



Inheritance Tax

The Union government may re-introduce Inheritance Tax (Estate Duty) in the budget-2019. Inheritance tax is concerned with the taxation of value of property passing on death.

- India had Estate Duty from 1953 till it was abolished in 1985.
- The objective behind the reintroduction of an inheritance tax:
 - To address the problem of economic inequality. According to a survey conducted by [Oxfam](#), 58 percent of India's total wealth is concentrated within one percent of its population - higher than the global average of about 50 percent.
 - To generate higher revenue, leading to higher public spending by the government.

History of Inheritance Tax in India

- It was introduced in 1953 under the Estate Duty Act, 1953 as an attempt to reduce economic disparity.
 - Estate duty rates were progressive and rose as far as 85 percent on estates exceeding Rs 20 lakh.
- Estate duty was levied on the market value of all immovable properties in India, as well as on all movable property (whether in India or outside) passed on to successors upon the death of an individual.
- The erstwhile law also had an anti-avoidance mechanism in place to curb certain transactions such as gifts made in 'contemplation of death' or gifts given within two years prior to death.
- Despite its noble objectives, the estate duty law was met with significant disapproval throughout its existence due to a number of factors:
 - The law was complex and led to higher litigation and higher administration costs,
 - Perceived double taxation on the same assets in the form of estate duty and wealth tax (later abolished w.e.f. from FY16),
 - Lower estate duty collections as a result of illegal concealment and the practice of holding benami properties.

Prospects

- Today, many developed countries such as the US, UK, France, Japan and the Netherlands have inheritance tax laws in place.
- The US imposes Gift Tax and Estate Tax (both taxes levied on the donor) at 40 percent with a combined lifetime exemption threshold for both taxes amounting to approximately \$11 million per person.
- Likewise, inheritance tax in the UK is levied at 40 percent, but with a far lower exemption threshold.
- The growing concern surrounding India's increasing economic disparity, the imposition of estate duty may seem desirable.

Concerns

- The inheritance tax is payable by the legal representative to whom the property may pass on death.
 - The recipient of the property may not have the money available to pay tax that could lead to situations of distress sale.
- Arguments against the levy of inheritance tax mainly revolve around fears regarding the outflow of entrepreneurial human capital and financial resources going abroad.
 - With India being a developing country, keeping capital intact in the hands of entrepreneurs may represent a more efficient investment for economic development.
- India needs to review the case for re-introducing an inheritance/estate tax with, ideally, relatively high thresholds, so it's targeted at the very rich.

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