

# [Are wealth taxes a desirable part of a tax system to what extent does inheritance...](https://assignbuster.com/are-wealth-taxes-a-desirable-part-of-a-tax-system-to-what-extent-does-inheritance-tax-in-the-uk-fulfil-the-role-of-a-wealth-tax/)

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Taxation Law By Due Wealth represents the control that an individual has over certain resources. Compared to income, it is stagnant in nature. Income represents the flow of resources. However, the portion of income that is accumulated, held onto, and never spent; also forms a part of wealth. Wealth generally refers to the net-worth of a taxpayer. All his assets are included and the liabilities are deducted. Calculation of fair value of assets is easy in some cases and very difficult in others. A tax on this purchasing power of an individual is called wealth tax. Wealth tax is a desirable part of the tax system in UK. In an ideal society, everyone is equal. In reality, there are many inequalities in terms of wealth. The life cycle is such that these inequalities tend to remain forever. Wealth tax is a system through which these inequalities are brought down. It is one of the traits of good taxation. Wealth tax helps in redistribution of resources in a fair and just manner. It generates revenue for the Government which can spend it on the right places. It is possible for wealth to get hoarded and become stagnant. Such wealth is not beneficial for the economy. Wealth tax helps in getting stagnated wealth into circulation. It also leads to attainment of good information as to the status of the total wealth of a country, and how it is distributed. There are certain problems with wealth tax. It has often been debated that if income is already taxed once, is it right to tax it again when it is transformed to wealth? This question makes wealth tax seem a bit unjust. Also, there are problems in valuation, administration, and collection. The time lapses caused due to contested wills are still to be addressed. Authorities have to wait for months for the will to be finalized. These problems are so severe that they even open gates for dishonesty. Despite these problems, wealth tax is still indispensable. Tax has been levied in different ways on transfer of wealth in UK. In case of gifts and non-commercial transfers of wealth, a tax was charged by Estate Duty since 1894. Estate Duty had a very wide bracket so that various tax avoiding techniques could be avoided. For transfers occurring as a result of death of an individual; the value of transfers made within seven years before death, the beneficial interest of any property held on trust in which the deceased held an interest, and any property which the deceased continued to enjoy at the time of his death; are also included. Estate duty had some significant loopholes in it which is why it failed to generate sufficient tax revenue. This tax was easily avoided by transferring wealth at least seven years before death without retention of interest by the donor, by making investments in certain type of assets, and through the help of certain type of interests. Estate Duty was repealed in 1974 and was replaced by Capital Transfer Tax Act 1975. This was more like an extension of Estate Duty but was soon abandoned. Modern version of wealth tax in UK is Inheritance Tax according to which a tax is levied on chargeable transfers. Such transfer is defined as “ transfer of value made by an individual but is not an exempt transfer” (IHTA 1984). A tax is chargeable regardless of the fact whether a transfer is made within the lifetime of an individual or after death. In fact, transfers made after death are deemed to have been made just before death u/s 4(1) of IHTA 1984. This tax is also chargeable retrospectively on transfers made within seven years prior to death. These transfers are also known as ‘ potentially exempt transfers’. There are also some special rules for taxation of ‘ gifts with reservation’. These are such gifts in which the donor retains some interest. According of IHTA 1984, ‘ transfer of value’ is calculated by calculating the whole wealth of the donor before and after the transfer. The difference between the two values is the value transferred by disposition. In UK, Inheritance Tax is considered a good form of wealth tax. Transfers of almost every type of wealth are accounted for. It also has some similar problems that accrue to a wealth tax. Inheritance Tax has some reliefs which enable it to become a more just tax than wealth tax. Transfers made at least seven years before death become completely exempt from tax. If the transfer is chargeable, a tax is charged on the value of the asset as it is on the date of transfer. If it gets appreciated in value, no additional charge is levied. Further, transfers of assets among spouses or close relatives are also exempt from tax. Yet another relief under Inheritance Tax is that the first ? 3000 of transfer of wealth is exempt in a year. Any unused portion of this ? 3000 can be carried forward to the subsequent years. Due to a huge number of exemptions and reliefs, Inheritance Tax has not yet been able to bring many individuals in its bracket. Compared to the revenues brought in by income tax, Inheritance Tax is bringing only a fraction of the total revenue. Therefore, Inheritance Tax has indeed some advantages over wealth tax, but it has not been able to fulfil the purpose of a wealth tax successfully. References Lads, D. & Chowdry M., ‘ Capital Gains Tax’, Taxation Principles and Policy. 2007. Inheritance Tax Act 1984 (UK) s 2 Inheritance Tax Act 1984 (UK) s 3(1) Inheritance Tax Act 1984 (UK) s 4(1)