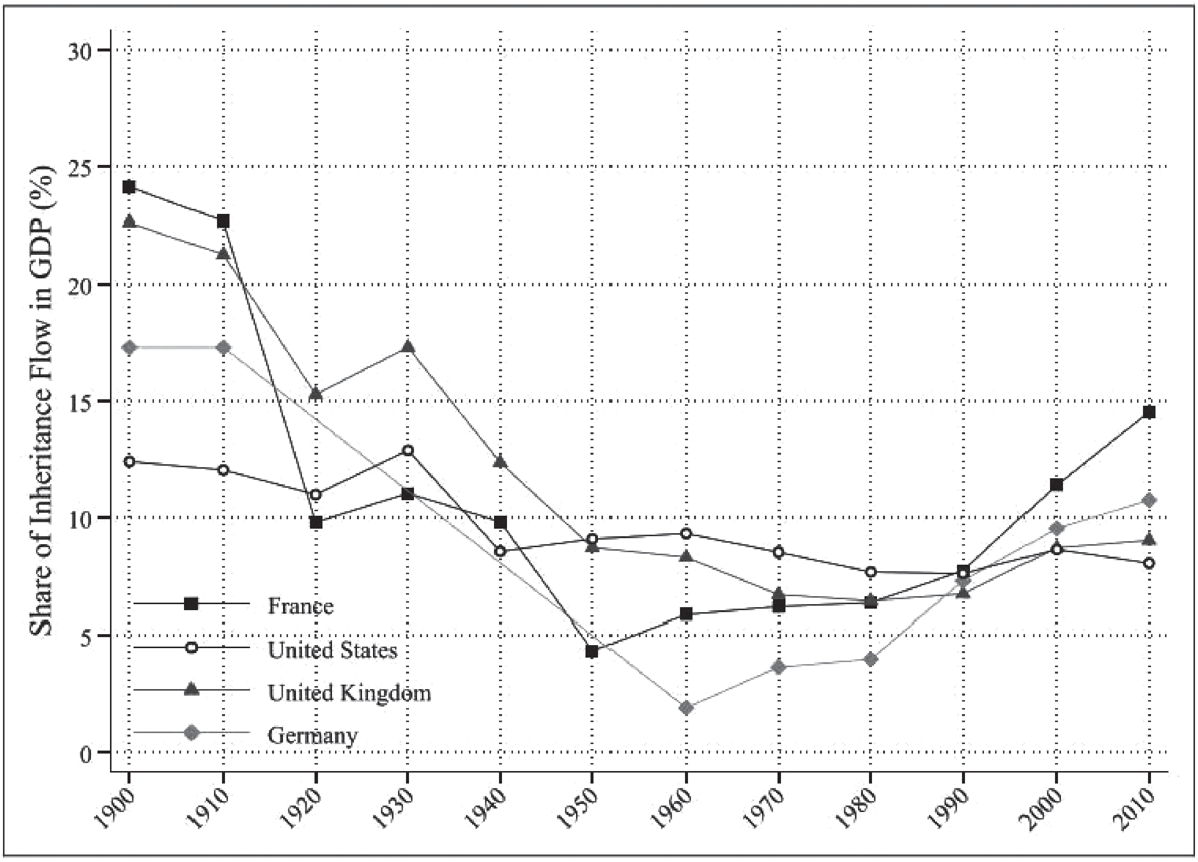
- Tax avoidance and evasion opportunities can significantly reduce the revenue potential of taxes on wealth transfers, undermine their fairness by lowering the tax burden on those at the top of the distribution, and reduce efficiency by distorting taxpayers' savings behaviours.
- Opportunities for tax planning and tax avoidance may arise depending on the design of inheritance, estate, and gift taxes.
- Taking advantage of the regular renewal of gift tax exemptions by regularly gifting wealth under the exemption threshold, which may add up to significant tax-free wealth transfers over time.

[22] HMRC tax recipients and National Insurance contributions for the UK (Monthly Bulletin), https://www.gov.uk/government/statistics/hmrc-tax-and-nics-receipts-for-the-uk/hmrc-tax-receipts-and-national-insurance-contributions-for-the-uk-new-monthly-bulletin#:~:text=on%20GOV.UK.-,Inheritance%20Tax%20(%20IHT%20),the%20same%20period%20last%20year. Last accessed on 28 May 2024.

[23] Worldwide Estate and Inheritance Tax Guide 2022 by EY.

- Transferring tax-favoured assets; for example, bequeathing assets such as a family business, that are tax exempt or taxed preferentially under inheritance and estate taxes.
- Bequeathing unrealised capital gains; for example, bequeathing assets that have appreciated in value, as the unrealised capital gains may be exempt upon the donor's death.

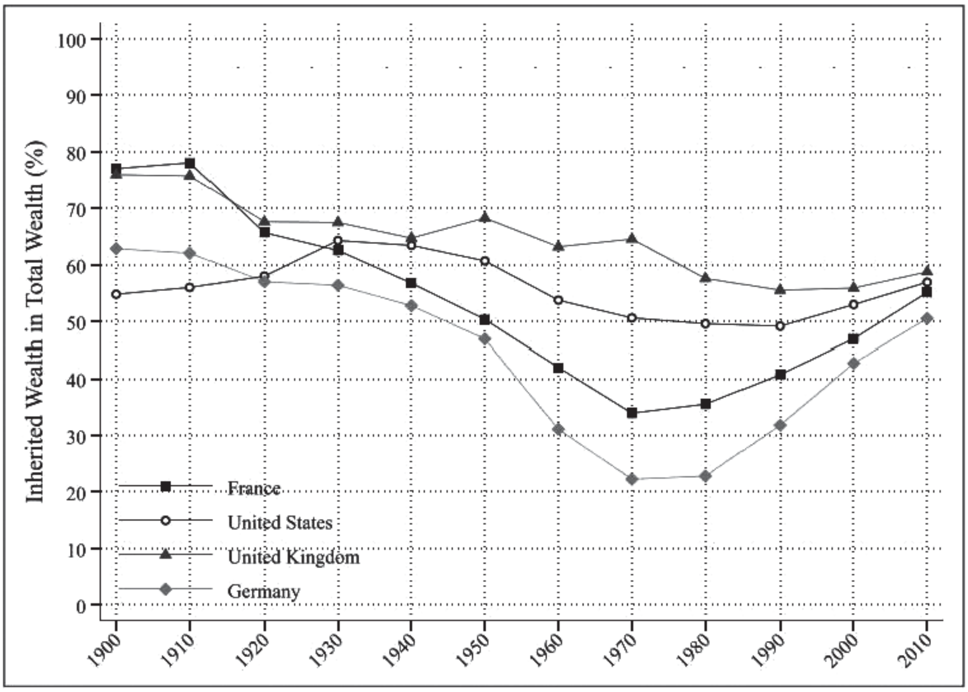
The Research Authors[24] points out that the inheritance tax systems of most western economies are failing on all fronts. They are achieving less and less in bringing about a more equitable society in major liberal democracies, and yet incurring substantial unpopularity at the same time. One indicator of their increasing lack of traction is shown in diagram below where it is apparent that the once substantial equalising impact of inheritance taxation in Germany, France and even the United States *circa* 1970 has long ago dissipated – while in the UK the tax's impact was always rather slight. According to authors inheritance taxes have failed in hindering the return of inheritance as the main driver of individuals' wealth rank in society. In addition, they have failed at being truly progressive, with people at the top of the inherited wealth distribution benefiting from various unjustified tax loopholes.



[24] **Étienne Fize, Nicolas Grimprel** *and* **Camille Landais**, *Reforming inheritance tax systems: Four guiding principles.*

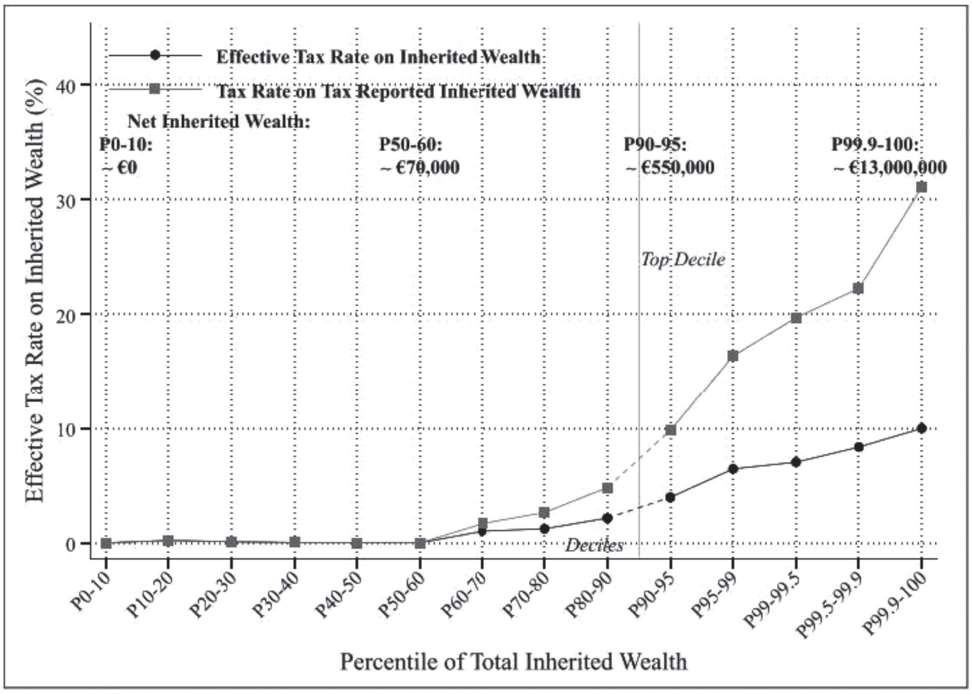
6. Evolution of Inherited Wealth vs Total Wealth in Western Countries

The following diagram suggests that the share of inherited wealth is coming down significantly from 1900 to 2010.



7. Effective Inheritance Tax

The rate of Inheritance tax moved across the years. The effective Inheritance Tax has moved to more than 30% on wealth inherited above 1.3 million Euro.



Many researchers conclude that the responses are mixed on the impact of Inheritance Tax on wealth distribution based on the assumptions used. In countries where inheritances are found to have an equalising effect, this effect tends to diminish over time, as inheritances received by the poor are much more likely to be consumed in the long run.

8. Inheritance Taxation: Pros & Cons

The research thinkers, protagonists and OECD details the Pros and Cons o Inheritance Tax which are briefly summarized below:

Pros

- **Reducing Wealth Inequality:** A significant argument for inheritance tax is its potential to bridge the inequality in wealth between the rich and the poor. By taxing a portion of large inheritances, the government could generate revenue that could be used for social programs aimed at uplifting the underprivileged. This could help to create a more equitable society where opportunities are not solely determined by birthright. The application of this pros to India is analysed at Page 38 (9.11 - India's Social Fabric).
- **Boosting Government Revenue:** Inheritance tax can be a significant source of income for governments. In countries with established inheritance tax systems, it contributes a notable portion of government revenue. This additional revenue could be used to fund various public services like infrastructure development, education, and healthcare. Though it is said, most of the countries collection on Inheritance Tax is very low and hence, instead of allowing Inheritance Tax to fund the social cause, it is advisable to allow and encourage private participation in social causes.
- **Examples from Developed Nations:** Many developed nations, such as the United States and several European countries, have well-established inheritance tax systems. Proponents argue that India could learn from these examples and implement a fair and effective inheritance tax system that benefits society as a whole. Again as explained by the author in the subsequent paragraphs the benefit on account of Inheritance Tax is far lower compared to the benefits on allowing generation of Private Capital and consequent deployment in productive assets and social objectives.
- **An inheritance tax can enhance horizontal equity**: According to the horizontal equity principle, people receiving the same amount of income or assets should be taxed similarly. Thus, there should not be a difference in the tax burden of people in equal circumstances depending on whether they receive transfers from others in the form of earnings or in the form of gifts and inheritances. An inheritance tax can therefore be justified to level the playing field between inheritances and earnings from work or savings. An inheritance tax, particularly a progressive one, would also enhance vertical equity. According to the vertical equity principle, taxpayers with a greater ability to pay tax should pay relatively more tax. By taxing wealth transfers, particularly at progressive rates, an inheritance tax ensures that those who receive more wealth pay more tax. In fact, inheritance taxes are often among the most progressive elements of countries' tax systems[25], although effective progressivity is often lowered by the way inheritance and gift taxes are designed.

[25] Piketty and Suez, 2007.

Cons

- **The Burden on Families:** Critics argue that inheritance tax could place a significant financial burden on families inheriting assets, especially those with moderate wealth. They might have to sell inherited assets quickly to pay the tax, potentially forcing them to part with sentimental belongings or disrupting financial plans.
- **Complexity of Implementation:** Designing and implementing a fair and effective inheritance tax system can be complex. Determining appropriate tax brackets, exemptions, and valuation methods for various assets requires careful consideration. Additionally, concerns exist about potential loopholes and the possibility of increased tax evasion. The wealthy may use loopholes like *inter vivos* transfers (gifting while alive) or trusts to minimize their inheritance tax burden. To escape inheritance taxes, the wealthy may move their assets to tax havens or even renounce their citizenship leading to capital flight.
- **Discouraging Investment and Philanthropy:** High inheritance tax rates could discourage wealthy individuals from investing or engaging in philanthropy. They might relocate their assets to countries with lower inheritance tax burdens, ultimately hindering economic growth and charitable giving. High inheritance taxes may reduce the investment capital available to wealthy individuals, potentially hindering economic growth.
- **Double Taxation Concerns:** Some argue that inheritance tax represents a form of double taxation. The deceased would have already paid taxes on their income throughout their lifetime, and taxing the same wealth again upon inheritance seems unfair. The inheritance tax faces deep-rooted hostility. People in general from across the scale dislike this levy mainly because it will be imposed at a time of grief on the money on which the deceased had already paid tax.
- **Low Tax Collection:** The revenue collected from inheritance tax could be low with respect to the overall revenues collected for the year. The costs of bringing in this cash is also the highest per capita when compared to any other tax revenues. This is because the government incurs large levels of expense in the valuation and collection of the revenues it deems is owed.
- **Against creation of Private Capital:** There have long been concerns that inheritance tax might discourage entrepreneurship because successful entrepreneurs would be especially likely to accumulate enough wealth to be subject to the tax. The tax might discourage entrepreneurial individuals from starting a business in the first place or from taking risks. Even if the entrepreneur retains the business, the estate might need to sell it to raise cash to pay the tax. Entrepreneurs might accumulate additional assets, such as life insurance, so that the estate can meet tax obligations, but those assets are diverted from business investments. This tax could affect entrepreneurship decisions in many ways. They could affect the decision to start a business or terminate it, or they could alter decisions within the business, in turn affecting investment, employment, and the rate of growth. These taxes might affect the decisions of investors (thereby affecting the availability of capital) in a new enterprise. They could affect the entrepreneur subject to estate or inheritance taxes, and they could affect the decisions of heirs.

Conclusion on International Scenario

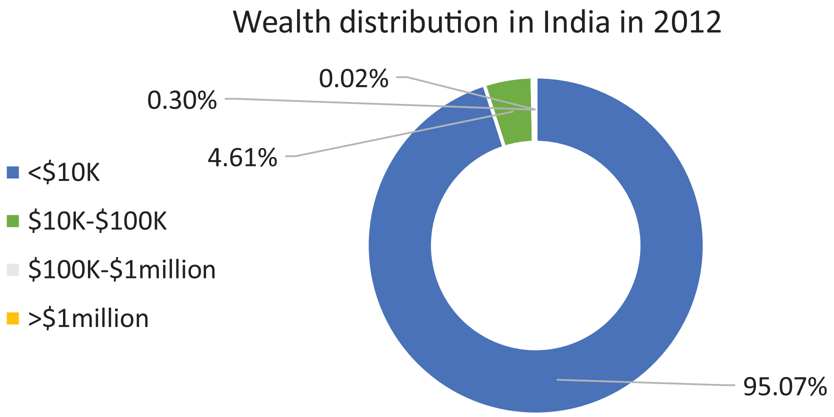
OECD in its report explains that the empirical evidence exists to substantiate the above cons, but concludes that these arguments against Inheritance Tax, may overcome the economic requirement of Inheritance Tax.

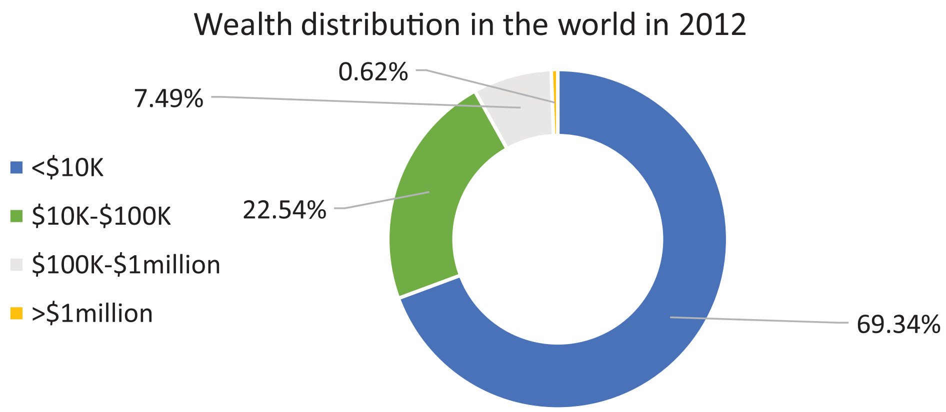
9. Inheritance Tax: Is it Required in India?

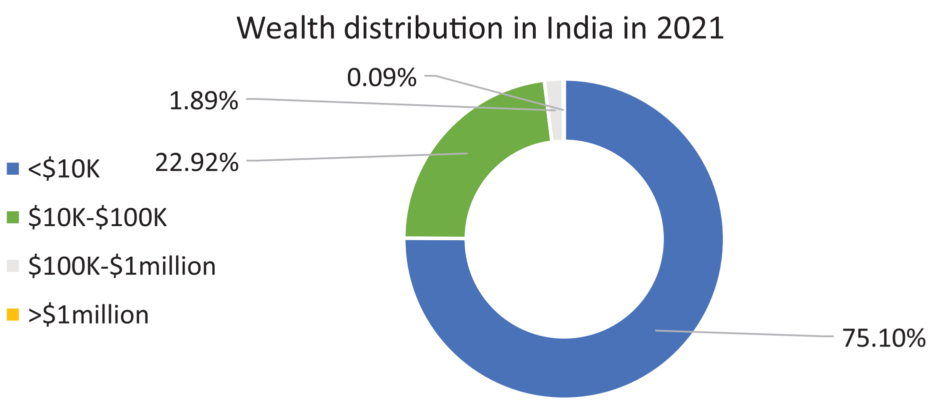
As explained earlier India had Estate Duty and the same was abolished in 1985 as the revenue from Estate duty was far lower than the collection and also the impact was significantly low and the government abolished estate duty. Now there has been some thoughts to introduce Inheritance Tax to overcome the inequality and distribution of wealth.

Let us look at few data points

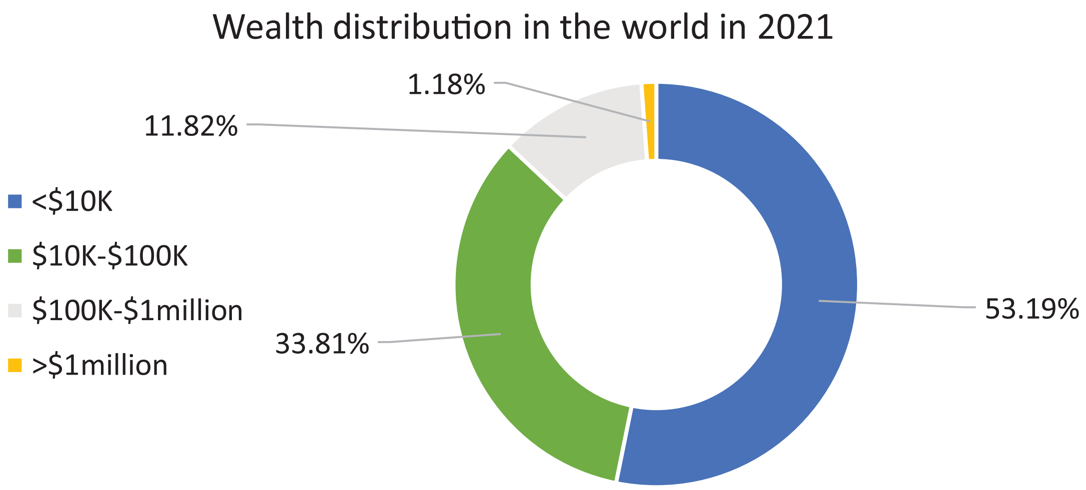
9.1 Wealth Distribution in India[26]





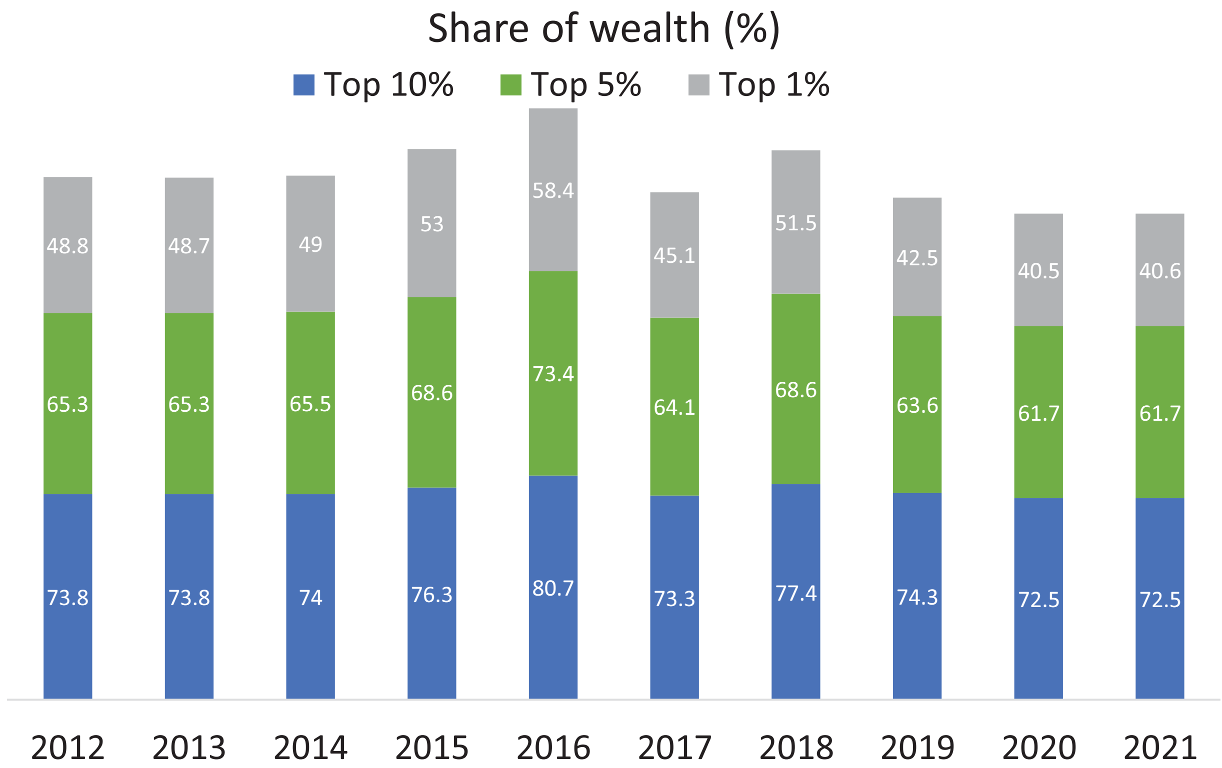


[26] Global Wealth Report, Credit Suisse SA , https://www.themirrority.com/data/wealth-distribution. Last accessed on 28 May 2024.



The percentage of people in the lowest wealth bracket (< USD 10K) in India has reduced from 95% to 77% between 2012 and 2021 and Global stands at 53.19%. The percentage of Wealth in 10K to 100K has moved from 4.29% to 22.92% compared to Global of 33.81%.

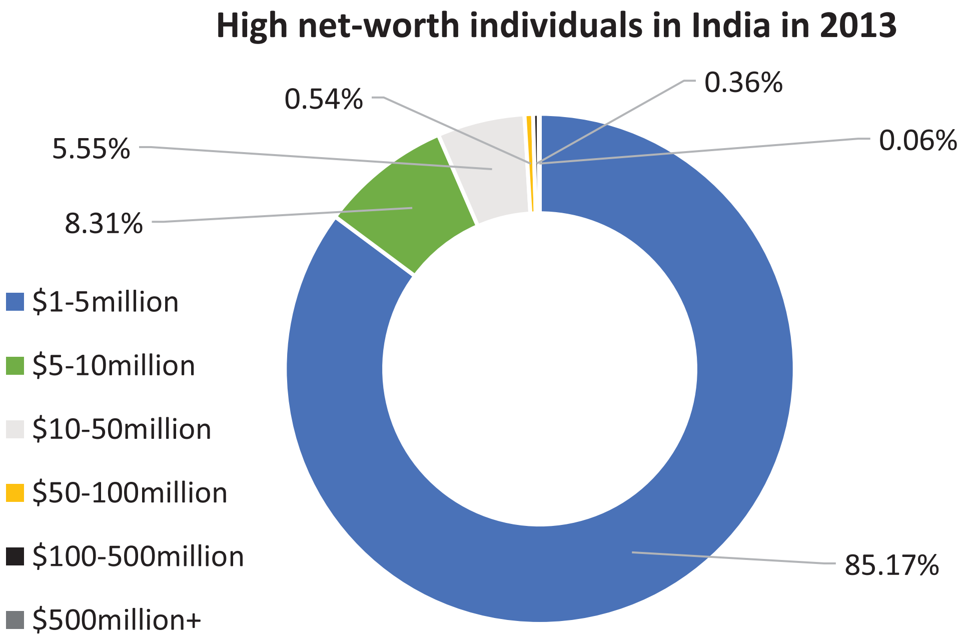
9.2 Share of Wealth[27]

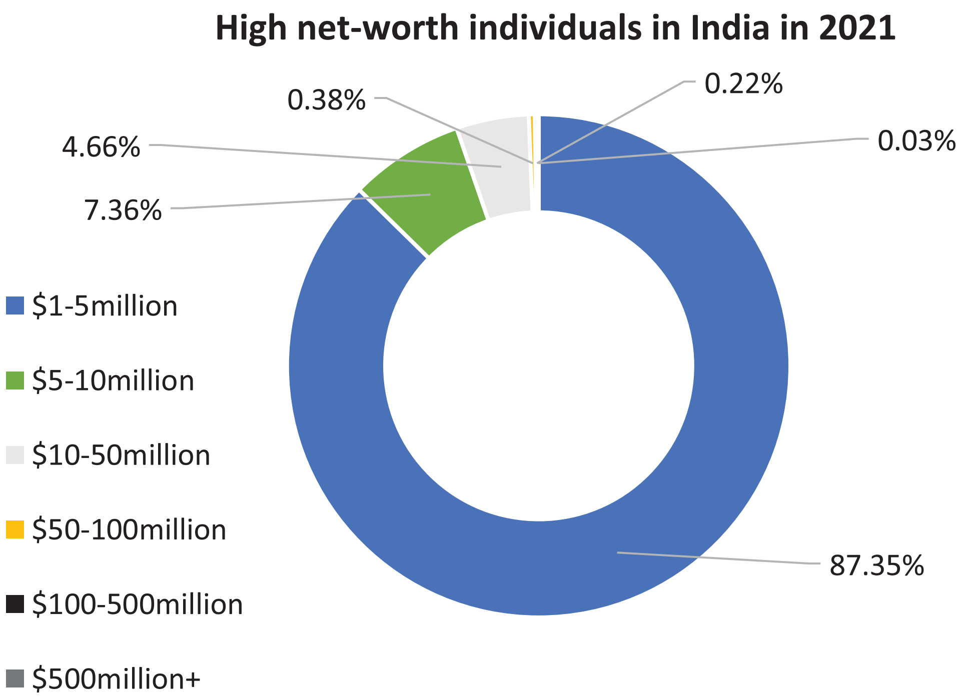


The richest 1% own a smaller slice of the total wealth in 2021 compared to 2013. While top 10% retain the same wealth but top 5 is reduced from 65% to 61%.

[27] Global Wealth Report, Credit Suisse SA , https://www.themirrority.com/data/wealth-distribution. Last accessed on 28 May 2024.

9.3 Comparison of High-Net-Worth Individuals from 2013 to 2021

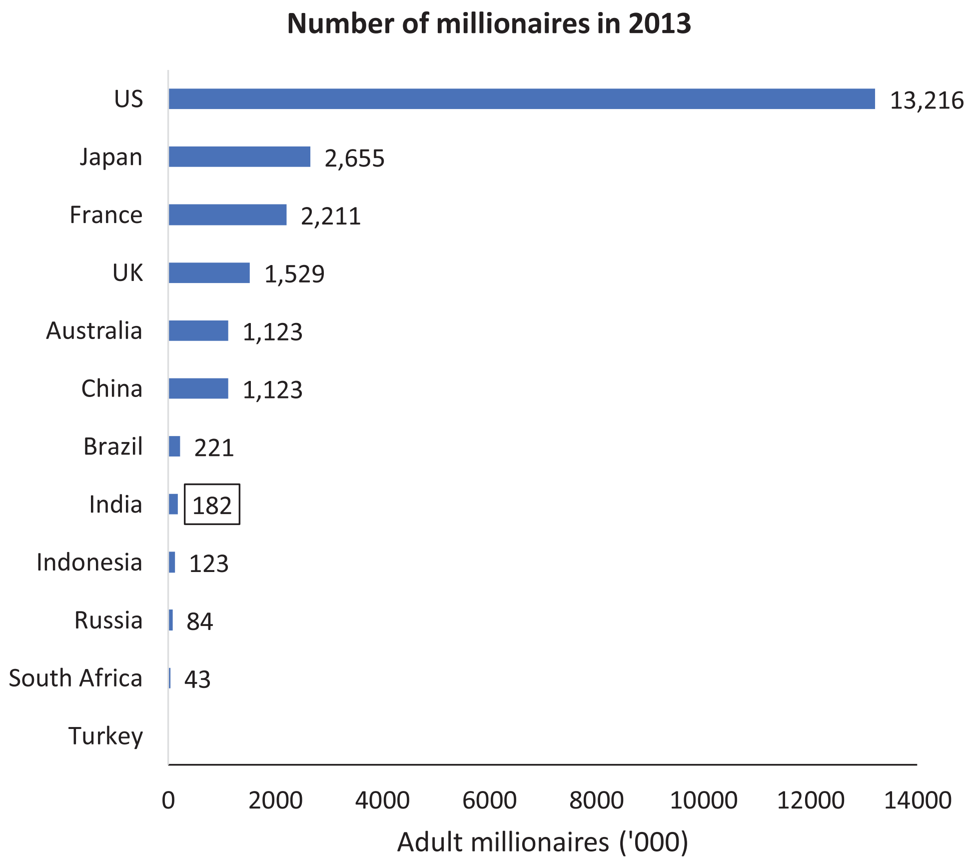


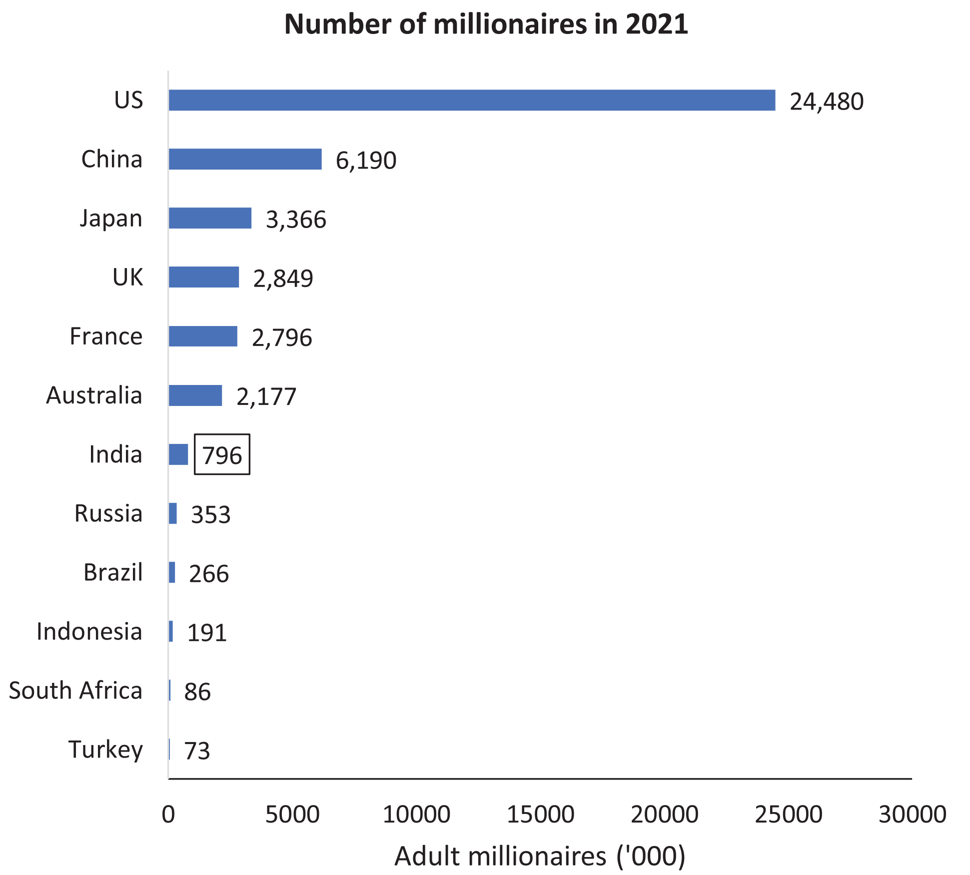


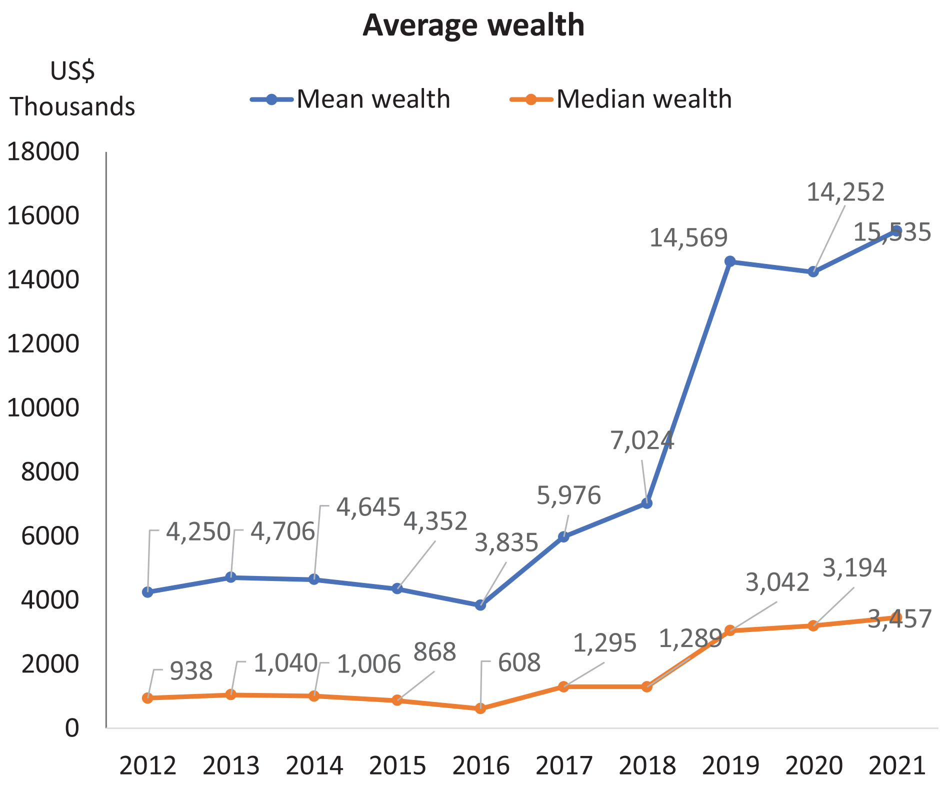
In comparison to 2013, there was a 2% rise in the number of adults who owned between USD 1-5 million in 2021.

9.4 Average Wealth and Number of Millionaires

In comparison to 2013, the mean average wealth of an adult in India has increased by 265%. Between 2013 and 2021, the number of millionaires (adults own over USD 1 million) in India has increased by 337%.

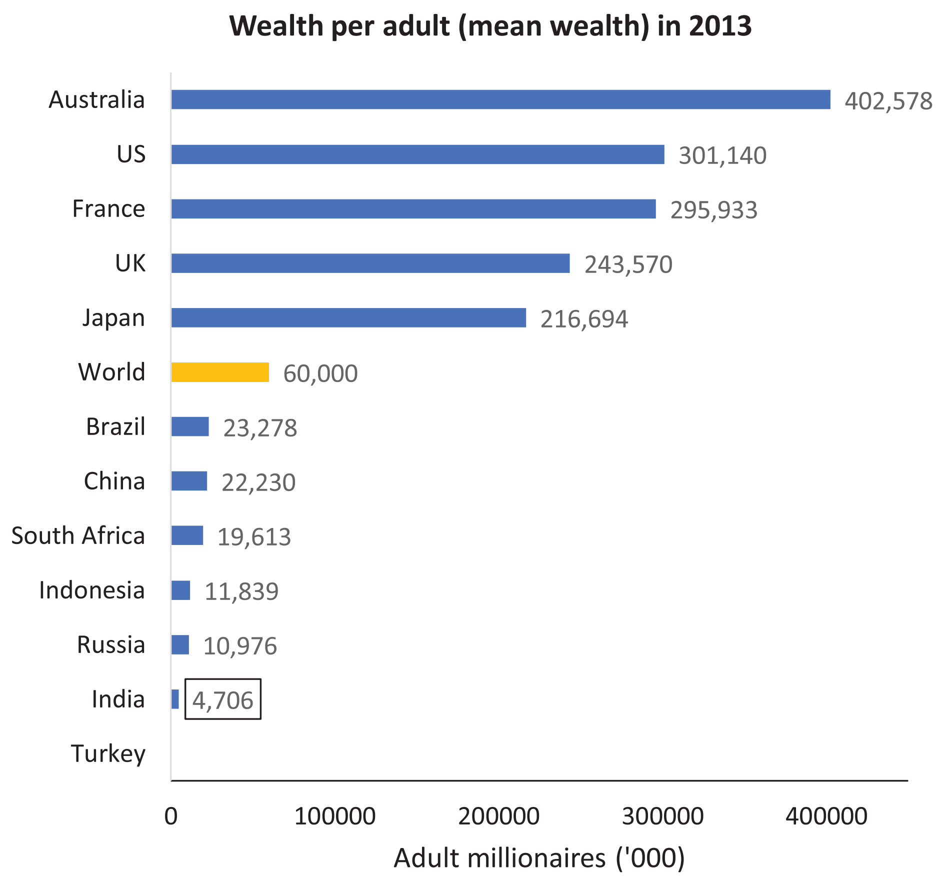

Number of millionaires in 2013
US
Japan
France
UK
Australia
China
Brazil
India
Indonesia
Russia
South Africa
Turkey
13,216
2,655
2,211
1,529
1,123
1,123
221
182
123
84
43
0
2000
4000
6000
8000
10000
12000
14000
Adult millionaires ('000)

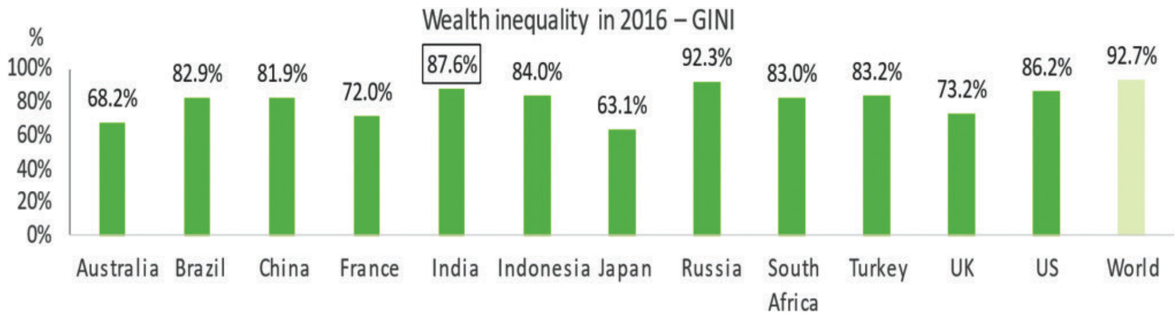

Number of millionaires in 2021
US
China
Japan
UK
France
Australia
India
Russia
Brazil
Indonesia
South Africa
Turkey
24,480
6,190
3,366
2,849
2,796
2,177
796
353
266
191
86
73
0
5000
10000
15000
20000
25000
30000
Adult millionaires ('000)

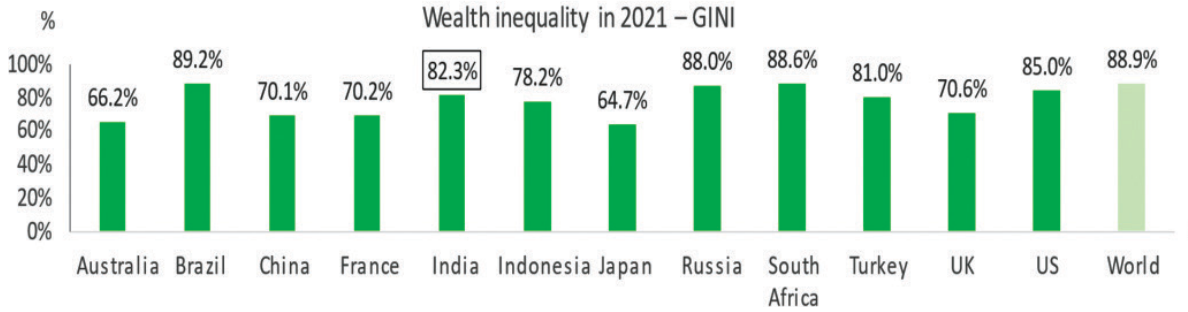


9.5 Wealth Per Adult

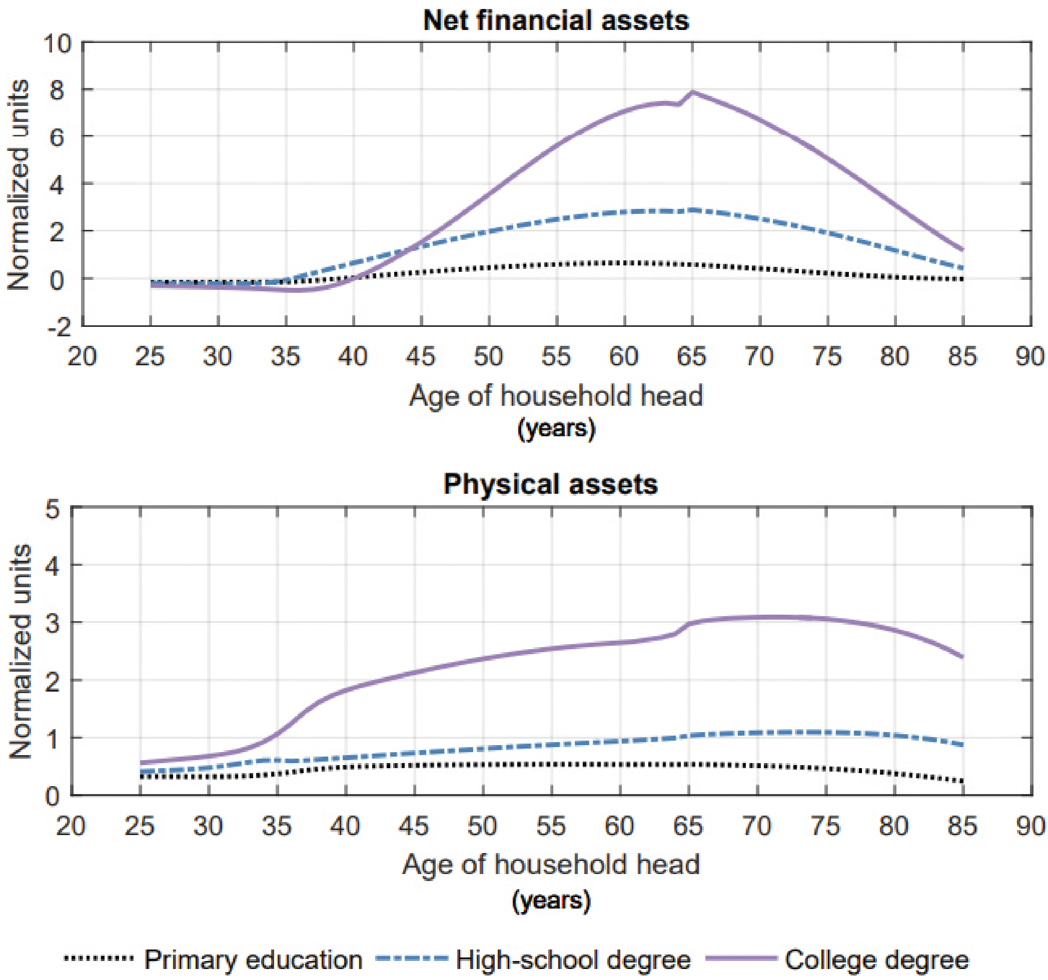
In Comparison to 2013, Between 2013 and 2021, the average wealth per adult in India increased by 230%.







9.6 Model-implied life cycle profile for Indian households- age wise distribution (Source RBI Report)



- RBI, in a report on Indian Household Finance in 2017,constructed a portfolio choice life cycle model of optimal household behaviour.
- The charts show average holdings of financial assets and durable goods, for each age-education group. For easier interpretation, RBI normalised the absolute values by dividing through by the average yearly income level in the population
- In the early stages of household formation, the accumulation of financial assets is slow, and many households take loans to finance investments in physical assets like real estate and gold. As households progress towards middle age, they save more and there is a notable increase in wealth invested in physical assets.
- Data shows that households tend to hold financial assets until approximately the age of 62 years, after which they start using up their savings instead of adding to them. This change in behaviour may be because they are getting ready for retirement and need to use their savings for expenses.

9.7 India Wealth Segment

- Despite slower global growth this year, the revival of wealth creation looks set to remain with us.[28]
- The Knight Frank model points to strong out performance from Asia, with high growth in India (50%) and the Chinese mainland (47%) in particular.
- The Ultra High Net Worth Individual (UNHWI) (US$ 30 million Plus) is at 13263 by 2023 will move to 19908 by 2028.
- India's UHNWIs are also slightly younger than their global counterparts, with an average age of 58 compared with 62 globally.[29] About 55 per cent of India's UHNWIs relied on some form of inheritance compared with the global UHNW average of 34 per cent. While 45 per cent of Indian UHNWIs are self-made, 66 per cent of their global counterparts made their own fortunes.[30]
- In another report released by Jefferies[31] shows that Indian households prefer physical assets like real estate and gold over financial assets like insurance and mutual funds.
- Of the total household assets of 11.10 trillion dollar as at March 2023, a major portion i.e. 66% are invested in real estate and gold, shows that report. While real estate accounts for lion share with 51%, people have invested 15% of their assets in gold.
- Among financial assets, bank deposits account for 14% of the total household assets while insurance and pension funds contribute 6% each.
- Further, Indian household have 5% exposure to equities. Also, they keep 3% of their total assets in cash, shows the report.

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[28] The Knight Frank-Wealth Report July 2024.

[29] 'India's leap of wealth', *The Economic Times*, 21 December 2018; https://economictimes.indiatimes.com/markets/stocks/news/indias-leap-of-wealth/hold-on-to-your-wealth/slideshow/67190396.cms. Last accessed on 28 May 2024.

[30] *Ibid.*

[31] Gagwani Karishma, 'Indians still hold 65% of their assets physically', *cafemutual,* 13 July 2023; https://cafemutual.com/news/industry/29659-indians-still-hold-65-of-their-assets-physically. Last accessed on 28 May 2024.

- Let us look at this interesting table to know more:

Total Indian Household Assets (Mar 2023): 11.1 trillion dollars	
Asset Class	% of Household Assets
Property	50.7
Gold	15.5
Bank Deposits	14.0
Insurance Funds	5.9
Provident & Pension Funds	5.8
Equities	4.7
Cash	3.4

9.8 BRICS and India – Wealth and Inheritance Tax [32]

The total investable wealth currently held in the BRICS bloc amounts to USD 45 trillion and its millionaire population is expected to rise by 85% over the next 10 years, according to the inaugural BRICS Wealth Report released by International investment migration advisory firm Henley & Partners in partnership with global wealth intelligence firm New World Wealth. There are currently 1.6 million individuals with investable assets of over USD 1 million in the grouping of the world's leading emerging economies, including 4,716 centi-millionaires or 'centis' (with more than USD 100 million in investable assets) and 549 billionaires. The new report reveals that in the last decade, private wealth grew by a remarkable 92% in China, which is now home to 862,400 millionaires, including 2,352 centi-millionaires and 305 billionaires. India follows in 2nd place in the BRICS HNWI ranking, with 326,400 millionaires, including over 1,000 centis and 120 billionaires, and wealth growth soaring by 85% over the past 10 years. Looking to the decade ahead, when it comes to private wealth growth projections, India leads the BRICS pack with a forecast 110% increase in wealth per capita by 2033. Saudi Arabia is runner up with its wealth per capita expected to expand by over 105% in the next 10 years, followed closely by the UAE on 95%. China (85%), Ethiopia (75%), South Africa (60%), and Egypt (55%) are all forecast to enjoy wealth growth of over 50% in the next decade.[33]

It may be noted that none of the countries other than Brazil and South Africa have Inheritance Tax in the respective countries. As far as Brazil is concerned the maximum rate of Inheritance Tax at Brazil is at 8% with exemptions in some of the states.[34] South Africa do not have Inheritance Tax but Estate Duty. Estate Duty in South Africa is calculated based on the net value of the estate (assets

[32] The original BRICS cohort comprising Brazil, Russia, India, China, and South Africa added substantial new financial firepower and geopolitical clout with the inclusion this month of new Middle East and North Africa (MENA) members Egypt, Ethiopia, Iran, Saudi Arabia, and the UAE. The BRICS bloc now represents more than 45% of the world's population and accounts for a larger share (nearly 36%) of global GDP than G7 countries (30%) when adjusting for purchasing power parity (PPP). (https://www.henleyglobal.com/newsroom/press-releases/brics-wealth-report-2024). Last accessed on 28 May 2024.

[33] The BRICS Wealth Report: Challenging the Global Economic Order, https://www.henleyglobal.com/newsroom/press-releases/brics-wealth-report-2024. Last accessed on 28 May 2024.

[34] Inheritance Tax in the World – Complete Chart, https://koetz.digital/inheritance-tax-in-the-world-complete-chart/. Last accessed on 28 May 2024.

minus liabilities) and is subject to specific rates. Estate Duty is levied on the worldwide property and deemed property of a natural person who is ordinarily resident in South Africa and on South African property of non-residents. Various deductions under section 4 of the Estate Duty Act, 1955 are allowed to determine the net value of the estate. An abatement of R3.5 million is allowed against the net value of the estate to determine the dutiable value of the estate. The Estate Duty is levied on the dutiable value of an estate at a rate of 20% on the first R30 million and at a rate of 25% on the dutiable value of the estate above R30 million.[35]

9.9 Tax to GDP Ratio

The other reason propounded by the thinkers is that low Tax GDP ratio of India and due to inherent in equality in distribution, the levy and collection of Inheritance Tax will also increase the Tax-GDP Ratio of India. The Revenue Secretary Mr. Sanjay Malhotra has said that India's tax-to-GDP ratio is expected to hit a record high of 11.7% of GDP in 2024-25, led by an uptick in the more 'equitable' direct taxes, and the government will continue to simplify and rationalise the tax regime to reduce disputes, litigation and intrusive means of enforcement.[36] The policy decision of the Government of India is to simplify the tax regime and to avoid disputes. One of the reasons for abolition of Estate Duty was too much of litigation and the cost of litigation and cost of collection is higher than the revenue on Estate Duty. Further it should also be recognized that Higher tax-to-GDP is a function of multiple factors, the foremost being per capita income. Higher per capita income means a general higher level of prosperity and hence more people can pay taxes. However, higher tax rates, multiple levels of taxes, and lower threshold for taxing incomes can also result in higher tax/GDP ratio. In countries like India, where per capita income is $2,500 or lower, taxes on individual income make for a smaller fraction of tax collected. Hence the benchmarking of India's Tax to GDP Ratio with OECD Countries and European Countries are unwarranted. Further India being in a growth trajectory across all spheres, the aim of any Government should be to increase the Per-Capita Income by more employment of capital and not to increase the tax rates in any form.

9.10 Start-up Boom

India is witnessing a start-up boom. India should look at accelerating the Start-up boom to create more entrepreneurs and allow Private Capital to come into business for creating National Assets. One of the important reasons for creation of wealth is the birth and success of Unicorns and Soonicorns. Let us look at few data points:[37]

- India is expected to produce over 280 Unicorns By 2030 as compared to 112 Unicorns in 2023. The total number of unicorns is expected to cumulatively increase 2.4 times by 2030 from 2023.
- The total number of tech startups in India will grow 2.6 times from 68K (2023) to 1.8L (2030)

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[35] Estate Duty, https://www.sars.gov.za/types-of-tax/estate-duty/. Last accessed on 28 May 2024.

[36] India's tax-to-GDP ratio to hit a record high of 11.7% of GDP in 2024-25: Revenue Secretary, https://www.thehindu.com/business/Economy/indias-tax-to-gdp-ratio-to-hit-a-record-high-of-117-of-gdp-in-2024-25/article67818536.ece. Last accessed on 28 May 2024.

[37] Unicorns of Tomorrow Decoding India's Soonicorn Landscape Report, 2024, 28 March 2024; https://issuu.com/inc42/docs/soonicorn_report_v7. Last accessed on 28 May 2024.

- The combined valuation of Unicorns and Soonicorns at present is 390BN US$.
- It is further expected to grow up due to the growth of Unicorns and Soonicorns.
- The jobs creation by this Unicorns in the past six years is 768K plus.

The levy of Inheritance Tax will impact the Unicorns and Soonicorns and it would impact the young entrepreneurs. One of the important challenges of Inheritance tax is migration of individuals to other country to overcome from levy of Inheritance Tax. The Government is looking at how to prevent the migration of some of the Young Entrepreneurs and Family Offices from India to Outside India. In India, there are thought to be 300 family offices, with average assets under management (AUM) of $100 million USD. It's anticipated that there would be 1,000 family offices in India.[38] According to a report in Economic Times[39] "There is a growing trend of affluent Indians looking at cities such as Dubai, Singapore and London to set up overseas family offices (FO). It is often members of the younger generation, who are either studying abroad or have just returned from a foreign campus and joined business, who want to set up family offices in overseas jurisdictions. Founders of several startups are also shifting their base to foreign countries and opening family offices there. There are many reasons drawing them abroad. One, they want to hedge a portion of their wealth from any potential tax-related or regulatory liabilities in India. Two, an overseas family office makes it easier to access foreign markets and grow business in other geographies."

Accepting that India has higher inequality in distribution of wealth going by various indices and parameters propounded by the supporters of Inheritance Tax, the question that needs to be answered is whether the levy of Inheritance Tax has brought the change in the socio-economic pattern of the countries that introduced Inheritance Tax. Only few countries like Belgium/France and to a certain extent UK have a revenue of more than 1% in Inheritance Tax and yet the gap in Wealth Distribution remains and there is no concrete data to support that Inheritance Tax has brought the change in Socio-Economic Pattern.

9.11 India's Social Fabric

The other reason for the thinkers to introduce Inheritance Tax is that such levy may bring more revenue to Government which can be deployed in India's social sector. India has always been at forefront on charity and the cause of charity has been fully engrained in Indian culture much before the mandatory CSR regulations. India and Indian culture truly believed in art of giving and most of the charity was done through Private Trusts/Family Trusts/ Religious Trusts and Individuals. India is the only unique country where the next generation inherits not only wealth but a "dharmic" approach that is a duty towards society/maintaining traditions and protecting culture. India is the one country where families support people beyond their kith and kin and India has an informal social protection program through family/private

[38] Kotharkar Pawan, Gouda Divya, 'Rise of Family Offices in India', Marc; https://www.marcglocal.com/wp-content/uploads/2023/04/Rise-Of-Family-Offices-In-India.pdf. Last accessed on 28 May 2024.

[39] Philip Lijee, Vyas Maulik, 'Flight of family office: Why more and more affluent Indians are looking at foreign destinations like Dubai and Singapore to set up family offices', *The Economic Times*, 19 July 2023, https://economictimes.indiatimes.com/nri/migrate/flight-of-family-office-why-more-and-more-affluent-indians-are-looking-at-foreign-destinations-like-dubai-and-singapore-to-set-up-family-offices/articleshow/101787841.cms?from=mdr. Last accessed on 28 May 2024.

trusts and noble-minded Individuals. It is important to note in India helping society and responsibility towards fellow human beings is ingrained in everybody's DNA and the collection of inheritance tax is not mandatory for social support. Many people may not be aware that there is a practice called "Appa Kutty Iyer Dharmam" which is popular in Kumbakonam, Tamil Nadu. Under this concept, the landlord in the earlier days wrote all his property for the protection of Vedas, Veda Pathashalas and protection of culture. Today the entire land and revenue arising out of land is used for various "dharmic" activities and managed by eminent trustees. Like this India has multiple trusts created by philanthropists for "dharmic" activities and for "dharmic" purposes. Unfortunately, the contribution of this sort of trust/philanthropic activities is not visible and somewhere western thinkers have a notion that in India only wealth is inherited but not the dharma practised by various families. Further, it should also be noted that Indian life and India Social life are vastly different from the life of the Western countries which impose Inheritance Tax. No country can afford to have tax which is against the consonance of the spirit of the country.

It should also be noted that the contribution through private individuals/private family trusts to the Indian social sector is not fully visible except through some data that comes in press and public domain. No doubt India needs massive spending on Social Sector but expecting the levy of Inheritance Tax will change the India's social sector cannot be fully appreciated.

A 2012 report by CAF India1 found that 84 per cent of people had donated money to an individual or an organization in the past year – though only 27 per cent had given money to a charitable organization and 70 per cent preferred to give money direct to beneficiaries. Personal experience was the number one driver for giving, cited by 70 per cent of people.[40] The excepts from the report on India's Philanthropy by Bain & Company[41] are the following:

- As per Niti Aayog report India should achieve Social Sector funding to 13% of GDP.
- India's social sector spending over the last five years experienced a robust annual growth of 13% and stands at approximately INR 23 lakh crore ($280 billion) in FY 2023 (8.3% of GDP).
- Private philanthropy grew 10% in FY 2023, to INR 1.2 lakh crore ($15 billion). This faster growth (vs. FY 2018–2023's 5% annual growth) was driven by growth in family philanthropy (15%) and retail (12%). However, segments like corporate social responsibility (CSR) and high-net-worth individual (HNI)/ affluent donations grew moderately at 7%.
- Under family philanthropy, the more than 60% growth in Ultra-High-Net-Worth Individual (UHNI) giving was driven by concurrent donors. However, HNI/affluent giving grew moderately at 7%. Data indicates that HNIs and affluent individuals have a higher propensity to give than UHNIs (more than 0.7% of net worth vs. 0.1% for UHNIs). Hence, there is potential to unlock a significant upside in donations from this segment with the surge in the Indian economy and capital markets.
- Family philanthropy, which includes contributions from UHNIs (net worth > INR 1,000 crore), HNIs (net worth of INR 200–1,000 crore), and affluent givers (net worth of INR 7–200 crore)

[40] PHILANTHROPY IN INDIA A working paper by Caroline Hartnell.
[41] India Philanthropy Report 2024 by Bain & Company.

increased by 15% in FY 2023. It is projected to grow at an annual rate of 16% until FY 2028 and is poised to address the Social Sector Gap.

- Retail giving, primarily driven by compelling narratives, remains effective in addressing urgent and critical community needs and overcoming critical barriers. Retail grew 12% in FY 2023 to INR 37,000 crore, fueled by a 25%–30% increase in donations to NGOs and a 5%–10% increase in community giving (primarily healthcare).

9.12 Conclusion

The above data points leads to following conclusions.

- The percentage of people in the lowest wealth bracket (< USD 10K) in India has reduced from 95% to 77% between 2012 and 2021 and Global stands at 53.19%. The percentage of Wealth in 10K to 100 K has moved from 4.29% to 22.92% compared to Global of 33.81%.
- The richest 1% own a smaller slice of the total wealth in 2021 at 40.6% as against 48% compared to 2013. While top 10% retains the same wealth but top 5 is reduced from 65% to 61%.
- In comparison to 2013, the mean average wealth of an adult in India in 2021 has increased by 265%.
- In comparison to 2013, there was a 2% rise in the number of adults who owned between USD 1-5 million in 2021
- Between 2013 and 2021, the number of millionaires (adults own over USD 1 million) in India has increased by 337.
- Between 2013 and 2021, the average wealth per adult in India increased by 230 %.
- The Wealth Inequality in India is at 82% as against 87% in 2012 against Global average of 88.95%.
- A fair share of Indian businesses are run by business families and therefore reintroduction of estate duty will impede economic growth of the country. This is because, in wake of a tax on inheritance, Indian promoters may give up their residential status or business operations may move overseas as tax planning measures.
- It is clear from Western Data and data based on countries have introduced Inheritance Tax, that inheritance taxes have failed in hindering the return of inheritance as the main driver of individuals' wealth rank in society and has not achieved the objective.
- OECD further points out that the current base for Inheritance Tax is not appropriate and suggest a new base for Inheritance Tax.
- The collection of Inheritance tax is low in Western Countries and even in India the past experience says collection of Estate Duty is low.
- The cons on Introduction of Inheritance Tax as pointed out earlier is more relevant for India at this point of time considering the growth stage of Indian Economy and the need for Private Capital to encourage more capital and investment.
- India is poised for growth and likely to emerge as a stronger economy and the world's third largest economy by 2030. Hence, creation of private wealth is important for economic prosperity.
- The point made by Shri N C Chatterjee on the floor of Rajya Sabha on the introduction of Estate

Duty is very much relevant. “I want also the Finance Minister’s plain and frank answer if that is so. If it is meant to be a real front-line attack on private enterprise or property, then we should declare War on this Bill, and we shall have nothing to do with it in any shape or form. Has not the Constitution of India in the wisdom of the makers of the great Constitution of the Republic of India—deliberately put in a clause making the right to hold property and dispose of property a guaranteed fundamental right.”

- As India is leading into World of Billionaires which may lead to deployment of more private capital, the proposal to levy Inheritance tax will have a counterproductive impact on Entrepreneurship.
- Indian social system is different from western system and hence the introduction of Inheritance Tax will not be in consonance with the social fabric of India. The Contribution by Business/Charity Minded people of India towards the social goals needs encouragement and further there has been a significant involvement of Private like-minded Social Organisations/Corporates and Individuals in the development of Society is significant. Therefore, the growth of billionaires is important for the growth of society through participation in social activities.
- The introduction of Inheritance Tax certainly will be considered as a War on Private Creation of Wealth and hence not appropriate.
- Finally a meagre of collection of Inheritance tax after all the administrative costs/litigations and efforts will be offset by the contribution of the Wealth Created in India for the development of India and position India as a most developed country by end of the decade.

10. Closing Remarks

The advocates for Inheritance Tax are based on the theory that it bridges the gap in the inequal distribution of wealth. The thinkers and professionals on the other side do not agree, as the studies and data points do not lead to that conclusion. The introduction of the Inheritance Tax is generally perceived as a war on private capital generation. India needs private capital and investment and hence the introduction of the Inheritance Tax may not augur well for private capital generation, which is the need of the hour. The collection of Inheritance Tax is too meagre in western countries and India also had a similar experience in the past, hence Estate Duty was abolished. It is time to encourage the growth of Indian millionaires in India and also to support the boom in Start-up ecosystems in India, which will further accelerate. As India emerges as an important player in global development, philanthropists, and corporate donors have an opportunity to contribute to the development of society by participating in social goals. This can strengthen India’s role as a problem solver and a hub for impact, positioning India for the world and the world for India. Hence, a more careful and calibrated approach is the need of the hour.

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