

Inheritance Tax rates in G7 and EU countries ten times higher than emerging economies

- **No inheritance tax in emerging economies such as China, India and Russia**
- **Major economies under pressure to abolish unfair 'death tax'**
- **Emerging economies resist introducing IHT in order to attract investment**

Inheritance tax rates in G7 and EU countries are ten times higher than those in emerging economies ⁽¹⁾, according to a new study by UHY, the international accountancy network.

Individuals in G7 countries pay an average of 17% (€ 442.414) and those in EU countries pay an average of 10.9% (€ 286.515) in Inheritance Tax (IHT) when passing on 1'6 million euro in cash to their beneficiaries ⁽²⁾. In comparison, individuals in emerging economies pay an average of 0.1% (€ 2.271) when passing on 1'6 million euro in cash.

The disparity is also reflected in lower value bands. EU individuals pay on average 3.8% (€ 11.708) in IHT on € 307,000 in cash versus 0.7% (€ 2.044) in emerging economies. Similarly, average IHT rates in the EU on € 659.000 are 5.0% (€ 32.837), compared to 0.7% (€ 4.925) in emerging economies.

UHY says IHT has been labelled an unfair 'death tax' and some commentators have called for it to be abolished. Families in economies with high IHT rates can be hit with considerable tax bills at a time when they may be dealing with a bereavement.

IHT is also said to disincentivise entrepreneurs from building their wealth on the basis that having faced high-income tax bills throughout their careers, their dependents then face high IHT charges on any residual wealth.

Dennis Petri, Chairman of UHY International and Partner at UHY Advisors, US: "There is a stark difference in IHT between slower growth economies and faster growth economies. The question is how much taxes on inheritance really discourage wealth creation."

Some Governments of EU countries have faced pressure to reduce IHT rates to ease the burden on taxpayers. For example, IHT rates paid in Denmark and Belgium are consistently high across all the wealth bands covered in the study (see tables below).

Denmark is renowned for having a broad welfare system which is funded in part by revenue generated from high tax levels, including income tax, property tax and IHT. However, criticism of high IHT rates in Denmark has grown in recent years.

High IHT rates in Belgium have pushed some high earners to use loopholes in the country's tax system to avoid paying steep IHT bills. Whilst the Belgian Government introduced reforms in 2018 to help simplify the IHT system and to try to close loopholes, it has not reduced the tax rate.

The UK has also been criticised for making no substantial changes to the IHT system since the 1980s and for freezing the IHT threshold at €367.893 over a decade. This has served to increase the number of people being caught by the tax as incomes rise - HMRC collected a record 5.200 million euro from IHT receipts in 2018/19 ⁽³⁾.

In Spain, the different autonomous communities are responsible for the management of inheritance tax. Therefore, receiving an inheritance in one community or another has different economic consequences for the heirs. Currently, a 99% reduction of the tax is applied in autonomous communities such as Madrid, which implies that the fees payable in these communities are practically nil. However, in others, a progressive rate is applied which causes the tax rate to increase as the tax base increases, reaching up to 36.5% on the tax base.

UHY adds that IHT has been used in some countries to help tackle wealth inequality. A recent study suggests⁽⁴⁾ that countries may need to go further than taxing incomes to help redistribute wealth to younger generations.

No inheritance tax in some emerging economies

Emerging economies that do not impose IHT include China, India and Russia. This compares to individuals in Japan who pay 38.5% (1 million euro) in IHT when passing on 2.6 million euro of cash – the highest level in the study.

Dennis Petri adds: “Many emerging economies are especially keen to encourage wealth creation – levying very low or no IHT is seen as an important way to help achieve that.”

“Entrepreneurs may be incentivised to earn more in these countries as they can pass on their wealth to the next generation without the taxman interfering.”

“In emerging economies, inheritance tax can play a vital role in helping fund the early stages of new businesses, especially in countries where there are less traditional forms of finance available.”

Individuals in France pay the second highest rate of IHT at 34.3% (€ 904.030), with individuals in the UK paying the third highest rate at 29% (€ 764.434).

Dennis Petri adds: “This study sheds light on the heavy tax burden that is shouldered by wealthy individuals living in some economies. There is the risk that an overbearing IHT regime could drive wealthy, mobile individuals to move to countries with more lenient regimes.”

“Despite many calling for ‘death taxes’ to be radically reformed or abolished altogether, Governments are often reliant on the substantial income streams generated by IHT receipts. This could suggest that IHT looks set to stay for the foreseeable future.”

Emerging economies resist introducing IHT to attract investment

Many emerging economies have resisted introducing IHT in an effort to attract investment. These countries include Croatia, Malaysia, Uruguay and Mexico.

Wealthy individuals may be attracted to set up businesses in countries with no IHT. This could support job creation, business investment and provide a source of vital economic growth.

(1) Emerging economies include Argentina, Brazil, India, Malaysia, Mexico, Poland, Russia, China, Croatia, Romania, Uruguay.

(2) Source: UHY studies tax data in 28 countries across its international network. The study compared the 'inheritance tax' paid on 3 million USD of cash and real estate worth 3 million USD. The calculations are based on the deceased having two heirs receiving an equal share – both adult, non-dependent children. Both the deceased and heir are tax residents in the country

(3) Source: HMRC

(4) Source: OECD

(5) For the data of Spain, the Community of Madrid has been used as a reference, where, as in other communities, a 99% reduction in inheritance tax is applied. In Spain, the autonomous communities are responsible for the management of inheritance tax, which results in receiving an inheritance in one community or another with different economic consequences for the heirs

(6) US charges no Federal Inheritance Tax on these sums. In those few states that do charge Inheritance Tax that tax does not apply if the individual relocates to one of the larger number of states that charge no tax eg Arizona, California, Florida, Texas etc.

All 28 countries ranked by the amount and the percentage of IHT individuals pay on handing down 307.000€ of cash - G7 and EU countries impose highest IHT rates on cash

Ranking	Country	Amount of tax paid on 307.000€ of cash	Tax paid as % of cash value
1	Netherlands	40.832€	13'3%
2	Denmark	40.424€	13'1%
3	Belgium	39.860€	13'0%
4	France	39.724€	12'9%
5	Brazil	12.305€	4'0%
6	Argentina	7.111€	2'3%
7	Canada	4.112€	1'3%
8	Romania	3.076€	1'0%
9	Portugal	0	0'0%
10	Japan	0	0'0%
11	United Kingdom	0	0'0%
12	Germany	0	0'0%
13	Ireland	0	0'0%
14	Italy	0	0'0%
15	Spain ⁽⁵⁾	0	0'0%
16	Australia	0	0'0%
17	China	0	0'0%
18	Croatia	0	0'0%
19	India	0	0'0%
20	Israel	0	0'0%
21	Malaysia	0	0'0%
22	Malta	0	0'0%
23	Mexico	0	0'0%
24	New Zealand	0	0'0%
25	Poland	0	0'0%
26	Russia	0	0'0%
27	Uruguay	0	0'0%
28	United States ⁽⁶⁾	0	0'0%
	G7 average	6.262€	2'0%
	EU average	11.708€	3'8%
	BRIC average	3.076€	1'0%
	Emerging economies average	2.044€	0'7%
	Global average	6.694€	2'2%

All 28 countries ranked by the amount and the percentage of IHT individuals pay on handing down 659.000€ of cash - G7 and EU countries impose highest IHT rates on cash

Ranking	Country	Amount of tax paid on 659.000€ of cash	Tax paid as % of cash value
1	Belgium	134.900€	20'5%
2	Netherlands	111.154€	16'9%
3	France	125.980€	16'8%
4	Denmark	93.164€	14'1%
5	Japan	49.149€	7'5%
6	Brazil	26.369€	4'0%
7	Argentina	21.225€	3'2%
8	Canada	9.386€	1'4%
9	Romania	6.592€	1'0%
10	Ireland	3.172€	0'5%
11	Portugal	0	0'0%
12	United Kingdom	0	0'0%
13	Germany	0	0'0%
14	Italy	0	0'0%
15	Spain ⁽⁵⁾	0	0'0%
16	Australia	0	0'0%
17	China	0	0'0%
18	Croatia	0	0'0%
19	India	0	0'0%
20	Israel	0	0'0%
21	Malaysia	0	0'0%
22	Malta	0	0'0%
23	Mexico	0	0'0%
24	New Zealand	0	0'0%
25	Poland	0	0'0%
26	Russia	0	0'0%
27	Uruguay	0	0'0%
28	United States ⁽⁶⁾	0	0'0%
	G7 average	24.181€	3'7%
	EU average	32.837€	5'0%
	BRIC average	6.592€	1'0%
	Emerging economies average	4.925€	0'7%
	Global average	20.208€	3'1%

All 28 countries ranked by the amount and the percentage of IHT individuals pay on handing down 2.637.000€ of cash - G7 and EU countries impose highest IHT rates on cash

Ranking	Country	Amount of tax paid on 2.637.000€ of cash	Tax paid as % of cash value
1	Japan	1.014.880€	38'5%
2	France	904.030€	34'3%
3	United Kingdom	764.434€	29'0%
4	Belgium	708.443€	27'1%
5	Netherlands	506.697€	19'2%
6	Denmark	389.823€	14'8%
7	Germany	358.000€	13'2%
8	Ireland	329.211€	12'5%
9	Argentina	143.724€	5'4%
10	Brazil	105.479€	4'0%
11	Canada	39.052€	1'5%
12	Romania	26.639€	1'0%
13	Italy	25.478€	1'0%
14	Spain ⁽⁵⁾	5.425€	0'2%
15	Australia	0	0'0%
16	China	0	0'0%
17	Croatia	0	0'0%
18	India	0	0'0%
19	Israel	0	0'0%
20	Malaysia	0	0'0%
21	Malta	0	0'0%
22	Mexico	0	0'0%
23	New Zealand	0	0'0%
24	Poland	0	0'0%
25	Portugal	0	0'0%
26	Russia	0	0'0%
27	United States ⁽⁶⁾	0	0'0%
28	Uruguay	0	0'0%
	G7 average	442.414€	17%
	EU average	286.515€	10'9%
	Emerging economies average	2.271€	0'1%
	Global average	189.692€	7'0%