

Fuss over proposed inheritance tax is much ado about nothing

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By Marjorie Griffin Cohen

Are you going to inherit \$1 million? Well, if you are, you're safe -- even with the new NDP inheritance tax proposal.

Alarm bells have been sounded about how the NDP's proposed inheritance tax could affect even those not normally considered rich because property values in cities like Vancouver, Toronto, and Victoria have risen so high. But is this something to be really, really concerned about?

First of all, most of us are not so well positioned that our parents or rich uncles will be leaving us \$1 million. Only 2.5% of Canadian families would be affected by an NDP-style inheritance tax. But secondly, even if you are in that lucky category, the actual tax is not that big -- at least compared with similar taxes elsewhere -- and it's a tax that makes sense.

The average wealth of the 311,000 families in Canada that would pay the tax is \$2,278,863. With the first \$1 million free of tax and a 17% tax rate on the rest (what the NDP has proposed, contrary to media reports), taxes on these inheritances would average about \$230,000. So, the inheritors would still have over \$2 million to divvy up. Not bad.

The US has taxes much like the NDP is proposing, in that it taxes both inheritances and any large gift transfers. The gift tax is to prevent tax avoidance by people just before death. But the difference between the NDP proposal and the U.S. tax is that the NDP proposal is 17% on all transfers over \$1 million while the US tax gets progressively higher after \$1.5 million with a top tax rate of 48%. The US tax is called an 'estate tax,' and is imposed on the entire estate on death. In addition, most states in the US have an 'inheritance tax,' which is imposed on those who receive inheritance.

Either inheritance or estate taxes are common in Europe and are found in England, Ireland, France, Germany, Italy, Spain, Sweden, and Switzerland. In Britain the tax begins at 263,000 pounds (\$656,000

Cdn) and is considerably higher on everything (at 40%) than the tax the NDP is proposing. Indeed, Canada, Australia and New Zealand are the only industrial countries without an inheritance tax.

An inheritance tax makes sense for Canada today for several reasons.

First, the government needs sufficient money to adequately fund public health care, education and to support municipalities. Second, it is important to bring back issues of equity to public financing. Over the past twenty years under both Conservative and Liberal governments, the income tax rates for the wealthy have dropped, capital gains taxes have been lowered considerably and so have corporate taxes.

But most important is the trend toward the rich getting richer and the poor poorer. Since 1984 the wealthiest 10% of the population in Canada improved their situation considerably: they now own 55.7% of everything in the country (compared with 51.8% of everything in 1984). The remaining 90% of Canadians lost ground, with the poorest losing most. This is not only unfair, but can be directly linked to public tax policies, at both the federal and provincial levels, that favour the wealthy.

When Franklin D. Roosevelt introduced the estate tax in the US Congress in 1935 he cited Andrew Carnegie who observed that "where wealth accrues honorably, the people are always silent partners."

Roosevelt saw this as good reason for the wealthy to share. To him inherited wealth was not only bad for the economy (he called it 'static wealth'), but was inconsistent with the ideals of equality, much as inherited political power is inconsistent with political equality.

An inheritance tax imposes hardships on no one. It is a tax that could do lots of good and it's time Canada joined the rest of the world in having one.