

In defence of 'death taxes'

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Benjamin Franklin famously said that 'in this world nothing can be said to be certain, except death and taxes' and the issue of how death and taxes should be linked in future policy has provoked plenty of lively pre-election discussion amongst politicians of all parties.

Labour may have backed away from imposing what the Conservative party described as a £20,000 'death tax'. However, the term 'death tax' is now firmly established in the public mind and the issue of inheritance tax remains on the political agenda. The term is highly emotive and effective as a political weapon but what is actually so wrong with the idea?

Of course, we already have a 'death tax' in the form of an inheritance tax which raised £3.5 billion in 2006/7, about 0.8 per cent of the total tax yield. While all taxes are unpopular inheritance tax seems to be particularly condemned with about half the general public in 2000 saying they would like to see it abolished completely. Such views are due largely to it being seen as a 'double tax' which penalises those who have saved in order to pass something on to their families.

The 'double tax' argument is that people have saved money from their income which has already been taxed so why should they pay tax again on this money? There are a number of counter arguments here, not least that dead people can't actually pay taxes! It is their estate which pays or, in effect, their heirs. If inheritance tax was abolished, some lucky people would inherit huge sums without having to pay any tax at all. Why should such an unearned windfall be untaxed compared to income that someone has had to work hard for?

The argument about penalising those who have saved to pass something to their family can also be countered in various ways. The current system of inheritance tax allows a single person to pass on £325,000 without incurring any tax at all. Married/civil partnered couples can pass on £650,000. Any 'penalty' is only occurred above this amount and 'only' at the rate of 40 per cent. Very few people who die leave estates that incur the tax – only around 5 per cent of estates paid it in 2004/5. So it is only the very wealthiest who are 'penalised' and yet they will still be able to leave very substantial sums to their heirs.

The Conservatives propose to raise the threshold to £1 million, effectively cutting taxes for the wealthy at a time of severe fiscal constraint when frontline public services will be cut. The UK has a very high degree of wealth inequality and this proposal would increase levels of inequality still further. Far from cutting inheritance tax, reform of the tax (including a change from an estate tax to a capital receipts tax with a range of thresholds) could make the tax easier to defend and help it to play an important role in creating a fairer society.

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This briefing is based on the report:

How to defend inheritance tax, by Rajiv Prabhakar, Karen Rowlingson and Stuart White, published by the Fabian Society in 2008

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