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The inheritance tax of loss [1]

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The Health Secretary Jeremy Hunt plans that, from 2017, anyone with assets, including their home, worth more than £123,000 will be liable for the first £75,000 of their social care costs. They will also pay accommodation expenses of up to £12,000 a year. This, he says, will prevent people having to sell their homes when they need to move into residential care, which can be very expensive.

Meanwhile the Chancellor of the Exchequer, George Osborne, will say that the level at which inheritance tax becomes payable on estates will be frozen at £325,000 instead of being raised to £1m as the Conservatives had pledged before the election.

The care funding plans will benefit perhaps a fifth of the UK's pensioners: at present, people with much lower levels of assets are liable for their own care costs.

But then the money has to come from somewhere. Why should younger people, many of them starting out in life and trying to provide for their families on modest incomes, face higher taxes to support those who already own their homes?

After all, people in the UK see their homes as a form of saving. And it has been a much more reliable form of saving than having your money in the bank, where it is whittled down fast by inflation ? inflation caused, of course, by the bad monetary policy of the authorities.

Governments have actually encouraged this form of saving too. Many of those benefiting from Jeremy Hunt's plans will have enjoyed tax relief on their mortgage interest payments for many years under the old MIRAS scheme. When they cashed in and moved up the property ladder, they would not pay the 28%-40% capital gains tax rates that have been levied on other kinds of assets like shares and bonds. Planning restrictions have ensured that house prices have kept on going. And so on.

If governments have encouraged people to save in their homes in these ways ? using taxpayers' cash to fund the process ? it is remarkable that they now maintain that people should not be expiated to cash in those assets when they need to. Yes, if you have to move into a residential care home it is a difficult time, but if you have saved in your home for a rainy day, it is a bit much to expect taxpayers then to hand you a very expensive umbrella so you can pass the home on to your kids.

...Who will then end up paying more inheritance tax on that asset ? a 40% tax which breaks up capital (just at the time when we need capital to invest in economic recovery) and which encourages people to juggle their assets so as to avoid the tax. So big is the loss from this that the tax ? though a nice earner for the government ? has probably produced negative returns for the economy for the 100+ years of its history.

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