Funding the Future

We should ignore anti-inheritance tax lobbyists

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I read a pile of complete nonsense about inheritance tax yesterday. It was included in an email sent to me by somebody called Nigel Green, who is the CEO of an organisation called the deVere Group, which prides itself on being an international wealth manager.

You can imagine, as a result, that Mr Green is not a great fan of tax in any form, and this is what he had to say about potential changes to inheritance tax in the UK:

"Inheritance tax is the most resented tax we encounter – and for good reason.

"It's viewed as a double taxation on assets that have already been earned, saved, and taxed over a lifetime. With the Treasury facing intense pressure to raise revenue, it appears almost inevitable that this tax will be targeted again."

I found this amusing because he says, as if it is the objective truth, that inheritance tax is the most resented tax that he encounters. However, the fact is that it is still paid by fewer than 5% of estates in the UK. All he is actually saying then is that, amongst the people who go to his organisation to find ways to avoid paying inheritance tax, inheritance tax is the most resented tax.

That, of course, does not mean that it is the most hated tax within society, or that it's even hated very much at all. It simply means that he is forming his opinion based on an incredibly biased sample.

And the evidence is that this must be the case. Inheritance tax payments are currently at record levels, suggesting that either most people are quite happy to pay it, accepting it for what it is, or that the advice available on how to avoid it is not very good at helping people get around it. But whatever it might be, it is clearly not hated so much that most people get out of having to settle their obligation to do so.

In that case, let me look at his other claims, and in particular that inheritance tax is a double tax charge. This claim has been around for a long time and is popular with inheritance tax advisers, but the evidence to support it is weak.

It can be fairly said that VAT is a double tax charge. It is a charge on consumption paid for out of income already taxed.

It can fairly be said that income tax and national insurance double up on each other in the case of earnings from employment.

You can also argue that the way in which the corporation tax system now fails to properly integrate with the income tax system (when, once, the two did with each other remarkably well) creates a slight double tax charge on dividends, although I am not especially worried about that.

But what is almost impossible to say is that inheritance tax is a double tax charge. There are several reasons for saying that.

Firstly, capital gains tax is not charged at death, and therefore inheritance replaces it, albeit to a rather limited degree in the sense that only 5% or fewer of states actually settle up the liabilities that they might have, meaning that in a great many cases, inheritance tax might represent a considerable relief from capital gains tax. It is very odd that Mr Green ignores that fact.

And, it can also be fairly said that the majority of the wealth that most people who are now dying have did not arise as a result of their efforts at work, or their savings, because most of that wealth has been created by inflation and does, therefore, represent gains which are entirely and fairly subject to a tax charge as a result because they have never been charged before. As a matter of fact, if you have wealth that you have done nothing to generate, then you should expect to be taxed upon it because it is the greater economic environment that has enhanced your well-being, and you have not.

In addition, given that there are still very generous reliefs for unquoted businesses and farms (and I am aware that some might think that those comments are provocative, but I think the suggestions are accurate), then there is actually still, the present, a failure to impose inheritance tax fairly in the case of many estates.

And, given the ease with which inheritance tax is avoided by some, and most especially the very wealthy, there is a very good case for arguing that inheritance tax is, in fact, an example of under taxation, rather than double taxation.

Mr. Green, therefore, is in fact just a typical inheritance tax planning financial advisor, putting forward a view which most definitely suits his own business purpose, and his own pursuit of profit by creating fear when none is required, to encourage people to seek advice which, I think, many people would be better off without. That is because, as my own experience as a practitioner proved, a great many people who pay for tax avoidance advice actually hate the proposals put to them and would much rather go for a simple life and avoid the onerous conditions placed upon them by tax advisors created in desperate attemtps to avoid tax but which constrain real life and its actual priorities. They would actually prefer to pay the tax and live as they wish. That is why I chose not to participate in the purveyance of such schemes when I was in practice, and my clients liked me for it.

Mr. Green's clients might think otherwise, but I can also say that I met many people who had visited such firms and then changed their minds, and then sought my advice on how to settle their taxation liabilities free from the artificial constraints that tax planning imposed on them.

So, I think we should, in that case, dismiss what Mr Green has to say because it is very obviously being promoted in his own self-interest, and it is very obviously in conflict with the best interests of the society that hosts his activities. He and other such lobbyists are not speaking objectively about taxes. They are simply promoting their own gains that might be derived from planning for them, and that means that they are decidedly biased witnesses when it comes to this issue, and biased witnesses are never those to whom we should pay much attention.