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Inheritance Taxation in Comparative Perspective

Manuel Schechtl

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Manuel Schechtl*

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Abstract

The role of inheritances for wealth inequality has been frequently addressed. However, until recently, comparative data has been scarce. This paper compiles inheritance tax information from EY Worldwide Estate and Inheritance Tax Guide and combines it with microdata from the Luxembourg Wealth Study. The results indicate substantial differences in the tax base and the distributional potential of inheritance taxation across countries.

Keywords: taxes, wealth, inheritance, inheritance tax

*Humboldt Universität zu Berlin; Email: manuel.schechtl@hu-berlin.de

1 Introduction

The relevance of inheritances for the wealth distribution remains a widely debated topic in the social sciences. Using different comparative data sources, previous studies highlighted the positive association between inheritances received and the wealth rank (Fessler and Schürz 2018) or household net worth (Semyonov and Lewin-Epstein 2013). Recent research highlighted the contribution of transferred wealth to overall wealth inequality in this very journal (Nolan et al. 2021). These studies have generated important insights into the importance of inherited wealth beyond national case studies (Black et al. 2020) or economic models of estate taxation (De Nardi and Yang 2016). However, institutional characteristics, such as taxes on inheritances, are seldomly scrutinised. As a notable exemption, Semyonov and Lewin-Epstein examine the association of household net worth and the inheritance tax rate (2013). Due to the lack of detailed comparative data on the design of inheritance taxation, they include inheritance taxes measured as top marginal tax rate in their analysis. However, because inheritance taxes are usually designed with substantial tax exempted amounts, the marginal tax rate provides a limited picture of the relevance of an inheritance tax. Therefore, I present collected inheritance tax details for ten countries in the Luxembourg Wealth Study (Sierminska, Brandolini, and Smeeding 2006) so that future research can investigate how these taxes influence the wealth distribution. In the following, I briefly describe the data sources used (Section 2.) and present key figures of taxes on inheritances and inherited wealth and discuss the evolution of inheritance tax exemptions (Section 3.). Directions for future research are discussed in the last section (4.).

2 Data and method

I rely on microdata from the Luxembourg Wealth Study (LWS 2021). LWS is a collection of cross-sectional income and wealth information from national data providers. Microdata for the countries in the LWS is derived mostly from the Household Finance and Consumption

Survey (HFCS), but as well from other sources such as the Survey of Consumer Finances (SCF) for the United States. All information is harmonized by the LWS-team and, hence, represents an internationally unique source for wealth data.

To estimate if inheritances have been subject to inheritance taxation, I draw on detailed tax code information from the Ernst & Young *Worldwide Estate and Inheritance Tax Guide*. This yearly report bundles information on gift, estate and inheritance taxation for up to 42 countries (EY 2020). In addition, I draw on tax revenue data from the OECD (2020).

I estimate the proportion of people living in households that reported an inheritance above the exemption threshold for direct heir residents. However, this does not indicate if these households effectively payed the tax because, for instance, business assets are often exempted from inheritance taxation. The estimations rather present the hypothetical proportion of people being affected by the tax if all heirs would be the descendent's children and no exemption beyond the baseline would be applicable. All gathered details on the inheritance tax schedules are available in the appendix (Table 2).

3 Inheritance taxation

In general, countries differ substantially in the taxation of heirs with considerable variation in tax exemptions and tax schedules. Most notably, direct heirs (such as children and spouses) usually benefit from generous exemptions and, hence, are seldomly taxed at all (Kuziemko et al. 2015). Furthermore, some countries abolished taxes on inheritances and estates within the last decades such as, for instance, Norway (2014) or Austria (2008) (Drometer et al. 2018). In contrast to taxes on labour, capital or property, taxing inheritances is always a tax on a transfer of wealth. From a meritocratic point of view, therefore, inheritance taxes are sometimes portrayed as a perfect instrument to enhance intergenerational class mobility (De Nardi and Yang 2016). However, contradictory, inheritance taxes seem to have a strongly negative standing among individuals and are often considered as unfair

(Kuziemko et al. 2015). This might steer from the possibility of top wealth-holders to avoid the tax via business exemptions or loopholes (Saez and Zucman 2019).

Table 1 provides an overview of key statistics regarding inheritance taxes of the ten OECD countries that provide information on inheritances in the LWS data. The compiled statutory tax rate information refer to rates and exemptions for resident children. Half of the countries do not levy any inheritance tax on them. Tax rates and exemptions among countries that do, differ substantially. It is worth noting that the percentage of population living in a household which received at least one inheritance above the exemption threshold since 2000 is strikingly low. In Greece and Spain this number reaches roughly four percent, while the UK and the US remain well below one percent.

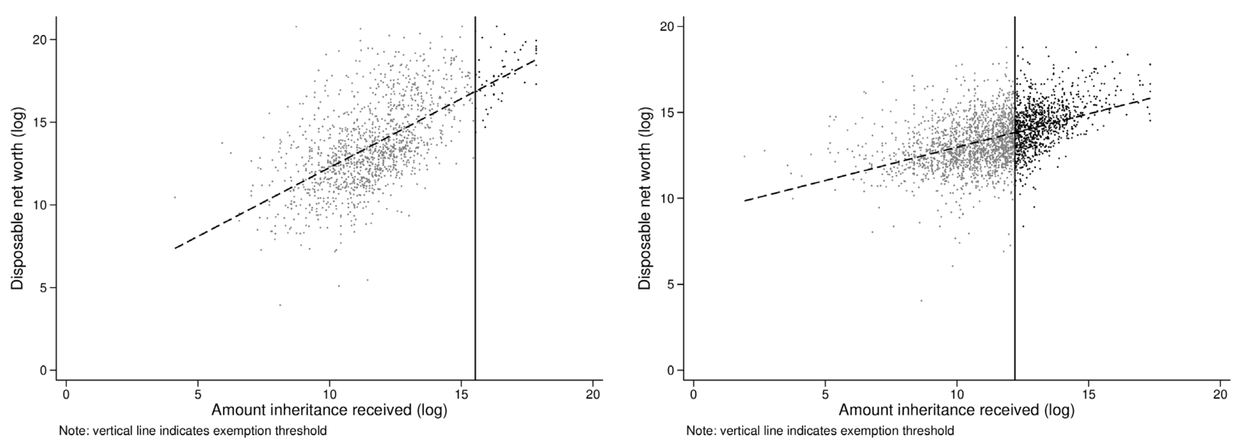
Table 1: Inheritance taxes

Country	Year	Inheritance tax	Tax exemption	Tax rate (in %)	Inheritance received (in %)[1]	Median inheritance	Tax revenue as % of GDP	Affected by tax (in %)[2]
Austria	2017	×[3]	-	-	28.29	82 196	0.0	0.00
Estonia	2017	×	-	-	25.17	69 612	0.0	0.00
Greece	2018	✓	228 495	1 to 10	18.97	121 658	0.1	4.25
Luxembourg	2018	×[4]	-	-	20.41	132 549	0.2	0.00
Norway	2013	✓[5]	48 187	6 to 10	1.79[6]	40 487	0.1	0.70[7]
Slovakia	2017	×	-	-	29.37	44 157	0.0	0.00
Slovenia	2014	×	-	-	23.39	147 586	0.0	0.00
Spain	2014	✓	198 300[8]	7.65 to 34[9]	23.59	85 883	0.2	4.99
United Kingdom	2017	✓	543 094[10]	40	15.77	25 244	0.2	0.10[11]
United States	2016	✓	5 566 091	18 to 40	15.09	56 482	0.1	0.05

Notes: Statutory tax information refer to direct heir residents (all amounts in ppp-adjusted 2017 US$).
[1] *Percentage of population in households that received at least one inheritance or bequest since 2000.*
[2] *Percentage of population in households that received at least one inheritance or bequest above the exempted amount since 2000.*
[3] *Austria abolished its inheritance tax in 2008.*
[4] *Luxembourg does have an inheritance tax, although direct heirs are exempted.*
[5] *Norway abolished its inheritance tax in 2014.*
[6] *Percentage of population in households that received an inheritance or bequest in 2013.*
[7] *Percentage of population in households that received an inheritance or bequest above the exempted amount in 2013.*
[8] *Basic exemption plus maximum amount for principal residence.*
[9] *Spanish regions can modify the detailed schedule of the inheritance tax.*
[10] *Basic exemption plus maximum amount for principal residence.*
[11] *Percentage of population in households that received an inheritance or bequest above the exempted amount in the last three years.*
Source: EY 2013-2018, LWS, OECD.

The different rates of people being affected by inheritance taxes seem to be mainly driven by differences in the exemption thresholds. However, inheritance tax revenue as percentage of GDP is surprisingly similar among the selected countries. For instance, both Luxembourg and the UK collect 0.2% of GDP, although Luxembourg is not taxing inheritances to direct heirs at all. This indicates that a substantial part of the revenue is actually collected from heirs with more distant relationships to their testators. Similarly, non-resident heirs disproportionately contribute to the collected inheritance tax in the US because they are not entitled to the generous exemption.

Figure 1 illustrates the location of the exemption threshold across the inheritance distribution in the US and Spain. Of all countries that still levy an inheritance tax, the US has the lowest share of affected people, while Spain has the highest share among the ten countries. Unsurprisingly, households that reported higher inheritances indicate higher disposable net worth. In Spain, roughly a fifth of the population that lives in a household which received at least one inheritance since 2000, reported an inheritance above the exemption threshold. In contrast, in the US this number drops to 0.3%.



(a) United States (b) Spain

Figure 1: Inheritances and exemption threshold

Source: Luxembourg Wealth Study.

In a comparative perspective, therefore, the US exemption threshold seems truly exceptional. However, as Figure 2 depicts, this is a relatively new (and largely overlooked) feature of the US tax system. Back in 2000, the US exemption threshold was set at an amount equal to 28 years of that year's median equivalised disposable household income, compared to 19 and 12 years in the UK and Germany respectively. However, while today the latter two still remain below the US in 2000, the US exempted amount now equals 280 years of income. It is worth noting, however, that 17 states in the US have own estate or inheritance taxes in addition to the federal tax. Nevertheless, these taxes at the state level usually also apply exemptions of multiple million dollars (Taxfoundation.org 2019).

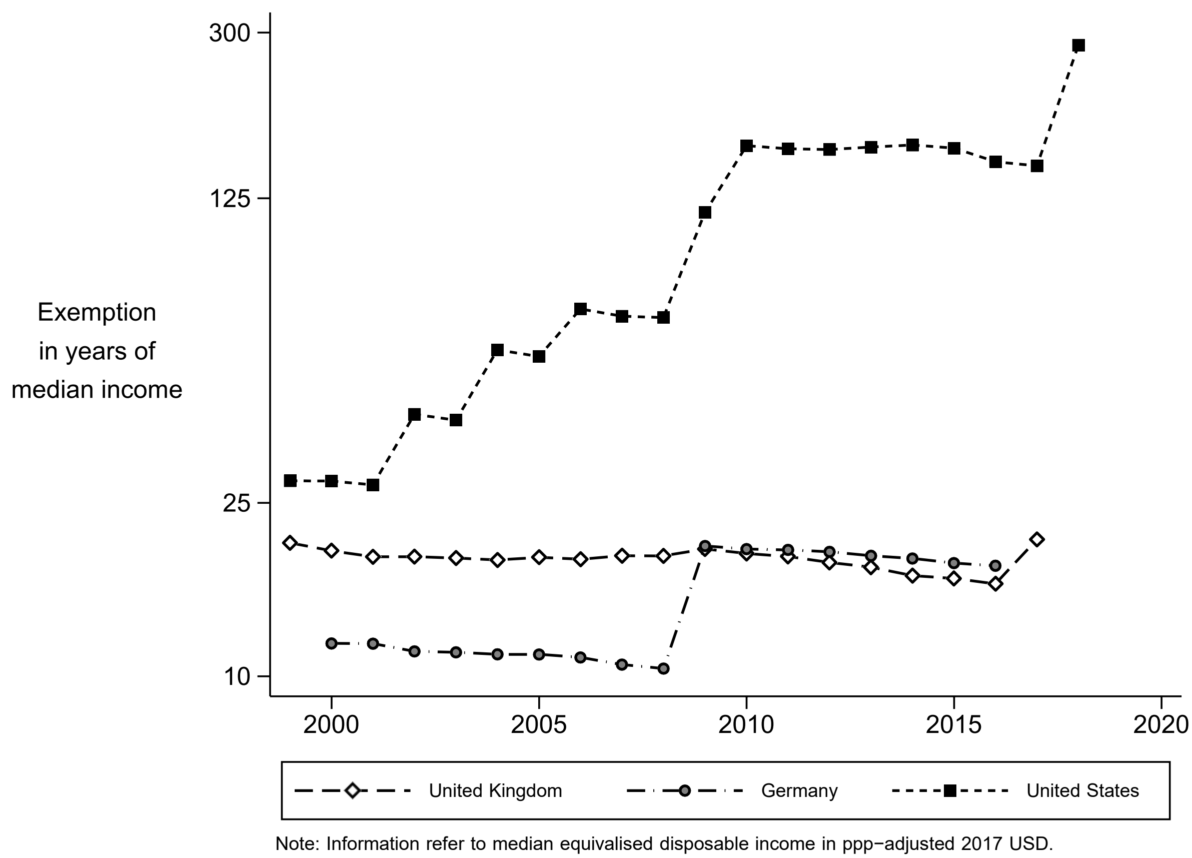


Figure 2: Evolution of inheritance tax exemption

Source: Luxembourg Wealth Study, Taxfoundation.org and EY.

4 Discussion

In this research letter, I presented compiled inheritance tax information for ten OECD countries and estimated the share of people living in households that reported taxable inheritances. The gathered information clearly demonstrates substantial differences in the inheritance tax base across countries. The presented data hints towards a multitude of directions for future research: First, the lack of comprehensive data on the wealthy becomes particularly evident on the international level. This points to the need of comparable register data or national survey strategies of wealth holders at the top. Second, the combination of inheritance tax schedules and tax revenue statistics indicates that revenue is mostly collected from non-direct heirs (and/or foreigners) with largely unknown distributional consequences worth being investigated. Last, the unprecedent rise in the US exemption threshold in the last twenty years should be examined as a potential driver of wealth inequality.

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5 Appendix

Table 2: National inheritance tax schedules

	Spain		United States		Greece		Norway		United Kingdom	
	Threshold	Rate	Threshold	Rate	Threshold	Rate	Threshold	Rate	Threshold	Rate
Bracket 1	0	7.65	0	18.00	0	1.00	0	6.00	0	40.00
Bracket 2	7 993	8.50	10 000	20.00	150 000	5.00	330 000	10.00		
Bracket 3	15 981	9.35	20 000	22.00	450 000	10.00				
Bracket 4	23 968	10.20	40 000	24.00						
Bracket 5	31 956	11.05	60 000	26.00						
Bracket 6	39 943	11.90	80 000	28.00						
Bracket 7	47 931	12.75	100 000	30.00						
Bracket 8	55 918	13.60	150 000	32.00						
Bracket 9	63 906	14.45	250 000	34.00						
Bracket 10	71 893	15.30	500 000	37.00						
Bracket 11	79 881	16.15	750 000	39.00						
Bracket 12	119 758	18.70	1 000 000	40.00						
Bracket 13	159 635	21.25								
Bracket 14	239 389	25.50								
Bracket 15	398 778	29.75								
Bracket 16	797 555	34.00								
Exemption	138 562		5 450 000		150 000		470 000		425 000	

Notes: Statutory tax information refer to direct heir residents (all amounts in national currency).
Source: EY 2013-2018.