



Inheritance Taxation in OECD Countries

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Introduction

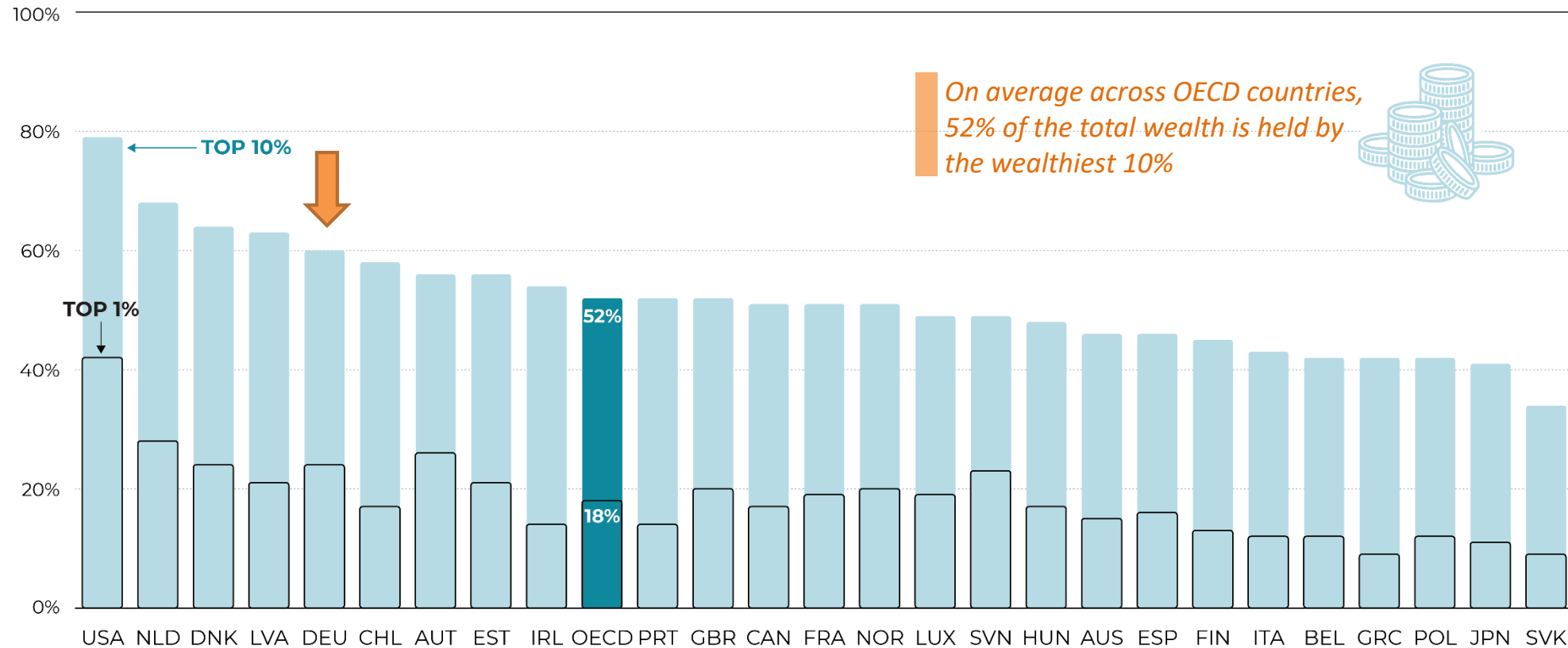


- **Purpose of the report**
 - Compare and assess inheritance, estate and gift taxes across OECD countries
 - Explore the role that these taxes could play in raising revenue, addressing inequalities and improving the efficiency of tax systems
- **Broader work stream on capital taxation at the OECD**
 - *Taxation of Household Savings* (2018), *The Role and Design of Net Wealth Taxes* (2018), “Measuring the Effective Taxation of Housing” (forthcoming)



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

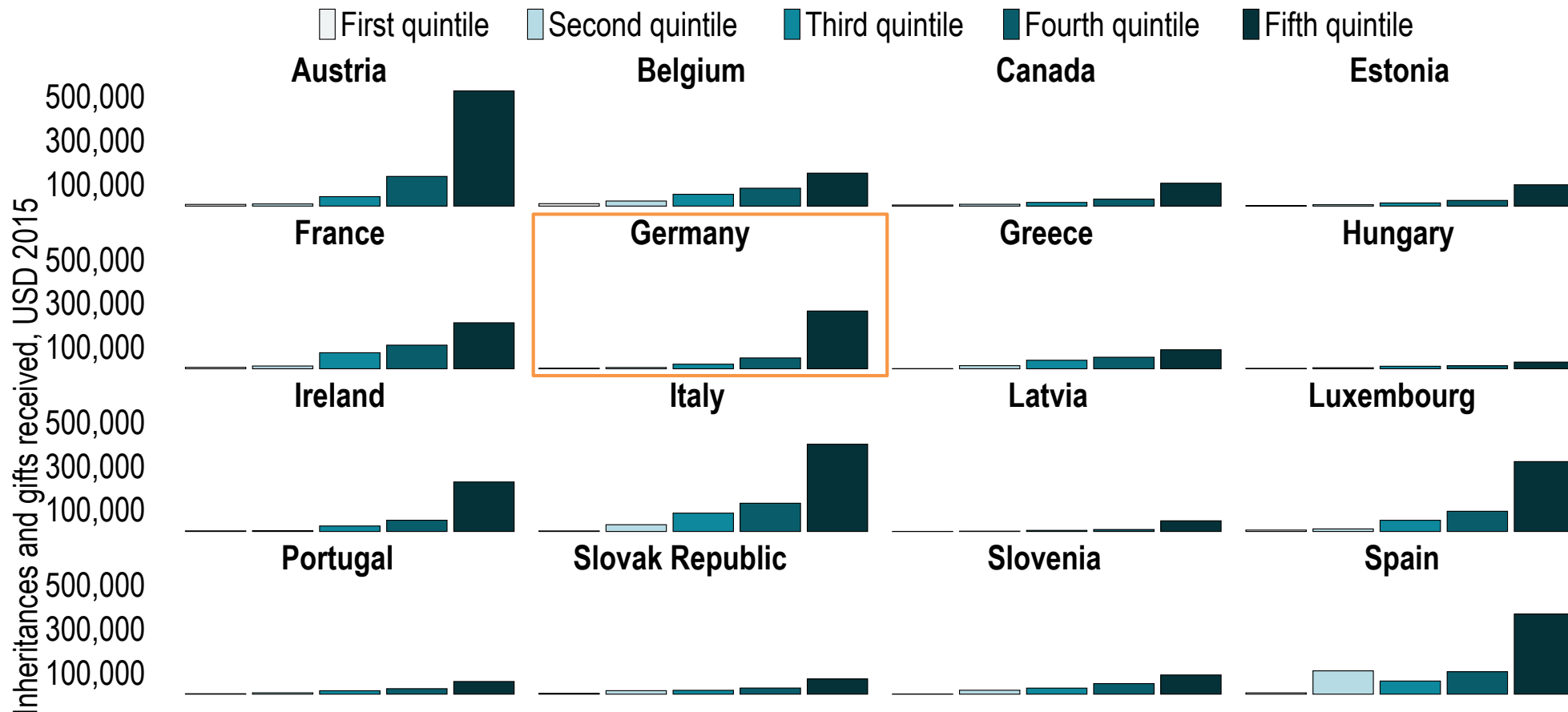


Source: OECD Wealth Distribution Database, oe.cd/wealth.



Inheritances are unequally distributed, benefitting wealthier households more

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

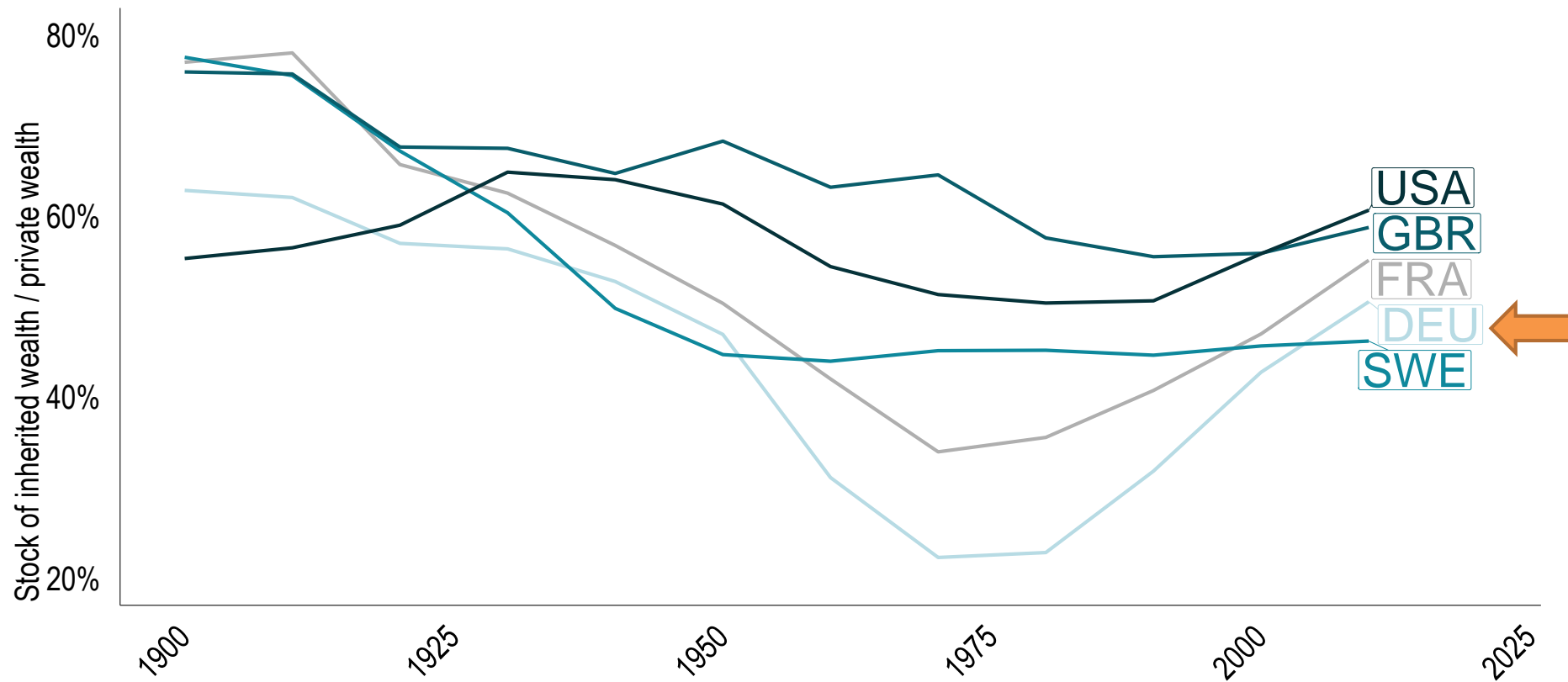


Source: OECD Wealth Distribution Database, oe.cd/wealth, Balestra and Tonkin (2018).



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 but these taxes typically raise little revenue

Inheritance, estate and gift tax revenues, 24 OECD countries, 2019



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

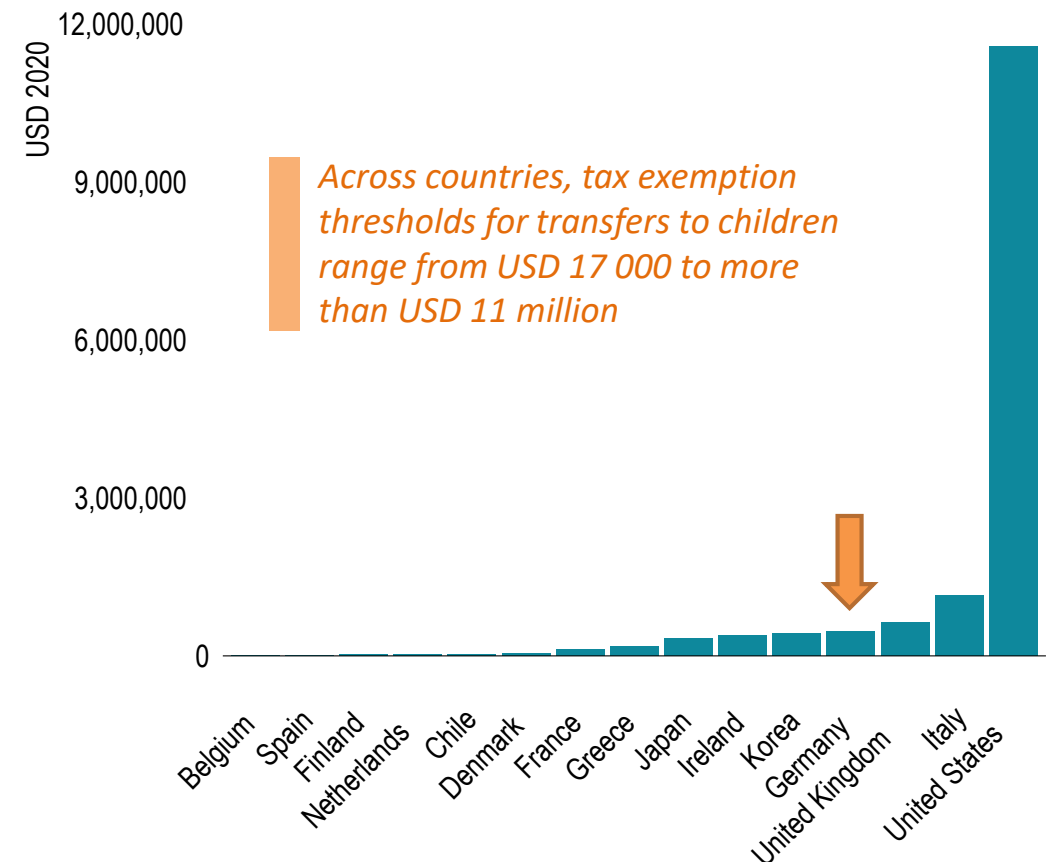
Children typically benefit from the highest tax exemption thresholds after spouses

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**

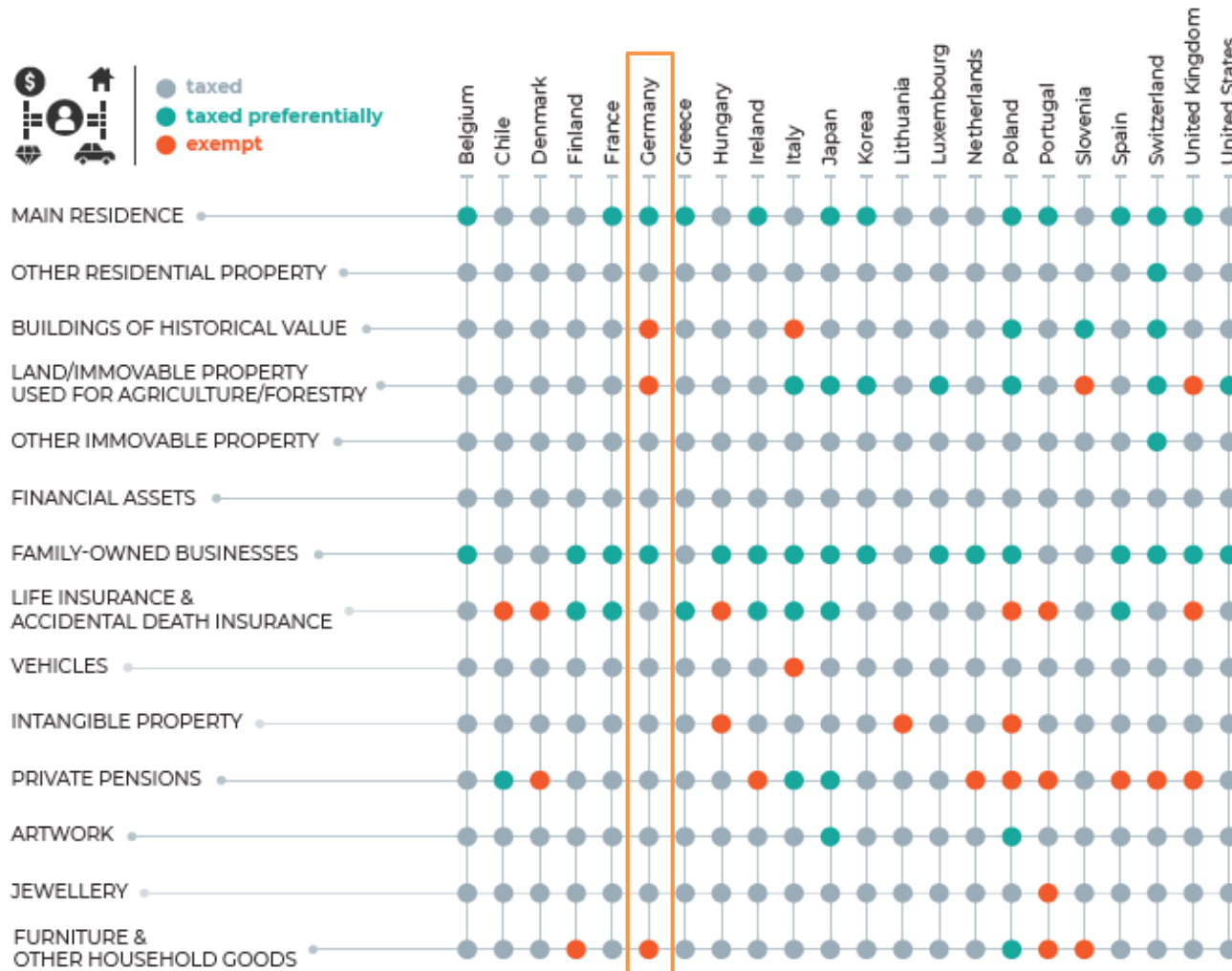
Exempting large transfers to other family members may **reduce revenue potential** and have negative **distributional consequences**

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**



Tax treatment of business assets

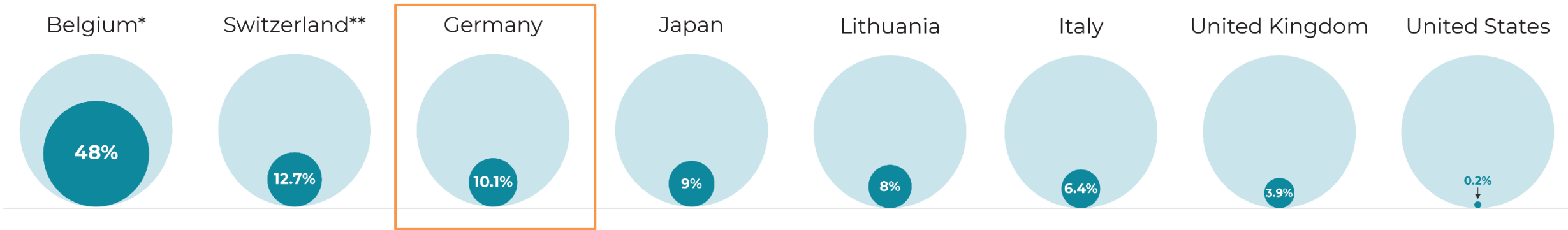
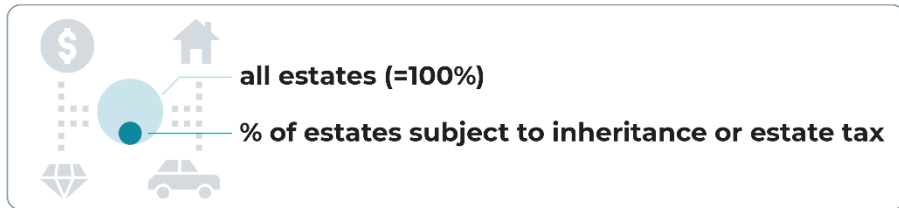


- Countries may explicitly target preferential treatment of business assets to family businesses or apply special treatment to a broad range of businesses
- Full or partial exemption of business assets are the most common type of preferential treatment, while lower tax rates, preferential valuation rules and deferrals may also apply
- To be eligible for preferential treatment, countries typically set a range of conditions, including local management, maintaining the wage bill, and a minimum duration and share of ownership of the business
- A few countries cap the value of the relief or restrict eligibility to SMEs
- While providing some relief for business assets may be justified, evidence shows such provisions may be regressive



Inheritance and estate taxes end up applying to a minority of estates in a number of countries

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



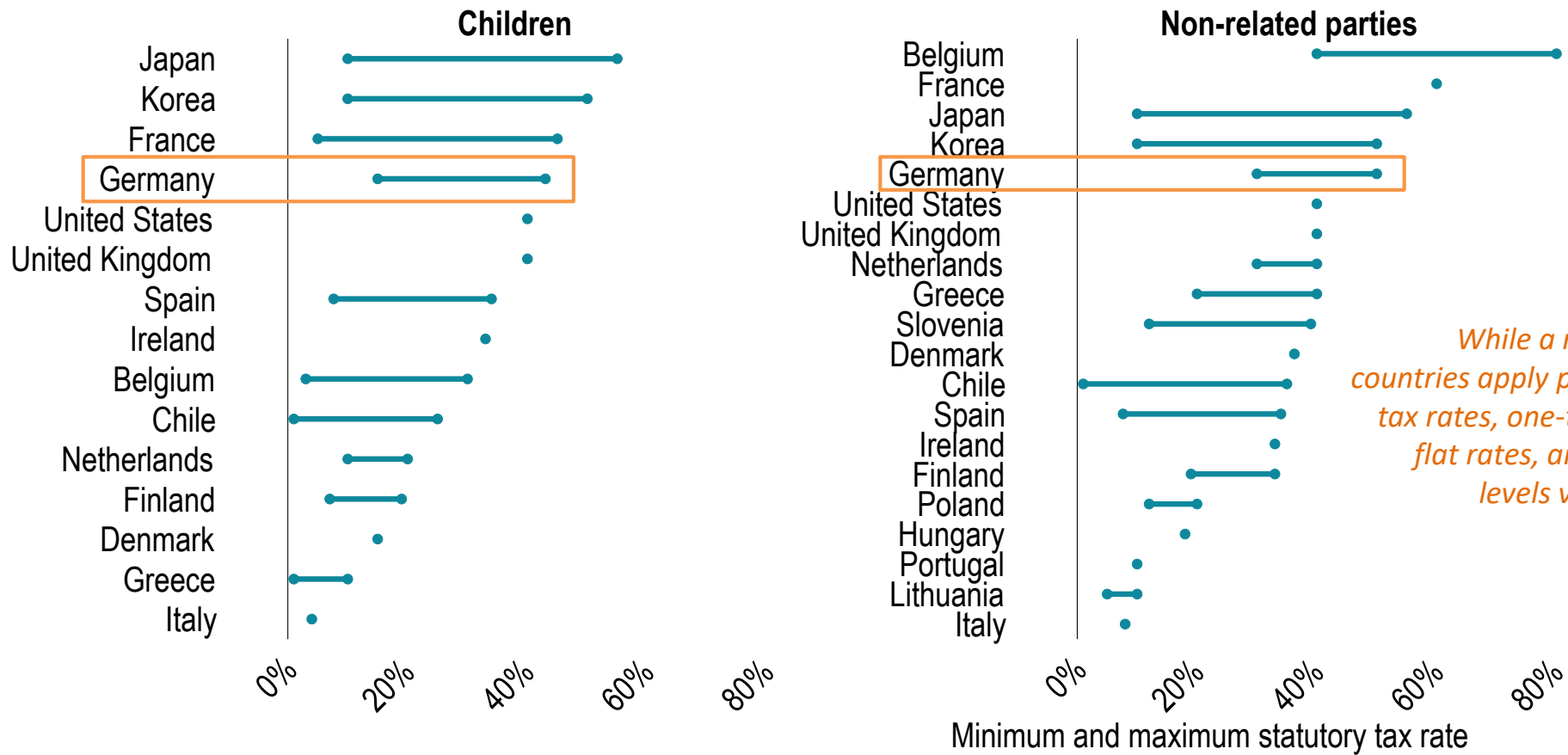
* Brussels-Capital Region; ** Canton of Zurich

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



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
- **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**
- **Several countries provide a tax advantage where bare ownership and usufruct are separated for gift purposes**, while others actively discourage this arrangement.





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**

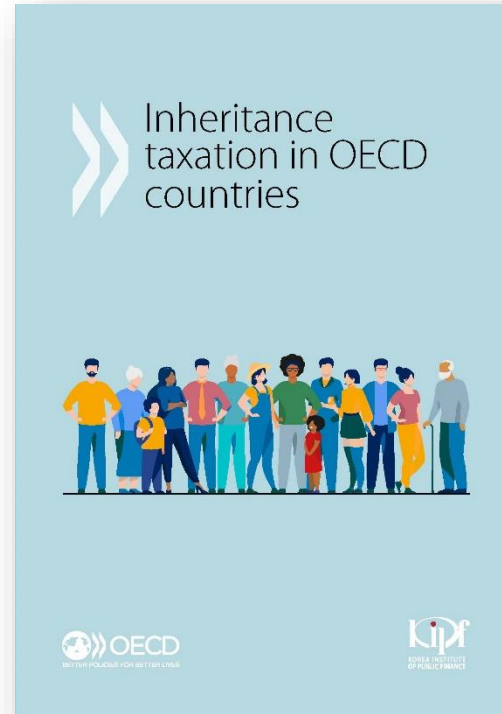


Further reading



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>



QUESTIONS?



 <http://oe.cd/inheritancetax>

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