Passing on riches and the need to talk death and taxes
16 February 2019 - SCMP (print)

South China Morning Post

WEALTH

Passing on riches and the need to talk death and taxes

Asia has fastest growing number of super-rich yet the levels of philanthropy are relatively low

Sumit Agarwal

Death and taxes, Benjamin Franklin famously observed, are the only two certainties of life.

Tax is certainly an inevitable, if burdensome, part of life. Likewise in many countries, tax – in the form of inheritance or estate tax – is also an inevitable part of death.

In many countries, but rarely here in Asia. For a region that has the fastest growing number of high-net-worth individuals, this has a significant impact on levels of giving and philanthropy.

According to the latest Hurun Report Global Rich list, as of 2018 there were 2,694 US dollar billionaires in the world, up by 437 from a year earlier. By far the fastest rate of wealth creation is in Asia.

Overall wealth held by the world's super-rich grew by 31 per cent in 2018 to US$10.5 trillion, equivalent to 13.2 per cent of global gross domestic product. That means an unprecedented block of global wealth lies in the hands of a very few individuals. China had 819 billionaires in 2018, pulling well ahead of the United States.

Now, it is reasonably safe to say that most billionaires have more than they need. With this in mind, many billionaires such as Bill Gates, Mark Zuckerberg and Elon Musk have signed the "Giving Pledge", promising to give away half or more of their wealth to charities and social causes. However, most of these come from Europe and North America. Few come from Asia.

Certainly there are prominent exceptions, such as India's Azim Premji and Hong Kong's Li Kashing – two self-made entrepreneurs who have set up well-endowed foundations. Yet, while wealth in Asia has soared, philanthropy and large-scale giving has remained relatively low.

A significant factor in this is Asia's generally low or non-existent levels of inheritance tax, allowing individuals to pass all or most of their wealth on to their families after their death.

Singapore, Hong Kong, Malaysia and India have all abolished inheritance tax, whereas China and Indonesia have never had one. Thailand introduced a relatively modest levy in 2016. Japan and South Korea are notable exceptions, levying an inheritance tax of 50 per cent to 55 per cent on higher-value estates.

However, most major Asian economies have chosen to focus on building low-tax regimes in an effort to encourage entrepreneurship and attract investors. In doing so they have foregone the notion of inheritance tax and thus the inducement for the super-rich to share the fruits of their wealth.

In the US, where in the 1940s inheritance tax reached 77 per cent, super-rich individuals were incentivised to fund universities, hospitals, art galleries and libraries among others. The Rockefellers and the Gettys are prominent examples.

Some give because they want to become immortal with their legacy. Others do so because they derive pleasure from doing so.

As the centre of the global economy and wealth shifts to Asia, now should be the time for us to start a conversation about using tax to nurture a greater culture of giving.

Inheritance tax would incentivise [use of] wealth to benefit social causes

At NUS Business School, I have looked at how small incentives can deliver significant changes in behaviour. For example, providing prizes for children who encourage and educate their parents to reduce electricity use has delivered a significant impact on power consumption.

More directly, in the US, researchers have found that in 2010 – when inheritance tax was repealed for a year – charitable giving fell by over a third.

There is no reason to assume Asia's wealthy cannot be motivated to give in the same way as their counterparts in other parts of the world do. Inheritance tax would help to incentivise or nudge rich individuals to use their wealth to benefit social causes.

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