

Briefing Paper

Do the public really oppose Inheritance Taxes?

Common wisdom decrees that inheritance taxes (IHT) are very unpopular among the public. These are taxes that are placed on transfers of wealth (alongside other taxes such as gift taxes). Public hostility seems puzzling because IHT usually apply only to the wealthiest estates. One might expect majority opinion to oppose abolition of IHT because this raises the prospect that government will raise the taxes they pay to compensate for the scrapping of IHT. Nevertheless, there seems to be popular support for abolition across different countries. This public opposition to IHT seems disproportionate to the amount they raise for the public purse. IHT in the G7 economies have not raised more than 1% of national income over the past 40 years.

Are public attitudes to IHT well understood? Gaining a fuller understanding of public opinion is timely as governments seek to rebalance tax systems after the financial crisis.

Governments are exploring publically acceptable ways of raising money to fund public programmes. IHT is seen as a potential source of revenue for issues such as long-term care.

Rational choice theory predicts that people might oppose IHT because of self-interest. This applies to those who expect to pay IHT or who are worried that their descendants will be

liable for this tax. However, this theory has a problem explaining why opposition to IHT seems so widespread. Only a minority are usually liable to IHT and so support for IHT should be higher.

Poor information might explain the public opposition to IHT. Survey evidence suggests that people have poor information about the extent of IHT (Rowlingson and McKay 2005). One question is whether the provision of more information about the incidence of IHT boosts support for this tax. Sir James Mirrlees chaired a recent review of tax systems. This Mirrlees review suggests that general public discontent may be driven by a belief that the very wealthy are able to avoid IHT easily by exploiting tax loopholes (Mirrlees *et al* 2010).

Some authors question whether the provision of more information will shift public attitudes. Graetz and Shapiro (2005) argue that the provision of statistics by supporters of the estate tax in the US was not enough to overturn public attitudes to this tax. Graetz and Shapiro (2005) say that critics prevailed over supporters of estate tax because they developed more compelling moral arguments. Mainstream liberal opinion though suggests that moral arguments are much stronger in favour of IHT than for its abolition. This suggests that supporters of IHT should be able to win public support by developing a more compelling moral vision. A different possibility is that people bend moral arguments to suit their existing prejudices. Fatemi *et al* (2008) report that efforts to 'reframe' arguments in a positive light seem to have little impact on those already disposed against a tax.

A fuller understanding of public opinion might only be gained by seeing IHT as part of the wider tax system. People might be asked to consider IHT as part of the wider tax system through choices (e.g. cuts in IHT versus rises in other taxes or cuts in spending).

The importance of embedding taxes as part of the wider tax system is the approach taken by the recent Mirrlees review of taxation. Until this is explored with public attitudes to IHT, questions can be asked about whether people *really* oppose IHT (Prabhakar 2012).

References

Fatemi, D., Hasseldine, J. and Hite, P. (2008) 'Resisting Framing Effects: the Importance of Prior Attitudes on Estate Tax Preferences'. *Journal of American Taxation Association*. 30(1): 101-121.

Graetz, M. and Shapiro, I. (2005) *Death by a Thousand Cuts. The Fight over Taxing Inherited Wealth*. New Jersey: Princeton University Press.

Mirrlees, J., Adam, S., Besley, T, Blundell, R., Bond, S., Chote, R., Gammie, M., Johnson, P., Myles, G. and Poterba, J. (2011) *Tax by Design*. At <http://www.ifs.org.uk/mirrleesreview/design/taxbydesign.pdf>, accessed 19/7/2012.

Prabhakar, R. (2012) 'What do the public think of different taxes? Evidence from focus groups in England', *Journal of European Social Policy*, 22(1), 77–89

Rowlingson, K. and McKay, S. (2005) *Attitudes to Inheritance in Britain*. Bristol: Policy Press.

Dr Rajiv Prabhakar

The Open University

rajiv.prabhakar@open.ac.uk

The views expressed in this briefing are the views of the author(s) and do not necessarily represent the views of CHASM as an organisation or other CHASM members.