Need for an Indian Inheritance Tax

Why in news?

Oxfam report says that 70% of countries don't have any form of inheritance tax on wealth.

What is the status of inheritance tax in India?

- **Inheritance tax** - Inheritance tax was a tax that was levied against a particular asset during the time of its inheritance.
- A person can receive inheritance either under a Will or under the personal law of the deceased.
- It comes under direct tax.
- **Status of inheritance tax in India** - In India, the concept of levying tax on inheritance **does not exist** now.
- **The Inheritance or Estate Tax** was abolished with effect from 1985.
- In the event of death of an individual, properties belonging to the deceased would pass on to his legal heirs, a transfer without any consideration in return.
- Hence, it could qualify as **a gift** for the purpose of income tax.
- **The Income Tax Act, 1961**, specifically excludes the transfer of assets under will or inheritance from the purview of gift tax.

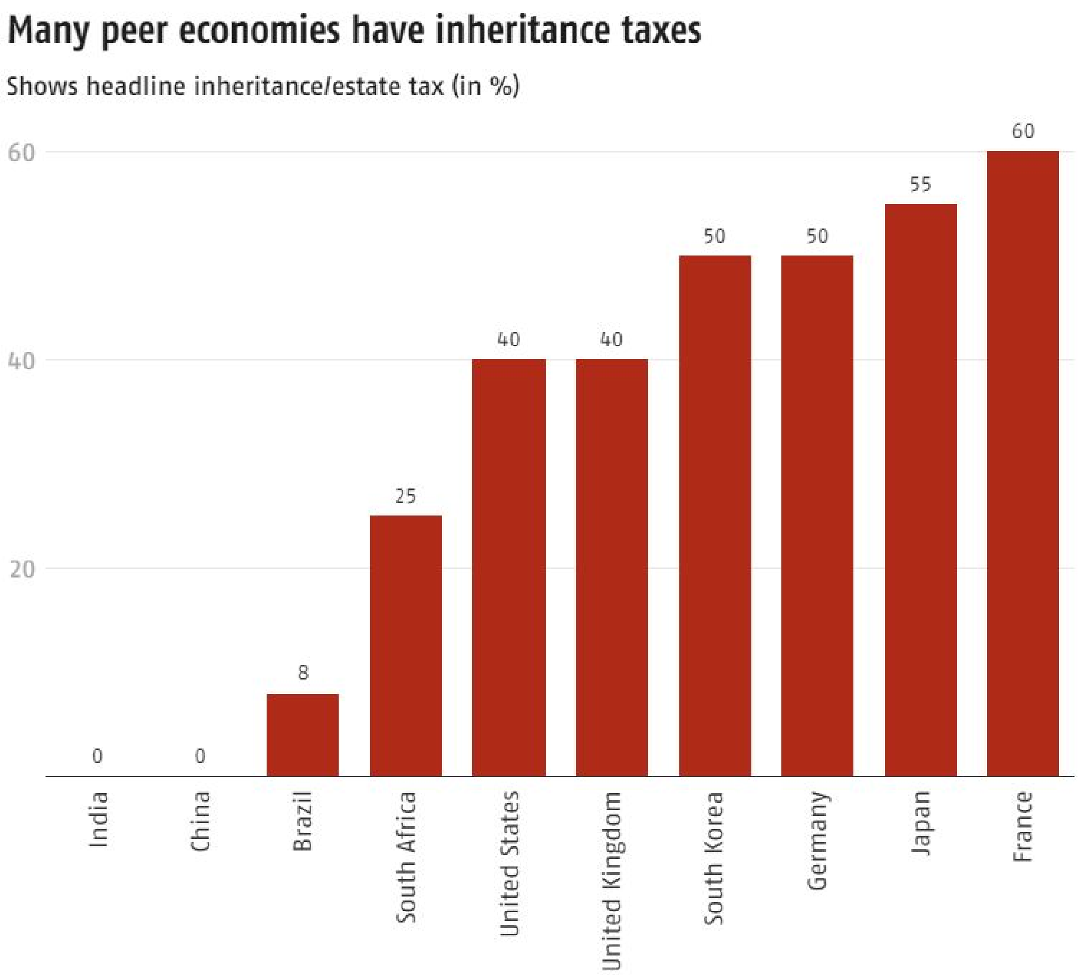
When should the person receiving the inheritance pay tax?

- **On the income earned from the inherited property** - The person receiving the inheritance has to pay tax on the income earned (rent, interest etc.) in respect of the assets inherited by him once he becomes owner of the same.
- **On selling the inherited asset** - The person has to pay **capital gains tax** when he sells the inherited asset.
- The holding period (period for which the property was held by the heir and the deceased) will determine if capital gains will come under long-term capital gains tax or short-term capital gains tax.
- The judicial pronouncements have held that since the cost to the previous paid for owner is to be substituted, **indexation** should be allowed.
- The indexed capital gains are taxed at flat rate of 20%.

> *Indexation is a systematic process that enables individuals to protect their earnings against tax erosion. It allows individuals to adjust the cost of investment for inflation with the help of a price index.*

What is the need for an inheritance tax in India?

- **Reduces inequality** - It aids in reducing the inequality.
- **Dispersion of wealth** - It will allow for a more efficient dispersion of wealth.
- **Creation of meritocratic society** - It will create a meritocratic society by chipping away the advantages the children of the wealthiest families enjoy by an accident of birth.
- **Utilitarian economics** - It rests on the principle of utilitarian economics which believes that an optimal social state can be achieved through redistribution of initial endowments.
- **Need for more direct taxes** - Most of India's tax revenues accrue from indirect taxes, intensifying the economically weaker sections.
- **Revenue to fund public welfare** - Inheritance tax can raise a significant quantum of revenue for the exchequer which could be used to finance public welfare.
- **International practices** - Countries such as England, France, Germany, the USA, and Greece have been taxing inherited wealth at as high as 40%.



References

1. [Business Standard | Is it time for an Indian inheritance tax?]
2. [Forbes India | A case for inheritance tax]