Introduction

• **Purpose of the report**
  – Compare and assess inheritance, estate and gift taxes across OECD countries
  – Explore the role that these taxes could play in raising revenue, addressing inequalities and improving the efficiency of tax systems

• **Broader work stream on capital taxation at the OECD**

• **Project financed by the Korea Institute of Public Finance (KIPF)**
Structure of the report

Chapter 1. Household wealth and inheritances

Chapter 2. Review of the arguments for and against inheritance taxation

Chapter 3. Inheritance, estate, and gift tax design in OECD countries

Chapter 4. Summary and recommendations
The distribution of wealth is highly unequal

Share of total net household wealth held by the top 10% and top 1% of the wealth distribution

On average across OECD countries, 52% of the total wealth is held by the wealthiest 10%

Source: OECD Wealth Distribution Database, oe.cd/wealth.
Inheritances are unequally distributed, benefitting wealthier households more

Average value of inheritances and significant gifts received across the wealth distribution

Inheritances are a growing share of private wealth

Cumulated stock of inherited wealth as a fraction of private wealth, 1990-2010, selected countries

Note: Data for the United States are the unweighted average of benchmark and high-gift estimates
Source: Alvaredo, Garbinti, and Piketty (2017)
There are many arguments in favour of inheritance and gift taxation

- **Enhances equality of opportunity**

- **Reduces wealth inequality**, especially in the long run and if revenues are redistributed, and can prevent the build-up of dynastic wealth

- Encourages recipients to **work harder and save more**

- Encourages charitable giving

- **Negative externalities from wealth concentration** may strengthen the case for inheritance taxation

- **Administrative advantages** over other forms of wealth taxation
Arguments against inheritance taxes are often not confirmed empirically and some can be addressed through better design

- May discourage donors’ from working and saving, but **empirical evidence shows limited effects**

- **Generally limited migration responses**, except for the very top of the wealth distribution

- **May negatively affect** entrepreneurship and **family business successions**, but empirical findings are mixed

- **Significant inheritance and gift tax planning**, but this is largely the result of **tax design**

- Could lead to double taxation, but **this argument is weak**, especially in the case of a recipient based IHT
24 of 37 OECD countries levy an inheritance or an estate tax

<table>
<thead>
<tr>
<th>Type of tax</th>
<th>Country*</th>
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<tbody>
<tr>
<td>Inheritance tax and gift tax</td>
<td>Belgium, Chile, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Lithuania, Luxembourg, Netherlands, Poland, Portugal, Slovenia, Spain, Switzerland, Turkey</td>
</tr>
<tr>
<td>Estate tax and gift tax</td>
<td>Denmark, Korea, United Kingdom, United States</td>
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<tr>
<td>Gifts taxed under personal income tax</td>
<td>Latvia (no inheritance tax), Lithuania (with a separate inheritance tax)</td>
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</tbody>
</table>

* Colombia is not included as it became a member of the OECD after the data collection exercise was completed. Information for Belgium refers to the Brussels-Capital Region and for Switzerland refers to the Canton of Zurich, but inheritance taxes apply in other regions and cantons.
Inheritance, estate and gift taxes typically raise little revenue. Only 0.5% of total tax revenues are sourced from inheritance, estate and gift taxes on average across the OECD countries that levy them.
Spouses are often exempt or benefit from the highest tax exemption thresholds.

Children typically benefit from the highest tax exemption thresholds after spouses.

Much less favourable tax treatment often applies to transfers to distant relatives and non-related heirs.

There is a case for exempting small transfers and exempting transfers to spouses.

Exempting large transfers to other family members may reduce revenue potential and have negative distributional consequences.

Across countries, tax exemption thresholds for transfers to children range from USD 17,000 to more than USD 11 million.
Certain assets benefit from preferential tax treatment under inheritance or estate taxes

Full or partial exemptions, generous valuation rules, lower tax rates and payment deferrals apply to some assets

Preferential tax treatment is typically conditional (e.g. heirs must continue running the family business or continue residing in the main residence)

Preferential tax treatment may sometimes be justified, but it limits revenue, creates distortions and reduces progressivity
Inheritance and estate taxes apply to a minority of estates in a number of countries.

Share of estates subject to inheritance or estate taxes, select countries

- **Belgium** (*Brussels-Capital Region*): 48%
- **Switzerland** (**Canton of Zurich**): 12.7%
- **Germany**: 10.1%
- **Japan**: 9%
- **Lithuania**: 8%
- **Italy**: 6.4%
- **United Kingdom**: 3.9%
- **United States**: 0.2%

* This figures includes OECD countries with available data and relates to the share of estates that are subject to inheritance or estate taxes, not the share of wealth that is taxed.
Tax rates are generally progressive, and vary depending on the relationship with the donor.

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<th>Children</th>
<th>Non-related parties</th>
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<td>Finland</td>
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Minimum and maximum statutory tax rate

While a majority of countries apply progressive tax rates, one-third apply flat rates, and tax rate levels vary widely.
Effective tax rates are significantly lower than statutory tax rates and in some cases decline for the largest estates

Effective tax rates across wealth groups or estates, select countries

United Kingdom
Net estate value
GBP million

0.0% 5.0% 10.0% 15.0% 20.0% 25.0% 30.0% 35.0% 40.0% 45.0% 50.0% 55.0% 60.0%
0-1 1-2 2-3 3-4 4-5 5-6 6-7 7-8 8-9 9-10 10 or more

United States
Gross estate for tax purposes
USD million

0.0% 5.0% 10.0% 15.0% 20.0% 25.0% 30.0% 35.0% 40.0% 45.0% Under 5 5-10 10-20 20-50 50 or more

Chile
Wealth decile

Effective tax rate
0.0% 0.1% 0.2% 0.3% 0.4% 7.5% 5.0% 2.5% 2.0% 3.0% 1st 2nd 3rd 4th 5th 6th 7th 8th 9th 10th

Italy
Wealth quintile

Effective tax rate
0.0% 0.1% 0.2% 0.3% 0.4% 4.0% 3.0% 2.0% 1.0% 0.0% 1st 2nd 3rd 4th 5th

Lithuania
Wealth decile

Effective tax rate
0.0% 0.1% 0.2% 0.3% 0.4% 4.0% 3.0% 2.0% 1.0% 0.0% 1st 2nd 3rd 4th 5th 6th 7th 8th 9th 10th
The design of gift taxes varies, but often leaves scope to minimise tax liability

- The alignment between gift taxes and inheritance/estate taxes varies across countries

- In-kind gifts are taxed in a minority of countries, but may be exempt if they relate to special expenses (e.g. education) or occasions (e.g. birthdays)

- Gift tax exemptions are often renewed on a periodic basis
  - This may allow significant amounts of tax-free wealth transfers over time
  - This benefits primarily wealthy donors with liquid wealth
Opportunities for **tax planning** and **avoidance** may arise from the design of wealth transfer taxes

- Renewal of gift tax exemption thresholds
- Favouring beneficiaries or assets that receive preferential tax treatment
- Bequeathing unrealised capital gains
- Use of special structures, including trusts
- Taking advantage of preferential valuation rules

**Tax evasion** ranges from simple cash transfers to sophisticated offshore structures

- Transfers of difficult-to-trace assets
- Failure to declare transfers
- Abuse of debt and deduction provisions
- Concealing assets offshore (more difficult with expansion of Exchange of Information (EOI) networks)
Conclusions and recommendations

• Taxing inheritances and gifts can play an important role in enhancing equality of opportunity and reducing wealth gaps.

• There is a good case for a well-designed, recipient-based inheritance tax with an exemption for low-value inheritances.

• Instead of taxing each wealth transfer separately, a tax on lifetime wealth transfers would improve equity and reduce tax avoidance, but could increase complexity.

• Country context is key to assessing the need for and adequate design of wealth transfer taxes.

• Inheritance taxation is not a silver bullet. Complementary reforms are needed, in particular well-designed taxes on personal capital income, including capital gains.
Additional recommendations

• Exempt small inheritances
• Implement progressive tax rates to enhance vertical equity
• Avoid excessive gaps between the tax treatment of direct descendants and other heirs
• Better align the taxation of inheritances and gifts
• Scale back tax reliefs for which there is no strong rationale and which tend to be regressive
• Carefully consider and design relief for business assets
• Carefully assess and limit possibilities for tax planning (e.g. through trusts, charitable bequests, separating bare ownership/usufruct, preferential valuation rules)
• Allow tax to be paid in instalments or deferred, under certain conditions
• Prevent unrealised capital gains at death from fully escaping taxation
• Better align taxing rights in respect of cross-border inheritances across countries and provide adequate double tax relief
Further reading

Full report in English
French version available soon

- [http://oe.cd/inheritancetax](http://oe.cd/inheritancetax)
- [http://oe.cd/impotsuccessions](http://oe.cd/impotsuccessions)

Summary of key findings in English


Résumé des conclusions principales en français

Contact us

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