Inheritance Taxation in OECD Countries

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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**
  - *Taxation of Household Savings* (2018), *The Role and Design of Net Wealth Taxes* (2018), "Measuring the Effective Taxation of Housing" (forthcoming)
- **Project financed by the Korea Institute of Public Finance (KIPF)**

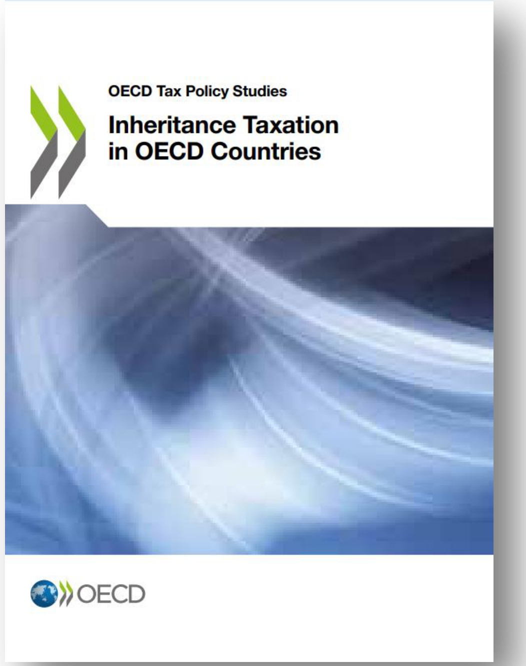
Structure of the report

Chapter 1. Household wealth and inheritances

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

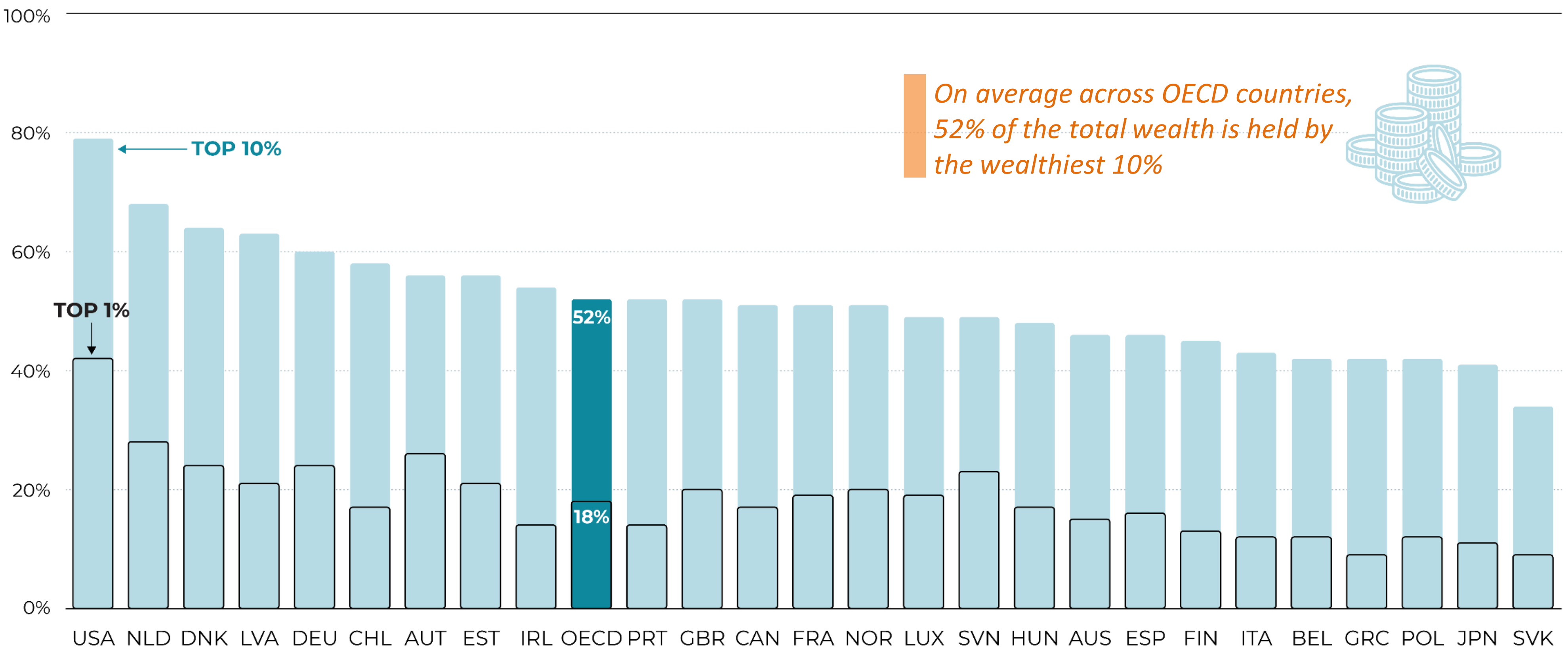
Chapter 3. Inheritance, estate, and gift tax design in OECD countries

Chapter 4. Summary and recommendations



The distribution of wealth is highly unequal

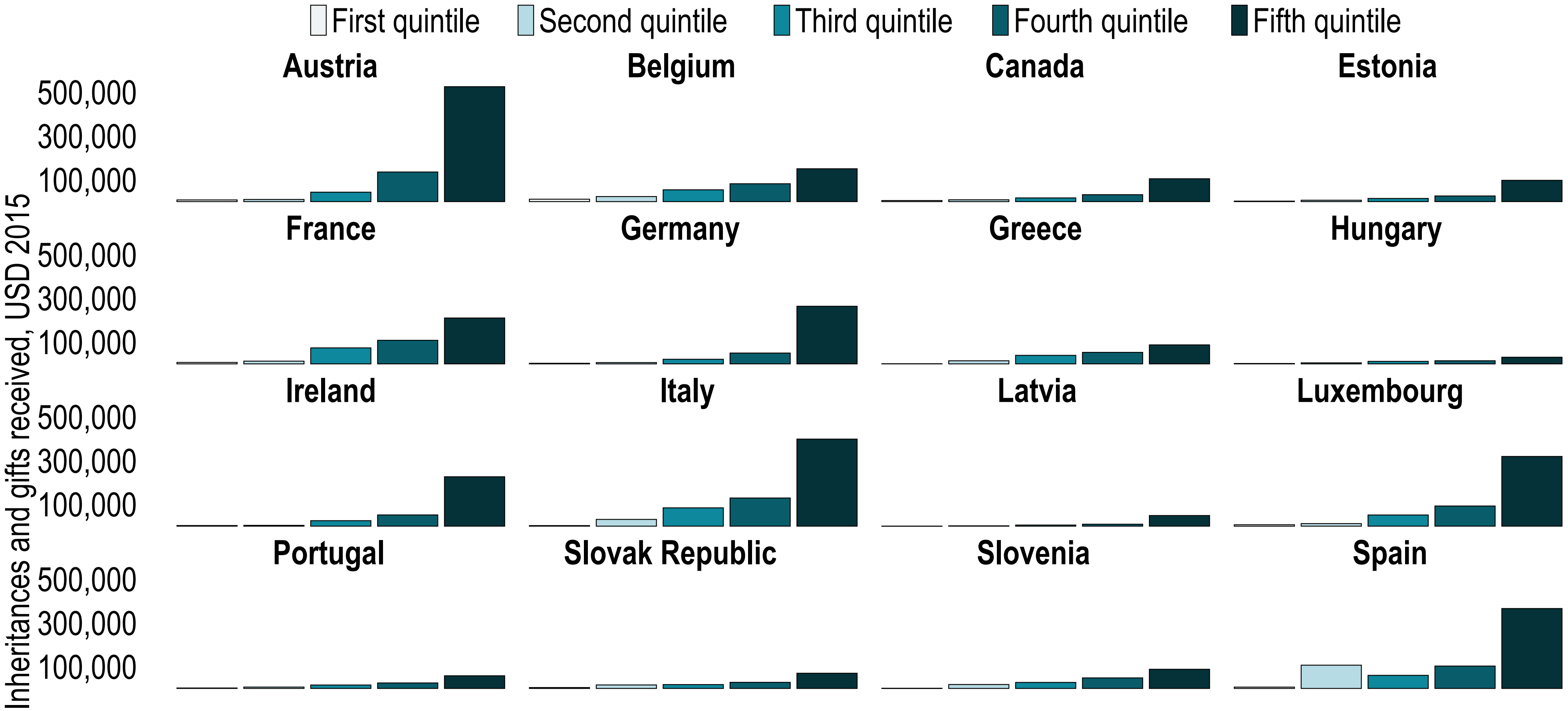
Share of total net household wealth held by the top 10% and top 1% of the wealth distribution



Source: OECD Wealth Distribution Database, oe.cd/wealth.

Inheritances are unequally distributed, benefitting wealthier households more

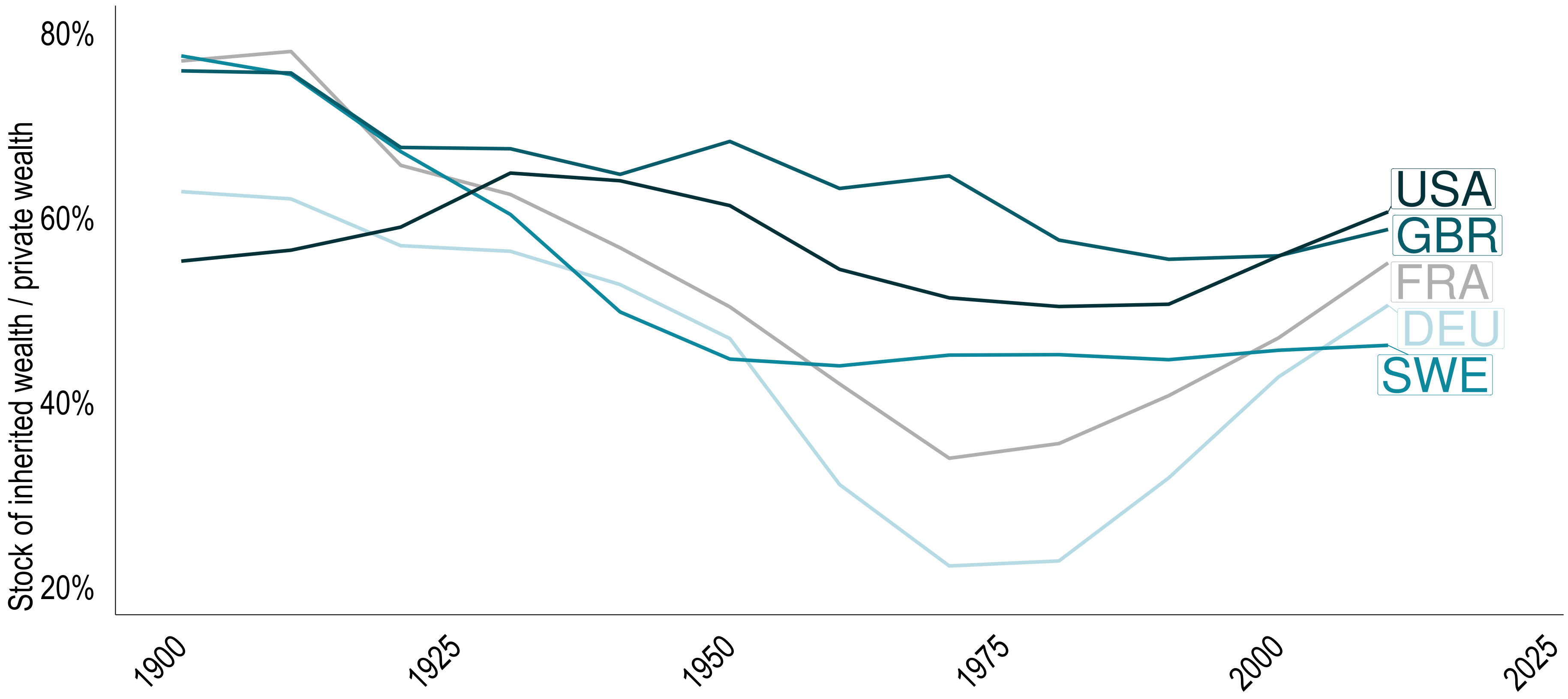
Average value of inheritances and significant gifts received across the wealth distribution



Source: OECD Wealth Distribution Database, oe.cd/wealth, Balestra and Tonkin (2018).

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

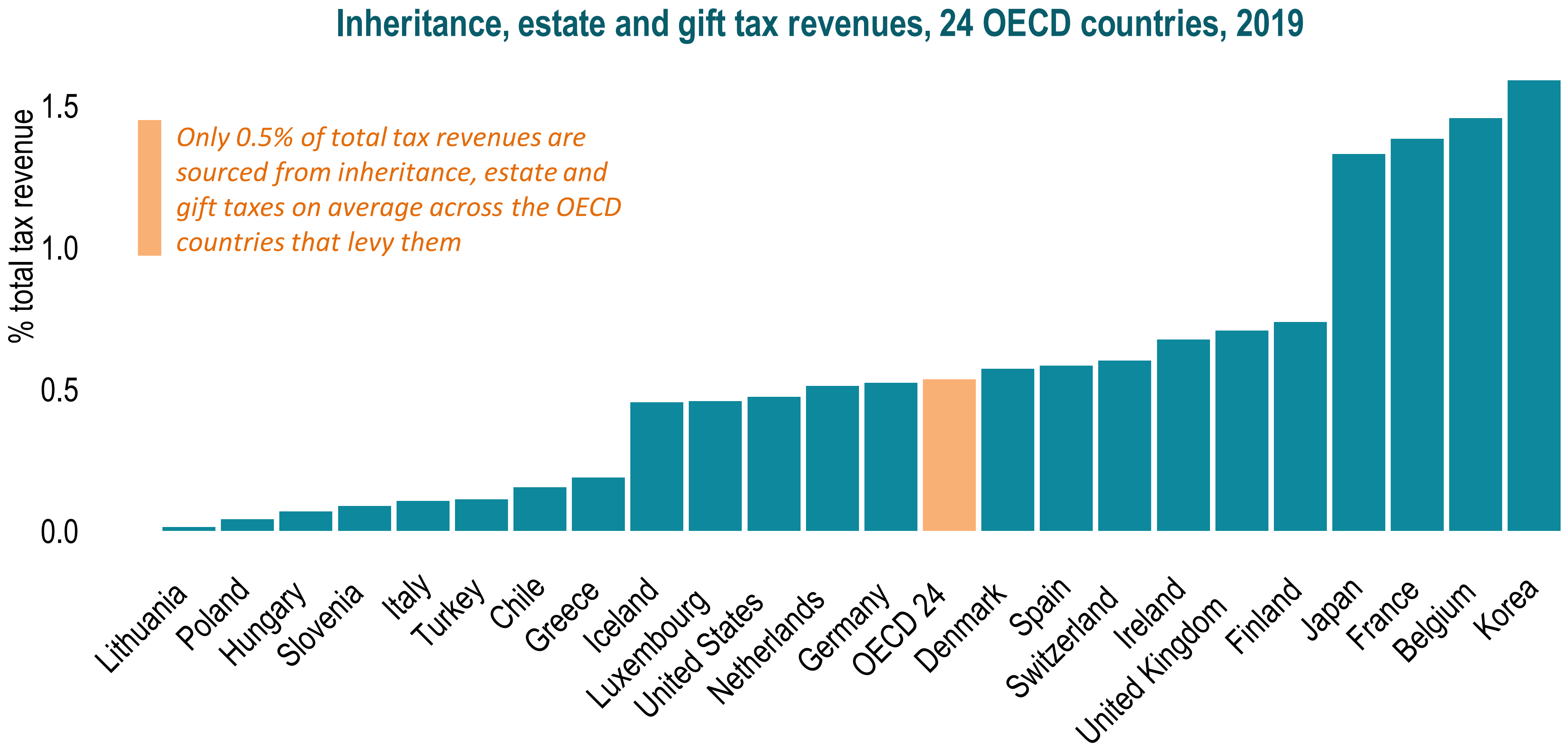
- May discourage donors' from working and saving, but **empirical evidence shows limited effects**
- **Generally limited migration responses**, except for the very top of the wealth distribution
- **May negatively affect** entrepreneurship and **family business successions**, but **empirical findings 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

Type of tax	Country*
Inheritance tax and gift tax	Belgium, Chile, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Lithuania, Luxembourg, Netherlands, Poland, Portugal, Slovenia, Spain, Switzerland, Turkey
Estate tax and gift tax	Denmark, Korea, United Kingdom, United States
Gifts taxed under personal income tax	Latvia (no inheritance tax), Lithuania (with a separate inheritance tax)
Repealed inheritance or estate taxes (repeal year in brackets)	Australia (1979), Austria (2008), Canada (1972), Czech Republic (2014), Israel (1980), Mexico (1961), New Zealand (1992), Norway (2014), Slovak Republic (2004), Sweden (2004)

* 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



Note: Data are for 2018 for Greece and Japan.
Source: OECD Revenue Statistics

Tax exemption thresholds often favour close relatives but differ widely across countries

Spouses are often exempt or benefit from the highest tax exemption thresholds

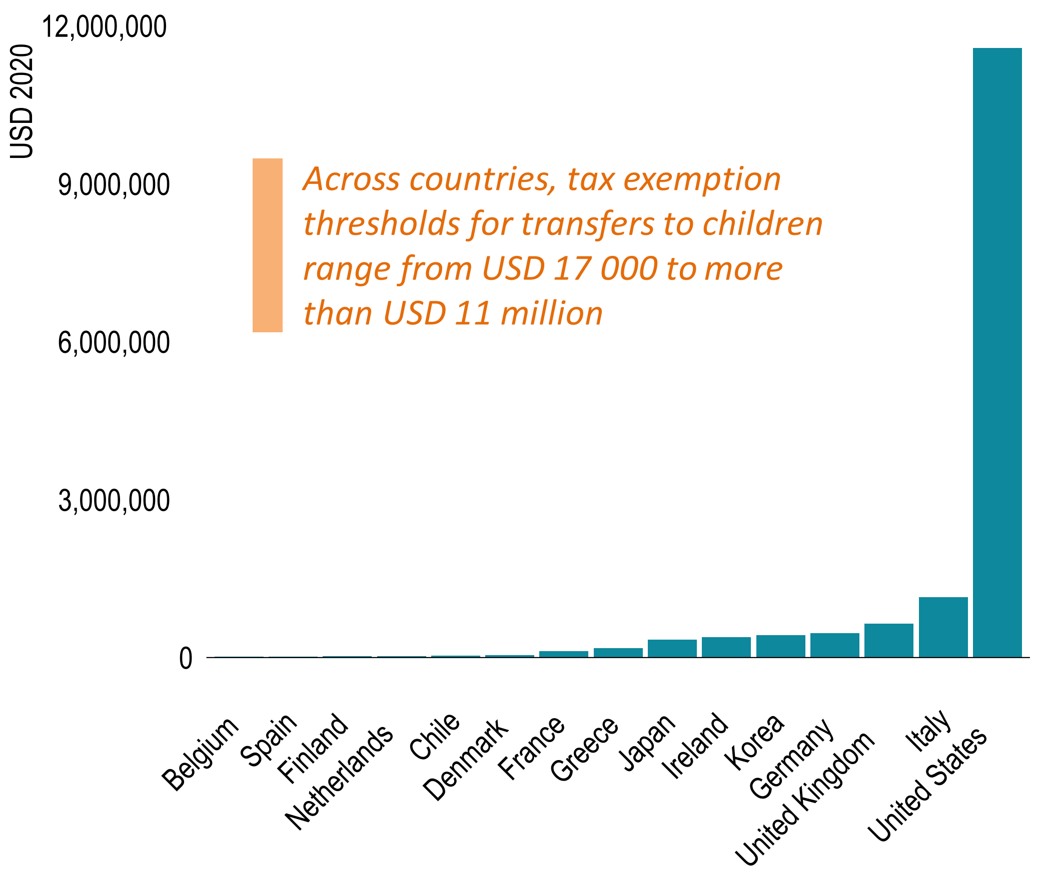
Children typically benefit from the highest tax exemption thresholds after spouses

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

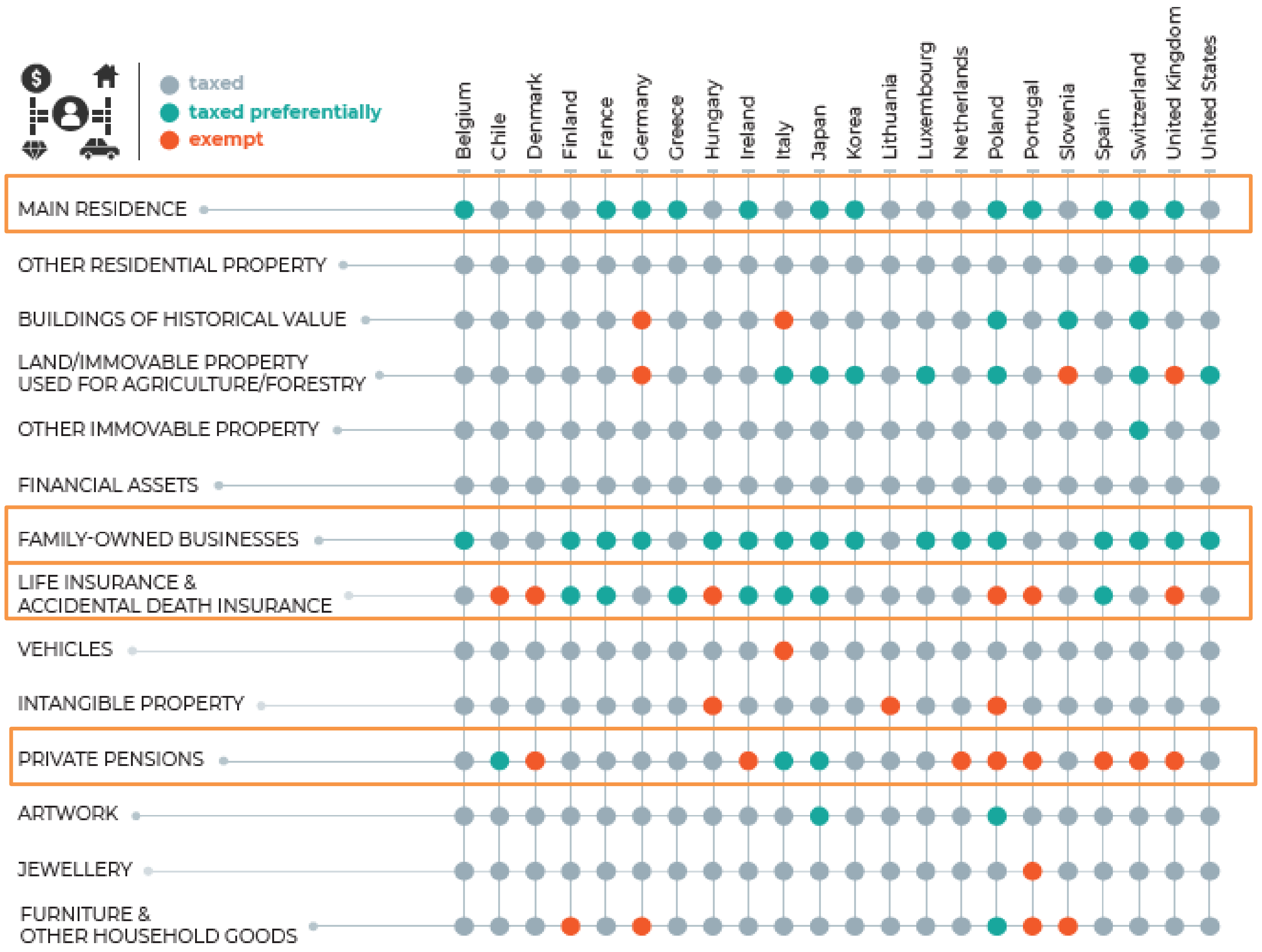
There is a case for **exempting small transfers** and **exempting transfers to spouses**

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

Tax exemption thresholds for donor's children, USD



Certain assets benefit from preferential tax treatment under inheritance or estate taxes



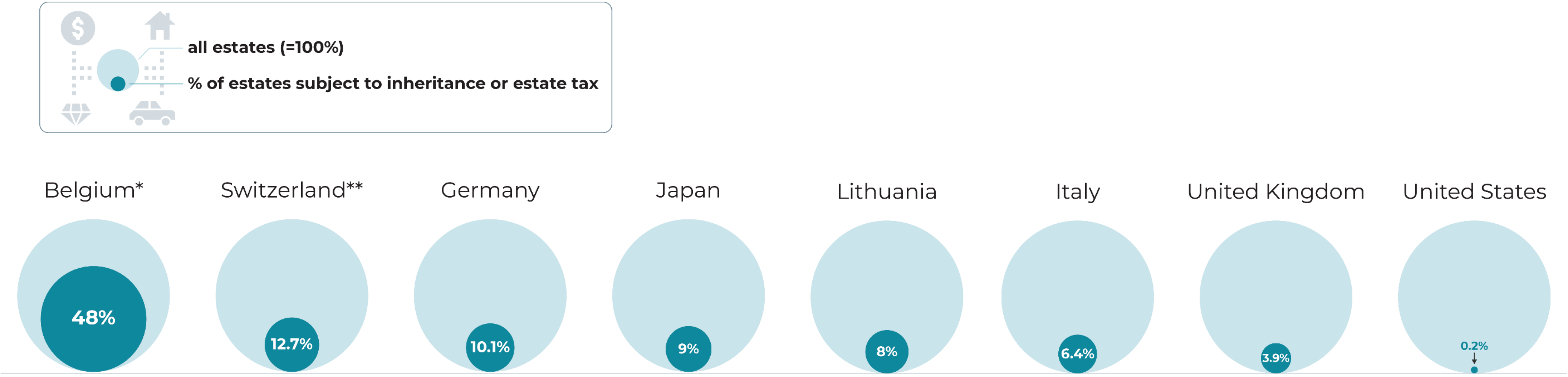
Full or partial exemptions, **generous valuation rules**, **lower tax rates** and **payment deferrals** apply to some assets

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

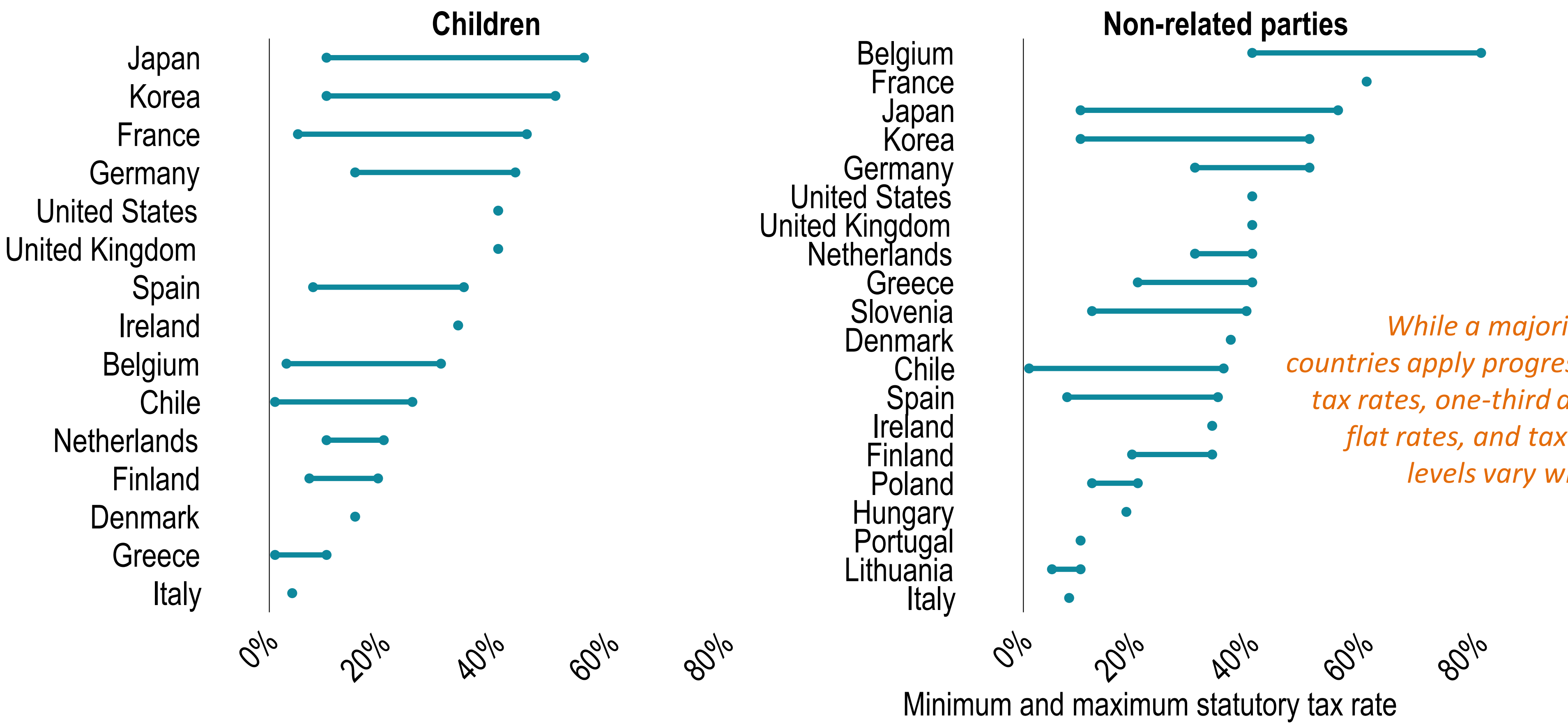


* Brussels-Capital Region; ** Canton of Zurich

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

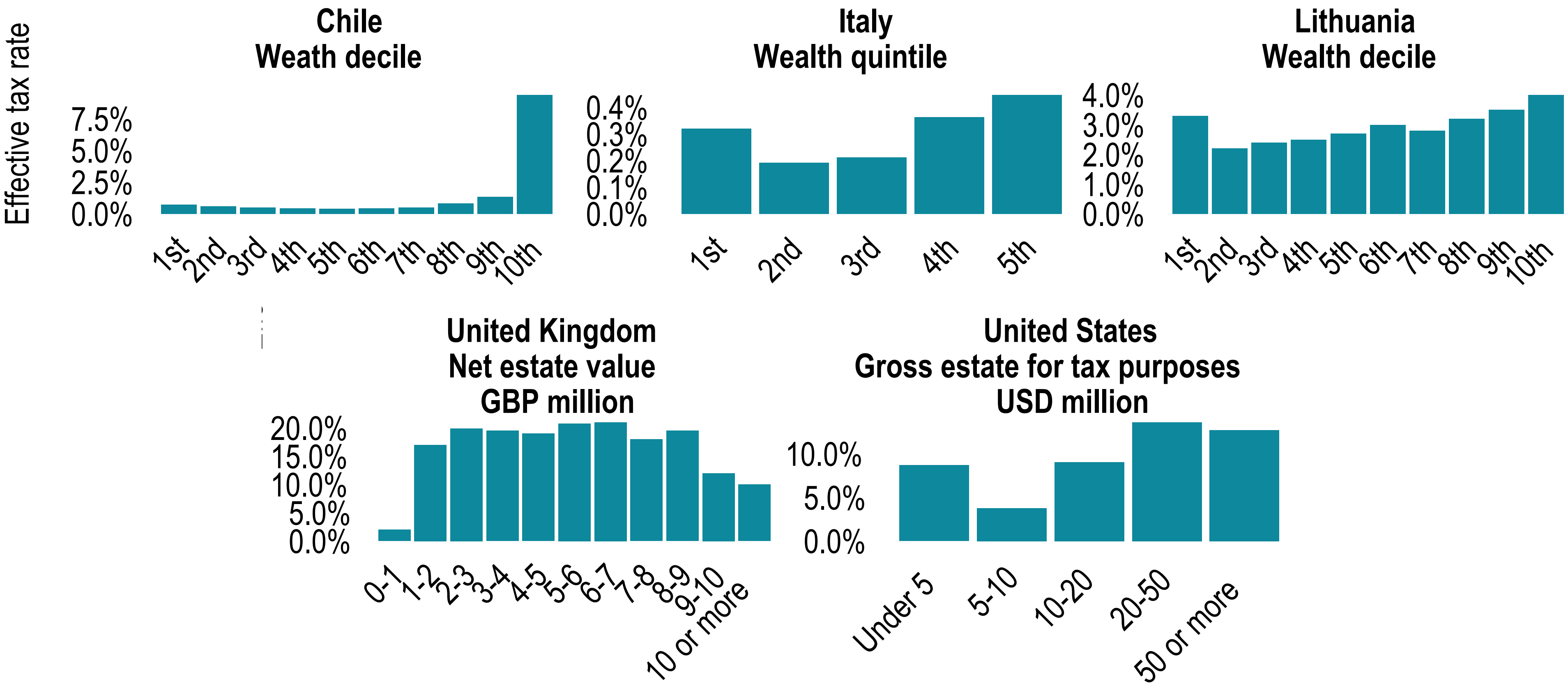
Minimum and maximum inheritance and estate tax rates



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



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**

Tax avoidance and evasion limit revenue potential, efficiency and fairness

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.

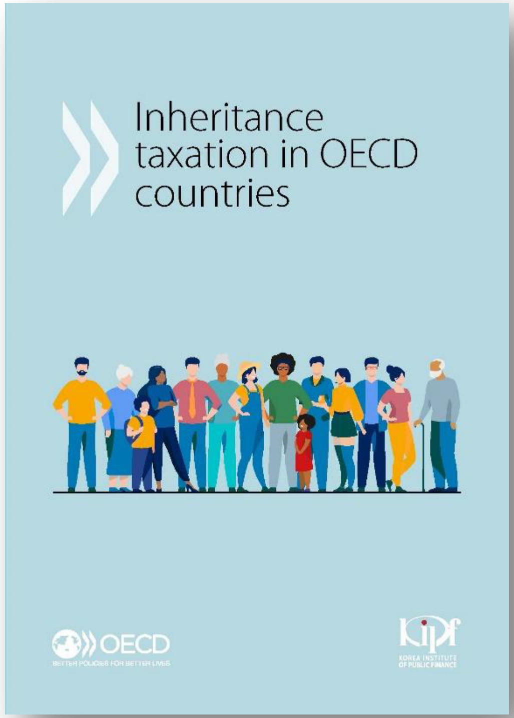
Additional recommendations

- **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

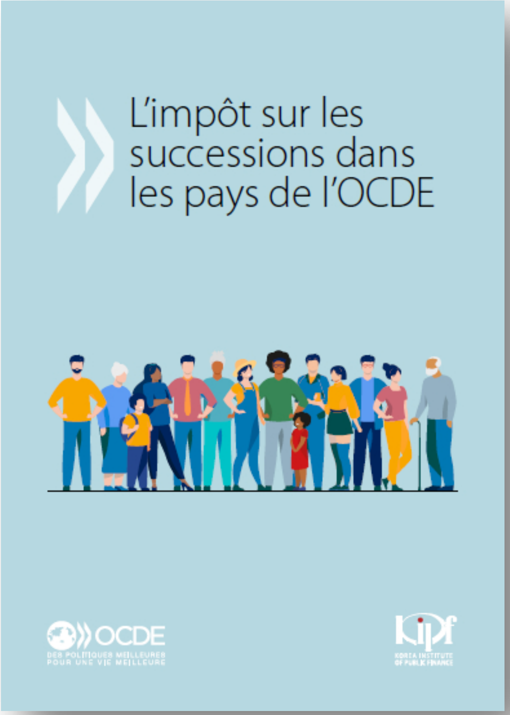
Full report in English
French version available soon

- http://oe.cd/inheritancetax
- http://oe.cd/impotsuccessions



Summary of key findings in English

- https://bit.ly/3vQE6CC



Résumé des conclusions principales en français

- https://bit.ly/2RGDzVh

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