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Inheritance Taxation in Sweden, 1885–2004: The Role of Ideology, Family Firms and Tax Avoidance

Magnus Henrekson and Daniel Waldenström

Inheritance Taxation in Sweden, 1885–2004: The Role of Ideology, Family Firms and Tax Avoidance^{*}

Magnus Henrekson[†] and Daniel Waldenström[‡]

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Abstract: This paper studies the evolution of modern Swedish inheritance taxation from its introduction in 1885 to its abolition in 2004. Our contribution is twofold. First, we compute the annual effective inheritance tax rates for different sizes of bequests and different types of inherited assets (non-firm wealth and family firm equity), accounting for all relevant exemptions, deductions and valuation discounts. Second, we try to explain the changes in inheritance taxation. Ideology rather than mass mobilisation or revenue maximisation appears to drive the sharp tax increases of the 1930s through the 1960s. We document the increased opportunities for tax planning for the wealthy, particularly a series of drastic tax cuts on inherited family firms from the 1970s onward. This rise of avoidance opportunities for the rich that occurred as more middle-class heirs paid notable inheritance taxes contributed to a loss of legitimacy for the tax and its ultimate repeal in 2004.

Keywords: Gift tax; Inheritance tax; Estate tax; Tax avoidance; Excess burden; Entrepreneurship; Ownership transfers of family firms.

JEL-codes: H20; K34; D31.

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1. Introduction

The evolution of inheritance, gift and estate taxation across different economic systems addresses central questions regarding the trade-offs between egalitarian ambitions and incentive effects in the welfare state. Inheritance taxes are among the most direct fiscal instruments for rendering equality of opportunity in every new generation. In addition to being a source of government revenue, inheritance taxes likely slash incentives to accumulate wealth and may also give rise to tax evasion and avoidance behaviours. Ultimately, it is therefore an empirical question whether these taxes contribute positively or negatively to the development of society over the short and long run.

This study offers two contributions to the literature on inheritance taxation. Most studies of long-run trends in inheritance taxation base their analysis on statutory top marginal tax rates, i.e., the marginal rate paid by heirs of the largest inherited fortunes despite the amount of inheritance required to reach that rate or the number of heirs affected. In contrast, we present a new long-run series of *effective average inheritance tax rates* computed on the basis of the full spectrum of institutional factors affecting the final tax payment. We present these rates for different sizes of inheritances from the average middle-class heir to the upper-class heir and for different types of inherited assets: family firms and non-firm wealth. Our series are annual and span from 1885–2004, thus covering a period from the early stages of industrialisation to the present, i.e., until 2004, when the inheritance tax was abolished.

A second contribution of our study is an analysis of the main driving forces underlying the changes in inheritance taxation in Sweden, from the increases during the interwar and immediate post-war periods to its gradual dismantling beginning in the 1970s and its final repeal in 2004. We propose three main explanations for the observed patterns. First, the expansion of the tax in the 1930s and late 1940s scarcely concerned revenue maximisation or the balance of war-driven mass mobilisation, which constituted two popular hypotheses in the previous literature. Instead, the increases appear to have been primarily related to an ideology of redistribution and the uninterrupted reign of Social-Democratic governments from 1932 until the mid-1970s. Second, our estimates indicate an increasing degree of tax avoidance and evasion during the post-war era, a problem that was noted by legislators who stopped additional tax increases and eventually began reducing effective tax levels from the 1970s forward. Third, the demise of the Swedish inheritance tax appears to have occurred because of a loss of legitima-

cy among broad layers of the population in the latter part of the 20th century. Although a large share of Swedish taxpayers (approximately one-quarter to one-third) were affected by the tax and the tax increased steadily because of inflation-induced bracket creep, the tax burden at the top end of the distribution was reduced because of legislation and financial globalisation. This result undermined the legitimacy of the inheritance tax for Swedish taxpayers and eventually led to its abolition.

Studying trends in inheritance taxation in Sweden is of interest beyond the country's specific historical experiences. The recent work on the long-run evolution of inheritance flows in France by Piketty (2011) and Piketty, Postel-Vinay and Rosenthal (2013) and the related study of inheritance flows in Sweden from the early 19th century to the present by Ohlsson, Roine and Waldenström (2014) have shown that the significance of inheritances to society has changed dramatically over time. These studies have also shown that this change is largely because of macroeconomic factors such as the relationship between private wealth accumulation and income growth.

However, what has received less attention is how institutional developments concern this process, particularly the evolution of a political democracy and the taxation of inheritance and wealth. In a historical overview of the political debates surrounding inheritance taxation in Germany, France and the United States, Beckert (2008) emphasises the importance of studying national institutions to fully understand the evolution of the inheritance tax. Over the period studied, Sweden developed the world's most extensive welfare state with a strong egalitarian emphasis (Esping-Andersen 1990). Putting inheritance taxation in a historical perspective is crucial not only for understanding the achievements of the Swedish welfare state but also for gaining further insights into the society in which it gained popular support. According to some scholars (e.g., Lindbeck 1997; Henrekson and Jakobsson 2001), the Swedish tax system became increasingly hostile towards entrepreneurship and business ownership during the post-war period. If these scholars are correct, what was the role of inheritance taxation, particularly regarding the transmission of family firms to the next generation?

The endogeneity of inheritance flows regarding inheritance taxation has not been studied extensively. However, a recent study by Piketty and Saez (2013) shows that the elasticity of bequests to the tax rate involves standard tax avoidance technologies, the concentration of bequests and the extent to which society cares about small inheritances. Although it is beyond

the scope of our analysis to address all of these dimensions, we specifically investigate the extent of tax avoidance opportunities and their potential impact on observed inheritance flows in the case of Sweden.

We also compare the evolution of inheritance taxation in Sweden with the patterns of other countries. As documented by Scheve and Stasavage (2012), mass mobilisation in connection with the two world wars resulted in significant increases in inheritance tax rates in many countries. However, even though Sweden did not participate in the world wars, it adopted high inheritance tax rates. How can this enactment be explained?

Section 2 provides an overview of the rules and tax rates that determined the taxation of inheritances in Sweden over the entire period of study. Section 3 presents a calculation of the effective inheritance tax rates for different sizes of estates containing either personal net wealth or family business equity. Section 4 presents additional facts and speculation regarding the main determinants of the evolution of inheritance taxation in Sweden, and Section 5 concludes.

2. Inheritance, gift and estate taxation in Sweden

This section presents the basic principles, including tax schedules, deductions, exemptions and valuation rules, that have determined Swedish inheritance, gift and estate taxation since the emergence of modern inheritance taxation in 1884 until its final abolition in 2004.¹ This information is needed to calculate the effective inheritance tax rates presented and analysed in the remainder of the study.

Swedish inheritance taxation has predominantly concerned the taxation of the acquisitions of heirs. Internationally, this method is the most common form of taxation of intergenerational transfers, and it differs from estate taxation, where the wealth of the deceased is taxed.² The starting point for calculating inheritance tax is the remainder of a deceased person's estate, after settling outstanding debts and, if the deceased was married, the spouse's right to marital property. The remainder is allocated to the heirs and beneficiaries under the will, and as a

¹ Various types of duties and fees on estates, inheritances and wills existed earlier, but only for small and specific parts of the tax base and population strata. See Du Rietz, Henrekson and Waldenström (2015) for an exhaustive description of these rules and regulations.

² For more extensive overviews of inheritance, gift and estate taxes, see, e.g., Gale and Slemrod (2001), Boadway, Chamberlain and Emmerson (2010) and Kopczuk (2013).

final step, the inheritance tax is calculated for each heir. Assets included in the taxable estate are real and financial assets, including consumer durables and most private insurances, remaining after debts. The tax-exempt spousal property removed from the taxable estate typically has amounted to half of the estate. Since 1960, at least four price basic amounts have been calculated.³

The division of the estate into taxable inheritance lots is based on legal rules of inheritance order across different classes of heirs and stipulations in the deceased's will, if it exists. For example, if there are three children, the estate is divided into three equal parts unless there is a will that stipulates differently. If an heir abstains from his or her inheritance, the estate is passed on to his or her children.

Gift taxation is an integral part of any inheritance tax system. If every gift were considered independent of earlier acquisitions, large tax gains could be accomplished simply by dividing gifts into smaller instalments, or *inter vivo* gifts (literally meaning gifts between the living), that are spread out over time. To counteract tax avoidance, specific summation rules were introduced early on in the Swedish inheritance and gift tax ordinance, stipulating that gifts and bequests from the same donor should be added to inheritance lots and be taxed jointly.

2.1 Valuation of assets and liabilities

A central component of inheritance taxation is the calculation of the value of the tax base. The starting point for the valuation of the assets and liabilities of estate inventories is that they should be listed at market value at the time of death of the deceased. However, there have been several special valuation rules applied on different asset classes in the Swedish inheritance tax code, and history also contains several important changes in the valuation principles that are important to the final tax burden.

Real estate was typically recorded at its tax-assessed value in the year preceding death. The value of condominiums corresponded to the members' share of the condominium association. Other personal property was to be taxed at market value, and a business was valued at its sales value estimated by trustees (see below). However, some asset classes were listed at only a

³ The price basic amount is calculated based on changes in the general price level. Many transfer payments, tax rates, entitlements, etc. are determined by the price basic amount. In 2004, the price basic amount was SEK 39,300, and an average annual worker salary was SEK 262,200. The non-taxed spouse's marital property that year thus amounted to 60 per cent of the average annual salary.

fraction of their market value. For example, shares registered on the main listings at the Stockholm Stock Exchange were listed at 80 per cent of their full market value from 1997 to 2004, 75 per cent from 1978–1996 and 100 per cent before 1978. Unlisted shares were assessed at only 30 per cent of their quoted or book value beginning in 1978. Forest holdings were listed at half their market value throughout the period. Small firm inventories and stock-in-trade have also been valued below market prices on occasion (see more below).

Insurance policies represent a specific and relatively problematic asset class in inheritance taxation. If a deceased person leaves behind insurance without beneficiaries, the value of the insurance, or the insurance disbursements, are simply included in the estate inventory. The same principle normally applies for insurance possessed by a surviving spouse. However, insurance with beneficiaries, which are in fact included in most insurance contracts, are typically tax-exempt, complying with marriage codes (Englund 1975). There are, however, some variations in the rules governing the treatment of insurance acquisitions both over time and across certain insurance types.⁴

Certain forms of business assets received substantial tax and valuation relief in the latter part of the 20th century. This relief represents an important dimension in Swedish inheritance taxation, particularly concerning the changes over time. The corporate tax code had long contained some relief in the valuation of a firm's machinery, inventories and stocks-in-trade (Du Rietz, Johansson and Stenkula 2015). However, in the 1970s, a series of wide-ranging relief for inheritance of small closely held (private) companies were introduced. The political motivation for this relief primarily concerned facilitating the intergenerational transmission of family firms. The relief applied to both gifts and bequests despite whether companies were sole proprietorships (*enskild firma*), partnerships (*handelsbolag*) or privately held joint-stock companies. That is, these new generous valuation rules applied to the net assets of all firms *not* listed on the stock exchange.

In 1971, a small conditional tax concession of 10 per cent of the inheritance tax on the recipient's lot was introduced. More importantly, from 1974, there was an option for the heirs to undervalue stocks-in-trade and inventories. These new valuation rules stipulated that the low-

⁴ The main rule after the 1914 inheritance and gift taxation ordinance was that beneficiary acquisitions were taxed as inheritance, but before this time, they were partly included. Individual private pension insurance was exempted from taxation. See Du Rietz, Henrekson and Waldenström (2015, section 3.2) for further details.

est of either the acquisition cost or replacement value were to be used as a basis for taxation; then, an additional five per cent was deducted for obsolescence, and finally, the remaining value was written down to 40 per cent (Englund 1975, p. 62).⁵ Finally, in 1978, the valuation relief for private businesses was extended even further: unlisted firms were now valued at 30 per cent of booked net equity value (assets less liabilities).

2.2 Tax rate schedules

Tax rates, taxable limits and exemptions, bequest brackets, and the scope of deductions are important components of the inheritance tax. In Sweden, the tax always depended on consanguinity, i.e., the relationship between the deceased and their heirs, with the spouse and children normally paying a lower tax than other relatives or non-relatives.⁶ With the 1884 stamp ordinance, all previous variants of estate taxes, including stamp duties and inheritance lot taxes, were merged into a single tax in the form of a stamp on the total estate value. Initially, the tax rate was basically flat at approximately one-half per cent, but in 1895, a progressive tax schedule was introduced.

The Swedish statutory tax rates changed dramatically between 1885 and 2004. Figure 1 depicts the statutory marginal tax rate schedules for immediate family heirs (spouses and children) over the distribution of bequests (expressed as multiples of the average annual incomes of Swedish production workers) in six selected years (where each year is representative of the period in question). There is considerable variation in both the level and progression in the inheritance tax schedule, with the overall trend being increased levels and progression through 1991. Tax rates were practically flat and very low until 1934, and the largest progressivity appears in the post-war era until the reform in 1992, when the schedule was made basically flat again but at a relatively high level and a small exemption.

[Figure 1 about here]

⁵ In the tax rate computations below, we have interpreted the deliberate underestimation of stocks-in-trade and inventories from 1974–1977 to be an assessment at 40 per cent of equity.

⁶ Heirs were divided into three (sometimes, even four) classes. Class I, which had the lowest tax rates, included the surviving spouse, children and their descendants. Class III comprised juridical persons such as public utilities, private non-profit foundations and associations, some of which were tax exempt. Class II, strictly speaking, encompassed all other heirs, i.e., heirs not belonging to Classes I and III. In practice, all other heirs meant parents, brothers, sisters, and cousins. Gifts to public authorities and religious communities and foundations promoting research, education, culture or sports were tax-exempt. For a detailed description of tax rates and allowances across all classes of heirs, see Du Rietz, Henrekson and Waldenström (2015).

The sharp increase in tax rates from 1920 to 1940 is explained by the reform of 1934. The Social Democrats gained governmental power in 1932. A bill to introduce an estate tax with the inheritance tax was rejected by Parliament; instead, the existing inheritance and gift taxes were raised (SOU 1957:48, p. 23).

An estate tax was added to the existing inheritance tax was instituted in 1948. The two taxes were combined so that the estate was taxed first and the tax payment was then deducted from the estate before the inheritance lots were distributed and taxed.⁷ The estate tax was levied on the total net value of the estate after the deduction of certain tax-exempt items, such as marital property (half of the estate in the case of a surviving spouse) and a tax-free amount.

The estate tax was abolished in 1959, and inheritance tax rates were sharply increased. The top tax rate for children and spouses was increased to 60 per cent (65 per cent for Classes II and IV). The new tax schedules applied until 1970.

The 1970s and 1980s observed further increases in the inheritance tax rates, which is also reflected in Figure 1. The earlier taxable limits (*bottenbelopp*) were changed to general deductible exemptions (*grundavdrag*), and the number of brackets was reduced, which resulted in a small tax increase.⁸ These raises of statutory rates were accompanied by alleviations in the valuation of some assets. For example, in 1971, relief in the valuation of private (unlisted) firm assets in the estates was introduced, and from 1978 onward, the taxable net worth of private firms (assets less liabilities) was further reduced to no more than 30 per cent of the book value of firm equity.

The first reduction of tax rates was enacted in 1987. The number of inheritance tax brackets was reduced, and tax rates were adjusted downwards. In 1991, tax bracket boundaries were adjusted upwards in response to the (partly inflation-driven) sharp increase in property values.

In 1992, inheritance tax rates were greatly reduced, and bracket boundaries were adjusted upwards. The lower tax was motivated by the fact that inheritance taxes had reached a very

⁷ A highly progressive income tax schedule was also introduced in 1948 (Du Rietz, Johansson and Stenkula 2015), and a new wealth tax schedule more than doubled the statutory wealth tax rates (Du Rietz and Henrekson 2015).

⁸ If the inheritance lot was below the taxable limit, there was no inheritance tax. If the inheritance lot exceeded the taxable limit, the entire lot was taxed.

high level in Sweden compared with other countries as well as a perceived need to reduce the taxation of capital more generally (SOU 2002:52, p. 18). Figure 1 shows that the top marginal tax rate was halved to 30 per cent. The basic exemptions had also been increased several times. The inheritance tax was removed for bequests to spouses in 2003 and fully abolished in 2004.⁹

Capital gains taxes also arose if heirs did not possess enough cash to pay the inheritance tax and sold off assets to finance the tax payment. If one assumes that the deceased had owned the inherited assets (family firms or other non-corporate assets) for five years or more, capital gains were tax-free until 1966. From 1967 to 1975, ten per cent of the capital gains were added to the heirs' personal income tax base and taxed at the marginal income tax rate. From 1976 to 1990, the taxable share of long-term capital gains increased to 40 per cent, and after the tax reform in 1990–1991, all capital gains were taxable at a flat rate of approximately 20–30 per cent depending on the type of asset (dwelling or financial assets).

3. Effective inheritance tax rates, 1885–2004

How much inheritance tax have heirs in Sweden paid since the end of the 19th century to the present? Did tax payments differ across different sizes of bequests and different types of inheritance? This section answers these questions by presenting calculations of the effective average inheritance tax rates for each year from 1885–2004.

We calculate tax rates for different bequest sizes in two synthetically constructed estate types: an individual non-family firm fortune denoted E and an entrepreneurial firm inherited by the younger generation in the family denoted E^f . Associated with each of these two estates are the taxable bequests received by the heirs, B and B^f . Taxable bequests typically differ from estates because of the basic exemptions, deductions and valuation discounts described in the previous section. Taxable bequests also differ from estates because the number of heirs n is usually larger than one, which means that $B = \tilde{E}/n$, where \tilde{E} is the estate net of exemptions, deductions and valuation discounts. Tax rates are computed for the case of two children heirs ($n = 2$), each inheriting an equal share of the remainder of the estate where there is no surviv-

⁹ The tax was abolished effective 17 December 2004 not 1 January 2005, which was originally decided by Parliament. This earlier date was motivated by a concern for the heirs of the Swedish victims of the tsunami catastrophe in the Indian Ocean on 26 December 2004. More than 500 Swedes, most of them on vacation in Thailand, were killed in the disaster.

ing spouse.¹⁰ The *effective average inheritance tax rate*, τ_{Bt} , is then defined as the total payment in year t of inheritance, with gift and estate taxes as a percentage of the original estate, i.e.,

$$(1) \quad \tau_{Bt} = \frac{\tau_{It}B}{E} .$$

For an inherited family firm estate, the effective average inheritance tax rate becomes

$$(2) \quad \tau_{B^f t} = \frac{\tau_{It}B^f}{E^f} ,$$

where τ_{It} denotes year-specific inheritance tax schedules presented in the previous sections (see also Du Rietz, Henrekson and Waldenström 2015). From 1948–1959, heirs also paid estate taxes, and the taxed amount $\tau_{Et}E$ was deducted from the taxable bequest, which in the case of non-family firm wealth, implied the following effective inheritance tax:

$$(3) \quad \tau_{Bt} = \frac{\tau_{It}(B - \tau_{Et}E) + \tau_{Et}E}{E} .$$

An additional tax that can be related to inheritance taxation was capital gains taxation in the case that heirs of family businesses had to sell off part of the company to be able to pay the inheritance tax.¹¹

Note that if bequests were transferred earlier as gifts, the tax was usually not reduced because the basic exemption was lower, and the tax rates were identical. It was also not easy to reduce

¹⁰ This assumption implies that the heirs are not subject to the full progressivity of the inheritance tax, τ_I , because heirs or testators not belonging to the immediate family typically paid higher taxes.

¹¹ In practice, selling off shares or assets may not always have been possible, and there were alternative ways for heirs to finance their tax payments, e.g., to pay out extra dividends, salaries or to take loans. In extreme cases, the comprehensive inheritance tax, including the direct inheritance tax plus indirect inheritance taxes in the form of extra income tax and social security fees, could be so high as to exceed the total firm equity. Letting KG denote the amount of realized capital gains on assets held for more than five years (which was typically the case with family firms), KG was taxed as income beginning in 1967 (at variable income tax rates, τ_{Yt}), and we would then add $\tau_{Yt}KG$ to the numerator in equation (2). Before 1966, KG was tax-exempt; between 1967 and 1975, one-tenth of KG was added to labor income and taxed according to labor tax schedules, τ_{Yt} , typically at a marginal tax rate of approximately 75–85 per cent for high incomes. Between 1976 and 1990, four-tenths of KG was taxable at the labor tax schedule. After the tax reform in 1991, 100 per cent of KG was taxable at a flat tax rate, typically 30 per cent. The effective inheritance tax rate including capital gains tax is then $\tau_{Bt} = (\tau_{It}B + \tau_{Yt}KG)/E$. See also Du Rietz, Henrekson and Waldenström (2015).

gift taxation by transferring ownership of a company through a combination of inheritance and multiple gifts because of the summation rules discussed above. It should be noted, however, that the inheritance tax was not immediately payable. The inheritance tax could be paid in instalments over a period of 10 years.

We calculate the effective inheritance tax rates for individual fortunes and family firms for four different sizes of estates: super-large, large, medium and small.¹²

- *Super-large estate*: This estate is established at a level corresponding to 1,000 times the average worker's annual salary. In 2004, this level corresponds to an estate worth SEK 266 million (\approx EUR 30 million). Exactly how many closely held firms of this size existed in Sweden in 2004 (and before) is uncertain, but one approximation made by Du Rietz, Henrekson and Waldenström (2015) was that there were approximately 100. What we know is that estates of this size represented a personal wealth at the 99.999th percentile (top 100) of the Swedish wealth distribution (Roine and Waldenström, 2009).
- *Large estate*: This estate corresponds to 100 times the average worker's salary, which resulted in a value of SEK 26.6 million in 2004 (\approx EUR 3 million). There were likely approximately 1,000 family firms of this size, and this estate was in the 99.95th (top 20,000 individuals) wealth percentile.
- *Medium estate*: This estate is established at 10 times the average worker's annual salary, which amounted to SEK 2.66 million in 2004 (\approx EUR 300,000). There were tens of thousands of these firms in 2004, and a net wealth of this size represented the 95th wealth percentile (top 250,000 individuals).
- *Small estate*: This "middle-class" estate is established at the level of the average taxable wealth in Sweden in 2004 (SEK 622,000 or roughly EUR 70,000), corresponding to 2.5 times an average worker's annual income. We only compute the inheritance tax rates for non-family firm wealth in this category.

Figure 2 presents the evolution of the effective inheritance tax rates, t_B and t_{Bf} . There is a clear inverse-U-shaped pattern over the period, and it is possible to distinguish four distinct

¹² Note that these names more closely refer to the relative size of firms rather than individual fortunes; a small family firm estate corresponds to an individual net wealth in the 95th percentile of the Swedish personal wealth distribution.

phases. Effective tax rates were very low before the First World War and until the early 1930s. The inheritance tax reform of 1934, when statutory tax levels sharply increased, introduced a second phase. A third phase began with the tax reform of 1948, when an estate tax was also introduced to the inheritance and gift taxes. In the 1950s and 1960s, the inheritance tax continued to increase, mainly because of an inflation-driven bracket creep in the nominal tax schedule. In the 1970s, effective tax rates decreased for family firm bequests because of the extensive valuation relief for unlisted corporate assets described in the previous section. Inheritances of non-firm assets remained largely unchanged throughout the 1970s. A fourth phase began in 1992, when the government dramatically reduced the statutory tax rate schedules ranging from 10 to 60 per cent (with many brackets) to only three brackets ranging from 10 to 30 per cent. Irrespective of size, this policy reduced the effective tax rate to single-digit percentage points for inherited family firms. Tax rates then remained at this low level until the repeal of the inheritance tax in December 2004.

[Figure 2 about here]

The evidence in Figure 2 also clearly shows the distinction in the tax treatment between the heirs of family firms (and other private, i.e., unlisted, corporate wealth) and the heirs of other assets since the 1970s. In 1973, heirs of super-large estates paid an effective inheritance tax of approximately 60 per cent regardless of the type of estate. In the next year, 1974, an heir of a similar non-corporate fortune paid 62 per cent whereas an heir of an equally valuable family firm paid a mere 24.7 per cent; a horizontal tax wedge of 37 percentage points generated virtually overnight. Although this differential treatment has been well-known among tax lawyers, some politicians, and certainly family-firm owners in Sweden, it has received little attention in the academic economics literature on inheritance taxation. We have not found any previous investigations of this horizontal inequity in the inheritance tax or its impact on related phenomena, such as wealth accumulation or tax-avoidance activities.

Finally, the importance of realised capital gains taxation is reported in Table 1. As a whole, this additional tax burden does not change the overall pattern of the inheritance tax over time or across different bequest sizes and types. At most, the capital gains tax raised the effective inheritance tax by one-tenth when applied to the heirs of large and super-large estates in the 1970s and 1980s.

[Table 1 about here]

4. Explaining the inheritance tax changes in Sweden

What were the main determinants of the dramatic changes in Swedish inheritance taxation during the 20th century? In particular, what factors explain the sharply increased tax schedules in the interwar and early post-war periods and for the equally sharp tax cuts, first for family firm heirs in the 1970s and then for all other large bequests in the early 1990s? This section presents facts and speculation regarding the main reasons that could explain these swings. Specifically, we discuss the role of ideology compared with more tangible economic or geopolitical factors in shaping inheritance taxation as we have estimated it in the previous section. Furthermore, we relate the inheritance tax to avoidance behaviour, a topic that has received much attention in the public debate over inheritance taxation since the nineteenth century. We also evaluate the extent to which the alleged motives for high rates of inheritance taxation produced the desired outcome and why the inheritance tax lost its legitimacy and political support.

4.1 Understanding the tax increases: Mass mobilisation, optimal taxation or ideology?

We have noted that inheritance taxation in Sweden was very low until the early 1930s, both in terms of effective tax rates and as a share of total tax revenues. Was this policy exceptional or consistent with a common international trend in inheritance taxation? Scheve and Stasavage (2012) study the evolution of inheritance tax rates in 19 countries from the eve of industrialisation to 2000. Their data show that the inheritance tax was invariably very low in all countries before 1900.¹³ Although there are large cross-country differences in the maximum top rate, inheritance tax rates increased sharply in all 19 countries in the 20th century. Scheve and Stasavage test the two following alternative explanations for this fact: (i) the extension of suffrage and (ii) political conditions created by mass mobilisation in connection with the two world wars. Scheve and Stasavage find no evidence of the importance of extended suffrage but strong support for the mass mobilisation hypothesis.

However, mass mobilisation is unlikely to explain the development in Sweden, a country that was not involved in either of the two world wars. First, in contrast with the U.K., there is no

¹³ The inheritance tax was arguably low with the exception of the U.K. and New Zealand, where the top inheritance tax rates in 1900 were eight and five per cent, respectively.

evidence of a discrete upward shift in the level of government spending after either world war (Durevall and Henrekson 2011), which starkly contrasts with the upward displacement of government spending in the U.K., especially after the First World War (Peacock and Wiseman 1961). Second, the timing of the two major hikes in inheritance taxation in Sweden (1934 and 1948) cannot be temporally tied to the two world wars. However, despite being spared direct involvement in the world wars, Table 2 shows that Sweden belongs to a group of only seven countries in which the top inheritance tax rate exceeded 60 per cent for an extended period of time (40 years or more).¹⁴

This high rate can be compared with the far lower inheritance tax rates in the seven countries in Scheve and Stasavage's (2012) dataset that were attacked or occupied by Nazi Germany or the Soviet Union during the Second World War. In 1950, the average top rate in these seven countries was a mere 20 per cent compared with an average of 77 per cent for the four countries in Table 2.

[Table 2 about here]

However, if mass mobilisation is unable to explain the tax increases in Sweden between the 1930s and 1960s, what is? Considering Sweden's economy and political institutions, we can imagine at least two additional possible explanations. One reason concerns the role of ideology and the politics of government, and the other is based on an optimal taxation argument that emphasises inheritances as a large and stable revenue-generating tax base.

One proposed explanation behind the observed increases in Swedish inheritance taxation is thus ideological. The electoral victories of the Social-Democratic Party in the early 1930s also involved a broad public debate in Sweden concerning inequality and the (un)fairness of wealth distribution and inheritance flows. Leading Social Democrats were definitely aware that high inheritance taxes could impair the incentives of entrepreneurship and firm formation. However, consistent with the late Schumpeter in *Capitalism, Socialism and Democracy* (Schumpeter 1942), many Social-Democratic intellectuals believed that the large industrial corporation was the major unit of production (Wigforss, 1956) and that there was an inexorable movement in capitalist societies towards progressively larger companies. If this be-

¹⁴ The other Anglo-Saxon countries also had comparatively high top inheritance tax rates by the early 1950s: Australia 28 per cent, Canada 54 per cent, Ireland 54 per cent and New Zealand 56 per cent.

lief were true, individual entrepreneurship and new firm formation would wane in importance. The leading Social Democrat, Ernst Wigforss, Minister of Finance from 1925–1926 and 1932–1949, even maintained that in the long run, large industrial corporations should be converted into “social enterprises without owners”. In these enterprises, individuals could still be shareholders, but the shareholders were no longer residual claimants. Wages should be established in wage negotiations, dividends should be related to the level of interest rates in capital markets, and all excess profits should remain with the companies (see also Johansson and Magnusson, 1998, pp. 115–116).

Digging deeper into the ideological domains of Swedish Social Democracy, Wigforss even authored a critical report on wealth inequality and inheritance taxation in 1928. In his report, Wigforss stated that (Wigforss, 1928, p. 6) “the inheritance tax can be extended and reformed to become a means by which large fortunes are curtailed, at least to the extent that these fortunes do not emanate from the industriousness and thrift of their owners.” Wigforss also asserted that as a means of redistribution, the inheritance tax is more likely to enjoy popular support than (highly) progressive income and wealth taxes. The alleged reason was simple: inherited wealth is not acquired through one’s own socially valuable actions, and therefore, it is less legitimate. Wigforss (1928, p. 9) explicitly stated that “the current wealth distribution cannot be seriously defended, notwithstanding how much one emphasises the importance of incentives for thrift, diligence and entrepreneurship”. Wigforss also maintained that (p. 28) the British inheritance tax rate of 40 per cent in the 1920s on large inheritances was insufficiently high “to whittle away the large fortunes and eliminate the cleavage between rich and poor”.

Wigforss acknowledged that sharply increased inheritance taxes would blunt the incentives of saving and entrepreneurship. However, Wigforss identified compensatory mechanisms that could offset these effects. The incentives for firms to finance investments through retained earnings could be strengthened. Wigforss wanted to create the possibility of paying inheritance taxes on large fortunes with in-kind assets (stocks, bonds, and real estate). This proposal, Wigforss asserted, would provide an avenue for the increased public ownership of production and collective capital formation.

The Social Democrats gained governmental power in 1932, a position they retained until 1976. Appointed as new Minister of Finance, Wigforss soon proposed the introduction of an

estate tax combined with the inheritance tax. This bill was rejected by Parliament; instead, the existing inheritance and gift tax rates (*arvslottsskatten*) were increased fivefold in 1934.

Immediately after the Second World War, two widely debated issues in Sweden concerned the extent of economic planning in the post-war era and the taxation of high incomes and wealth. In 1944, the Social Democrats launched a policy program together with the Trade Union Confederation (LO) where one important objective was to equalise income and wealth through higher taxation (Ohlsson 2011). Large fortunes were considered capable of bearing the annual wealth tax as well as an extra charge when transferred to heirs after the death of a wealthy person. The estate tax complemented the inheritance taxation already in place. Through the joint use of these two systems, both the size of the estate and the size of the inherited lots determined the total tax levied.

The outcome was a top combined estate and inheritance tax rate of 60 per cent beginning in 1948. The top rate was thus raised by a factor of 15 – from four to 60 per cent – in 15 years. Neither the timing nor the discussion motivating this hike can be traced to either the world wars or to the unevenly distributed hardship during the Great Depression. Thus, we find little support for the mass mobilisation hypothesis in Sweden, and this also holds true for arguments based on the inheritance tax as an important revenue source for the government. Instead, ideological motives for redistribution and long-term vertical equity are more likely explanations for the dramatic increases in inheritance taxation from the 1930s to the 1960s.

4.2 Tax avoidance

The optimal tax mechanism underlying Swedish inheritance taxation focuses on inheritances as a viable tax base that is large enough to render sizable revenues and stable enough so that the tax base does not evaporate as the tax rate increases. Figure 3 shows the evolution of revenues from the inheritance, gift and estate taxes, i.e., $\tau_B B$, as a share of total taxes and national income. The share of inheritance taxes as a percentage of total taxes hovered near two per cent in the interwar era, approximately one per cent in the 1940s, then decreased steadily until the 1990s down to a level of approximately 0.2 per cent, i.e., a reduction of over 90 per cent. This level was low not only in absolute terms but also internationally; by the end of the 1990s, inheritance taxes as a share of total tax revenues were at 0.7 per cent in Germany, 1.4 per cent in the U.S. and 1.8 per cent in France (Beckert, 2008, p. 273). The inheritance tax revenue share of national income was much lower, approximately one-fifth of one per cent

in the interwar and early post-war decades. Subsequently, the inheritance tax revenue fell by approximately half by the end of the century, i.e., a fall of 50 per cent, and the fall was not as severe as the revenue share of total taxes. This pattern thus suggests that although the overall fiscal significance of inheritance tax revenues was never large in Sweden, it fell rapidly during the post-war period.

Turning to the evolution of the actual tax base, a recent investigation by Ohlsson, Roine and Waldenström (2014) shows that the amount of inheritances (and gifts) flowing from the deceased to the living in Sweden was approximately 12 per cent of the national income just before the First World War. This flow then fell steadily during the interwar period to a level below five per cent in approximately 1950, which is nearly the same level as the level in France in this period (Piketty, 2011). Generally, the tax revenue data and estimates of inheritance flows do not suggest that inheritances were ever considered an important source of government revenue per se. This finding is consistent with what Beckert (2008) finds for the historical evolution of inheritance taxation in France, Germany and the U.S.

[Figure 3 about here]

Tax avoidance or tax evasion represents a distortion that should render a lower tax rate according to standard optimal tax models. There are few studies on Sweden that document the behavioural responses to inheritance and gift taxes. Eliason and Ohlsson (2013) find that heirs seem willing to misreport the dates of death of their parents to reduce expected inheritance tax payments. Ohlsson (2011) found a strong expansion of gifts recorded just before the introduction of the estate tax in Sweden in 1948, a pattern that clearly reflected avoidance behaviour.¹⁵

However, the trends in inheritance tax avoidance in Sweden, to our knowledge, have not been previously studied. This paper only speculates about these trends using both qualitative and partly anecdotal evidence and a quantitative exercise that relates observed tax revenues to newly estimated inheritance flows.

Judging from the qualitative evidence, avoidance opportunities and behaviour appear to have increased as the effective inheritance tax rates increased in the 1930s and 1940s. The contem-

¹⁵ The international literature on inheritance tax planning and avoidance is also small; see Kopczuk (2013) for a recent overview.

poraries seem to have noticed the differential between the fiscal and economic tax base and its impact on tax revenues. During the estate tax regime from 1948–1959, it was soon clear that the tax did not raise as much revenue as had been originally estimated (SOU 1957:48, p. 10). The study by Ohlsson (2011) regarding gift expansion before the estate tax introduction in 1948 is one example. In the 1950s, another well-known measure to avoid the estate tax was the establishment of tax-exempt family foundations, holding companies and limited partnerships (SOU 1957:48, p. 10).¹⁶ These measures also often led to relief from income and wealth taxes. In particular, three of the leading business dynasties created family foundations to avoid taxation and to secure control of their ownership spheres. The Wallenbergs created three foundations, the first and largest one in 1917 and two more in 1960 and 1963. The Axel and Margaret Ax:son Johnson Foundation was founded in 1947, and the Söderberg family founded two foundations in 1960.

Purchasing life insurance policies with a designated beneficiary was another response to minimise inheritance tax receipts. Disbursements from life insurance were exempted from inheritance (and estate) taxation, and if the insurance premium was not deducted from current income, disbursements were tax-exempt for the beneficiary.¹⁷ Debt expansion was used by wealthy business owners to avoid taxes, and these owners benefitted from the fact that any debt was fully deductible from the (tax-assessed) value of the assets. In particular, diversification into real estate offered a typical way to reduce the inheritance tax.¹⁸ Following the deregulation of credit markets in the 1980s, opportunities for the elimination of the inheritance tax through acquiring highly leveraged assets with a reduced tax-assessed value increased greatly. Although we have not managed to discover systematic evidence regarding the use of this and similar avoidance strategies, there are numerous reports in the business press to this effect, particularly during the 1970s and 1980s.

An extreme way to avoid paying taxes was to move either your wealth or yourself (with capital) out of the country. There are many examples of how the wealthiest and most successful

¹⁶ Feldt (2012) documents in some detail the drastic plans considered and measures eventually taken by the Johnson dynasty to avoid being hit too hard by the combined effect of the estate and inheritance tax in case of the passing of Axel Ax:son Johnson (1876–1958), the patriarch and sole owner of the industry group.

¹⁷ Johansson (1963) and Johansson and Werding (1970) calculate the required rate of return under conservative assumptions for business owners. The required rate of return becomes unrealistically high relative to industry returns at the time (typically 20 per cent in 1970 compared with average actual returns of six per cent).

¹⁸ Additionally, real estate was a typical way to reduce the wealth tax, which was arguably even more important (Du Rietz and Henrekson 2015).

entrepreneurs and business owners chose to emigrate.¹⁹ In a study of all permissions granted by the Riksbank to transfer assets abroad in connection with emigration from 1965–1984, Lindkvist (1990) documents 30,000 permissions to emigrants during this time. From interviews with people emigrating from 1975–1984, Lindkvist also finds that Swedish taxation, including the taxation of inheritances, was a major consideration in the emigration decision for most respondents. When Sweden lifted all foreign exchange controls in 1989, effectively allowing anyone to transfer assets to tax havens either illicitly or when taking residence in another country, there appears to have been a notable increase in tax-driven capital flight.²⁰

Quantitatively assessing the trends in inheritance tax avoidance or evasion in Sweden is difficult in the absence of appropriate micro-level evidence. However, one way to assess inheritance tax avoidance using the data at our disposal is to relate actual taxes paid with two variants of the underlying tax base. First, a “fiscal inheritance flow” is reported to tax authorities on inheritance tax returns. Second, an “economic inheritance flow” is a theoretically computed inheritance flow based on data on the aggregate stock of private wealth, adult mortality and the lifecycle profile of wealth.²¹ The left panel of Figure 4 shows the ratio of inheritance tax revenues to each of these tax bases. During the entire period, the “fiscal flow” ratio, i.e., the revenue to taxed inheritances, exceeds the “economic flow” ratio, i.e., the revenue to macro-estimated inheritances.

However, does the difference between the “fiscal flow” and “economic flow” tax rates reflect tax avoidance? We cannot be certain because there are also other data differences between the two sources, e.g., asset composition and valuation procedures.²² However, the incentives to avoid taxation should increase in the statutory tax rate. The right panel of Figure 4 shows that the difference in effective tax rates between large and small bequests correlates highly with the difference between the “fiscal flow” and “economic flow” tax rates. When the incentive to

¹⁹ Ruben Rausing, the founder of Tetra Pak, emigrated in 1969, and his two sons followed in 1982. Ingvar Kamprad (the founder of IKEA) and Erling Persson (the founder of H&M) emigrated in 1973 and 1982, respectively, and a more recent example is Fredrik Lundberg, who moved to Switzerland in 1985 and lived there until 1993.

²⁰ Roine and Waldenström (2009) made an attempt to estimate the size of tax-driven capital flight by accumulating statistical errors and omissions in the balance-of-payments statistics, finding that these errors regularly pointed towards increased outflows during the 1990s and 2000s, landing at a number near one-fifth of one year’s national income.

²¹ Data on these two flows come from Ohlsson, Roine and Waldenström (2014). See also Appendix Table A3, where all tax bases and tax rates are reported. Note that we only observe “fiscal flow” inheritance in several years in relation to surveys by the authorities of the inheritance tax system.

²² Ohlsson, Roine and Waldenström (2014) note that the tax-reported inheritance flow misses several important components, including the unpaid collective insurance savings of the deceased, such as occupational pension funds.

avoid inheritance taxation was high for individuals inheriting a significant amount (i.e., a large difference between the tax on large and small bequests), we also observe a substantial difference between the amounts of reported inheritances and the amounts estimated based on other statistical and demographic data. This result suggests that avoidance behaviour may well have increased substantially in the post-war era and remained high until the repeal of the inheritance tax in the early 2000s.

[Figure 4 about here]

4.3 Overshooting and loss of legitimacy

The legitimacy of taxes among taxpayers is sometimes at odds with the optimal tax profile. Stable tax bases may be economically efficient, but the possibility to tax them also requires political support and a general acceptance of the tax. Exactly what determines political support for a tax changes from case to case, but horizontal and vertical fairness perceptions and tax visibility can be important.²³ In this section, we examine the dimensions of the legitimacy of the Swedish inheritance tax as an additional factor in understanding its change over time and, in particular, its demise at the end of the 20th century.

Figure 5 shows two important trends. The solid line shows the basic exemption level for tax eligibility as a share of a worker's annual salary, which indicates in real economic terms how much of the bequests were affected by the tax. Although the exemption level was always low, there is a secular decline with the lowest levels reached from the 1970s onward. The dashed line in the figure, in contrast, shows the wealth level required to be subject to the top rate as a multiple of a worker's annual salary. This level is recurrently very high just around the times when rates were sharply increased, but in this case, there is also a secular decline, largely as a result of bracket creep. In 1992, there is a sharp break when the tax was reformed to also affect fortunes of a modest size by the highest inheritance tax rate. In the last year of the tax, the exemption level was a mere one-quarter of an annual production worker's income (SEK 70,000), and the top marginal rate was reached at an inherited amount of just over two times the annual income of a production worker. The basic exemption level of SEK 70,000 in Sweden in 2004 can be compared with the basic exemptions in other countries. In the U.S., the basic exemption level was 150 times larger at USD 1.5 million (SEK 10.5 million), with only

²³ For example, Cabral and Hoxby (2012) found that the property tax was more unpopular simply because it was paid by households in contrast with income taxes that are typically paid by employers.

the top two percentiles in the estate distribution paying any tax compared with approximately one-quarter of all heirs in Sweden (SOU 2004:66, Table 2.3). In France, the basic exemption was EUR 300,000 (SEK 2.7 million), and in the U.K., GBP 263,000 (SEK 3.4 million), with both countries having exemption levels more than one order of magnitude greater than Sweden (38 and 48 times greater, respectively).

[Figure 5 about here]

Figure 6 shows that fairly modest inheritances were also hit by a high wealth tax rate. The figure shows that the threshold for paying a 30 per cent inheritance tax at the margin more or less continuously declined from 1959 until the repeal of the tax. For the last three decades of the tax, the threshold was consistently below four times, and in some years, even below two times, an average production worker's annual income. Thus, over time, exemptions were reduced, and the inheritances that were affected by high effective inheritance taxation became small. As a result, members of the broad middle class, who by no means considered themselves wealthy, were increasingly eligible to pay inheritance tax.

[Figure 6 about here]

Although salaried middle-class households were increasingly drawn into the inheritance tax system, other groups were able to benefit from the increasing number of safety valves built into the system intended to mitigate, or even completely eliminate, the inheritance tax on large fortunes. Beginning in 1978, owners of unlisted business equity received a rebate of 70 per cent on book value, and when the top marginal tax rate was reduced to 30 per cent in 1992, the effective tax rate for someone inheriting a family business despite its size never exceeded nine per cent ($0.3 \cdot 30$). Furthermore, the deregulation of credit markets, the removal of foreign exchange controls in 1989 and EU membership in the mid-1990s opened virtually unlimited opportunities for the super-wealthy to avoid inheritance taxation. The situation for the middle class was very different. Deregulation had increased the price of real estate and resulted in a booming stock market. As a result, a growing percentage of middle class heirs had to pay inheritance tax. For example, in the mid-1980s, the marginal inheritance tax rate was 18 per cent on an inheritance equal to one average worker's annual income.

In addition to these trends, the 1980s and 1990s in Sweden also saw a number of publicised

incidents exposing problems with the inheritance tax, typically showing how heirs had to pay tax rates considerably higher than the relevant statutory rates. Arguably, the most publicised case was the estate of Sally Kistner, the wealthy widow of the founder of the pharmaceutical company Astra and the company's largest individual shareholder. As the Astra stock price fell just before the estate was transferred, the value of the assets fell short of the tax obligations, leading to tax rates above 100 per cent. As a consequence, the estate filed for bankruptcy.²⁴ When Fredrik Lundberg – currently one of Sweden's wealthiest and most powerful industrial owners – migrated to Switzerland in 1985, he explicitly referred to the Kistner case as a motivation for his move.²⁵

How then can Sweden's repeal of the inheritance and gift taxes in 2004 be explained? A population survey conducted in 2004 found that close to two-thirds of the respondents, including a majority of left-leaning persons, wanted inheritance and gift taxes either reduced or removed altogether (Hammar, Jagers and Nordblom 2008). Popular support for the inheritance tax was weak.

In retrospect, it is clear that the government did not attempt to argue and explain to the electorate that it would be favourable to substantially reduce the inheritance tax rate and apply it to a broader asset base with larger exemptions. Although the suspected distortionary effects resulting from evasive behaviour may have been growing, the system remained unreformed. Ultimately, the inheritance tax lost its legitimacy among people because it became regarded as a voluntary tax for the very wealthy²⁶ while simultaneously hitting a large share of middle-class heirs (through low basic exemption levels), who also soon reached the top marginal tax rate (recall Figure 1).²⁷

5. Summary and conclusions

This paper presents new facts regarding the long-run evolution of inheritance, gift and estate taxation in Sweden from 1885 to the repeal of the taxes in 2004.

²⁴ Tulin (1984).

²⁵ Cited from Engman (2013), who, in turn, cites a 1985 interview with Lundberg in the Swedish business magazine *Veckans Affärer*.

²⁶ See, e.g., Eklund (1998, p. 40–49) and SOU 2004:36, p. 458.

²⁷ According to anecdotal evidence discussed by Lodin (2011), the decision to repeal the tax was part of a log-rolling scheme between the Social Democrats and the Left Party.

Our contribution is twofold. First, we compute the annual effective average inheritance tax rates for different bequest sizes and for two different types of inherited assets: personal net wealth and family-firm equity. These series are based on all relevant institutional tax rules and stand in complete contrast to the most commonly used metric of inheritance taxation in previous studies: the top marginal tax rate. In fact, disregarding the national institutional specificities in inheritance, taxation can have significant consequences for the assessment of inheritance tax levels and trends.

The long-run evolution of effective inheritance tax rates exhibits an inverse-U shape over four broad phases. Following an initial low-tax phase beginning in the 1880s, a second phase began in 1934, when the newly appointed Social-Democratic government raised the tax rate more than fourfold for large bequests. A long third phase began in 1948 with the introduction of an estate tax in addition to the inheritance tax, and when the estate tax was abolished a decade later, inheritance tax rates were raised commensurately. At this time, Swedish inheritance taxation reached an international high, with top marginal tax rates at 70 per cent and average effective tax rates between 50 and 60 per cent for large estates. Tax levels remained high until the early 1990s, with the exception of the drastic tax cuts in the 1970s for inherited family firms. The fourth and final phase of the Swedish inheritance tax began with its overhaul in 1992 when the taxation of large inheritances was reduced from 60 to 30 per cent (although not changing, or even slightly raising, the tax on small, middle-class bequests). The final phase lasted until the tax was repealed in 2004.

Our second contribution is an attempt to explain the changes in inheritance taxation, drawing on a combination of quantitative and qualitative evidence. We propose three major factors that appear to have played a role in this process. First, we trace the expansion of inheritance taxation to domestic politics and the ideological momentum of the Social Democrats governing the country continuously from the early 1930s until the mid-1970s. War-related mass-mobilisation effects on inheritance taxation for belligerent countries were of little importance to the Swedish experience. Inheritance and gift taxes were never particularly important as a source of revenue for the government. With few exceptions, less than two per cent of total tax revenue was raised this way, and in the last 40 years before the abolition of the tax, the share was approximately one-tenth of this level. These taxes were primarily motivated by distributional concerns, regarding an urge to balance large inequalities of opportunity arising from inherited wealth at the top of the wealth distribution. Society apparently accepted paying a

price in terms of excess burden to secure a more even distribution of wealth, but the low revenue from this source in the post-war period casts serious doubt on the effectiveness of the inheritance and gift taxes in this regard.

Second, tax avoidance, and likely tax evasion, appear to have increased in scope over time and in the level of the inheritance tax. This indicates that the economic distortion generated by the tax grew over time and that it was possibly at its largest towards the end of the past century, immediately before the tax was ultimately repealed. However, our estimates of avoidance are preliminary because of the uncertain nature of inheritance flow data, and they should be interpreted with caution.

Finally, the Swedish inheritance tax affected a relatively large portion of the population unlike the more exclusive regimes in, e.g., France, the U.K. and the U.S. Although reducing the top tax rates for heirs to family firms and other large fortunes in the last decades of the 20th century, the tax burden on middle-class bequests remained unchanged and even increased somewhat. The combination of broad taxpayer coverage and rapidly growing opportunities for the rich to reduce their effective tax undermined the legitimacy of the inheritance tax. This loss of legitimacy was also observed in tax attitude surveys. Ultimately, this loss of legitimacy explains why there was so little support for the tax and few objections when it was finally abolished in 2004 by a Social-Democratic minority government backed by the Left Party.

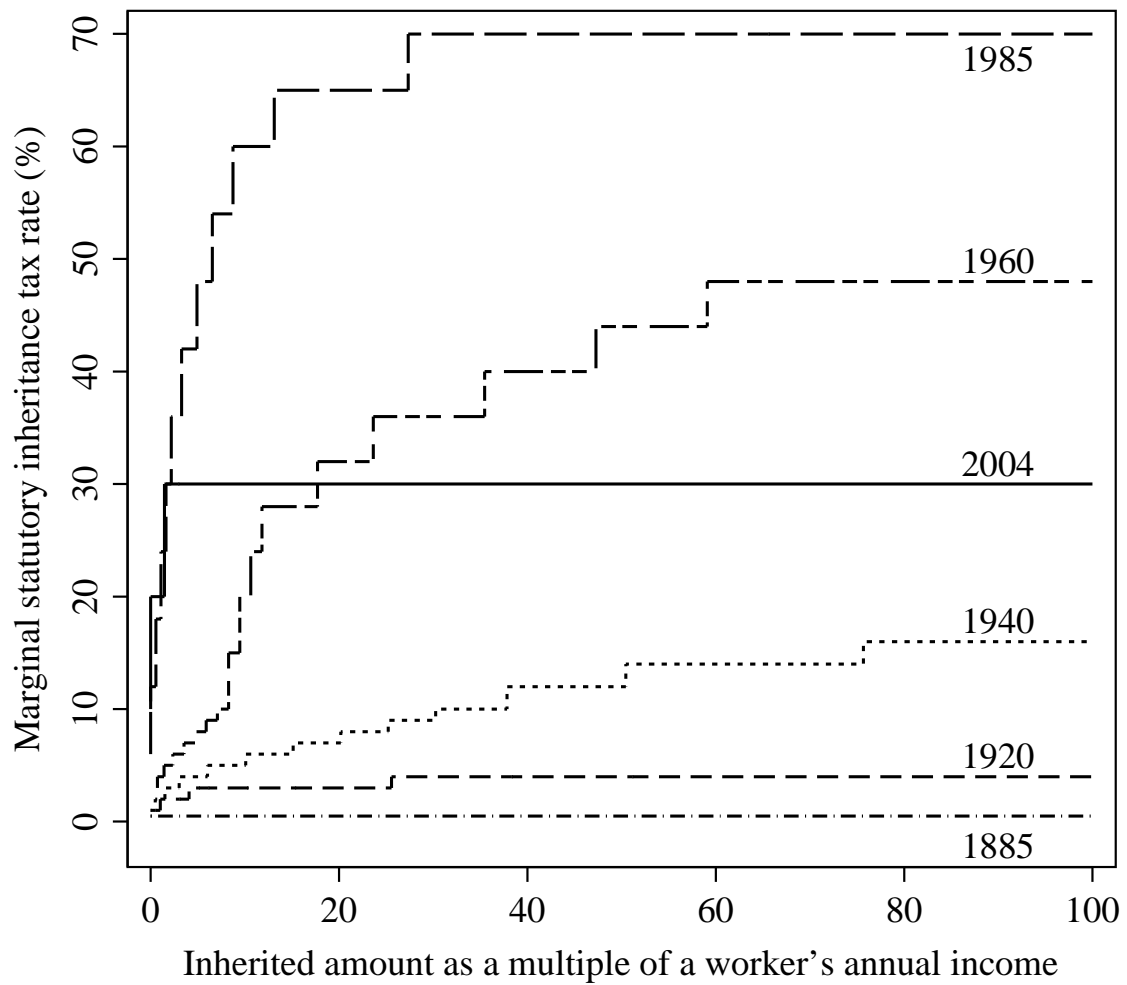
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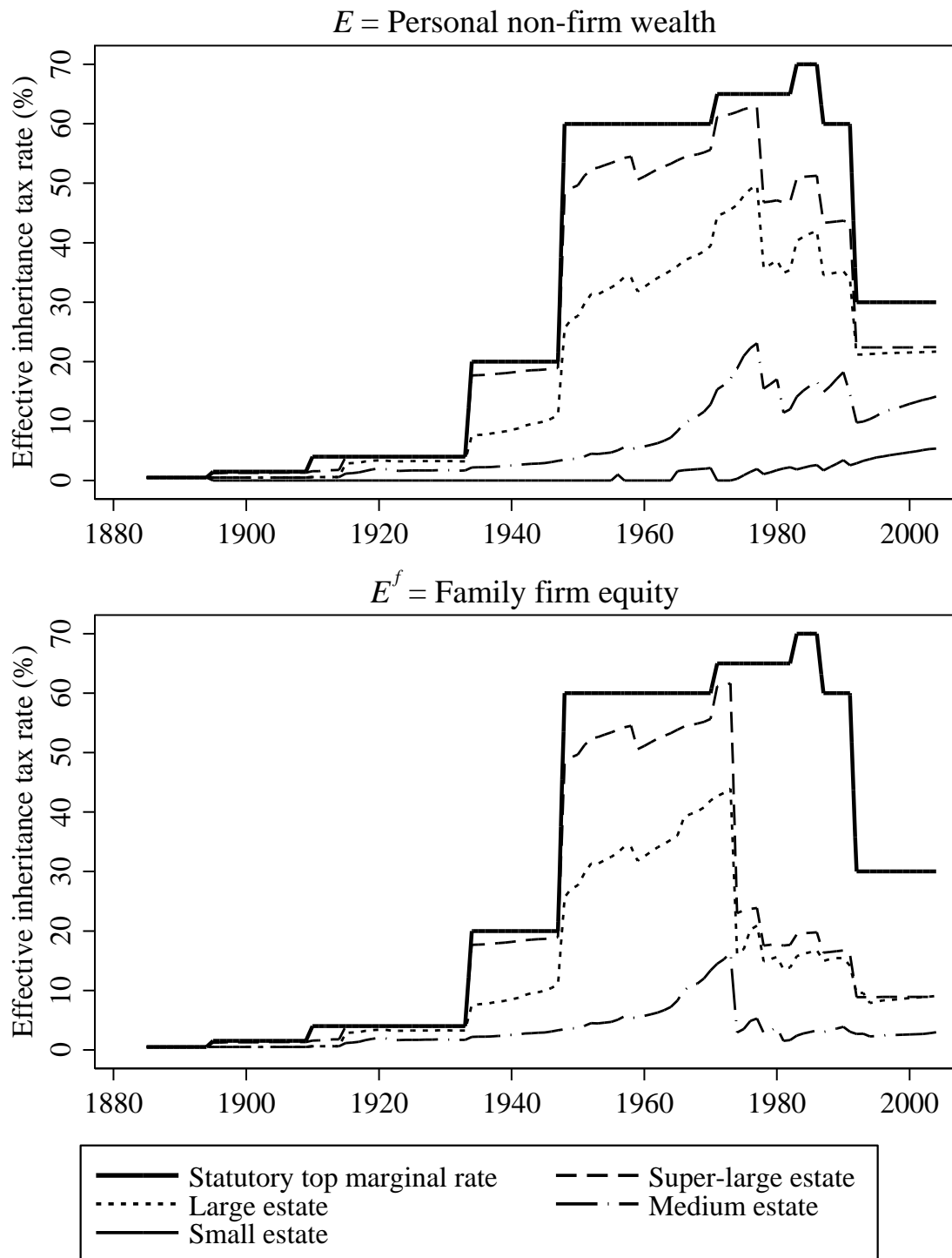
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Figure 1: Marginal statutory inheritance tax rates across size of inheritance, 1885–2004.



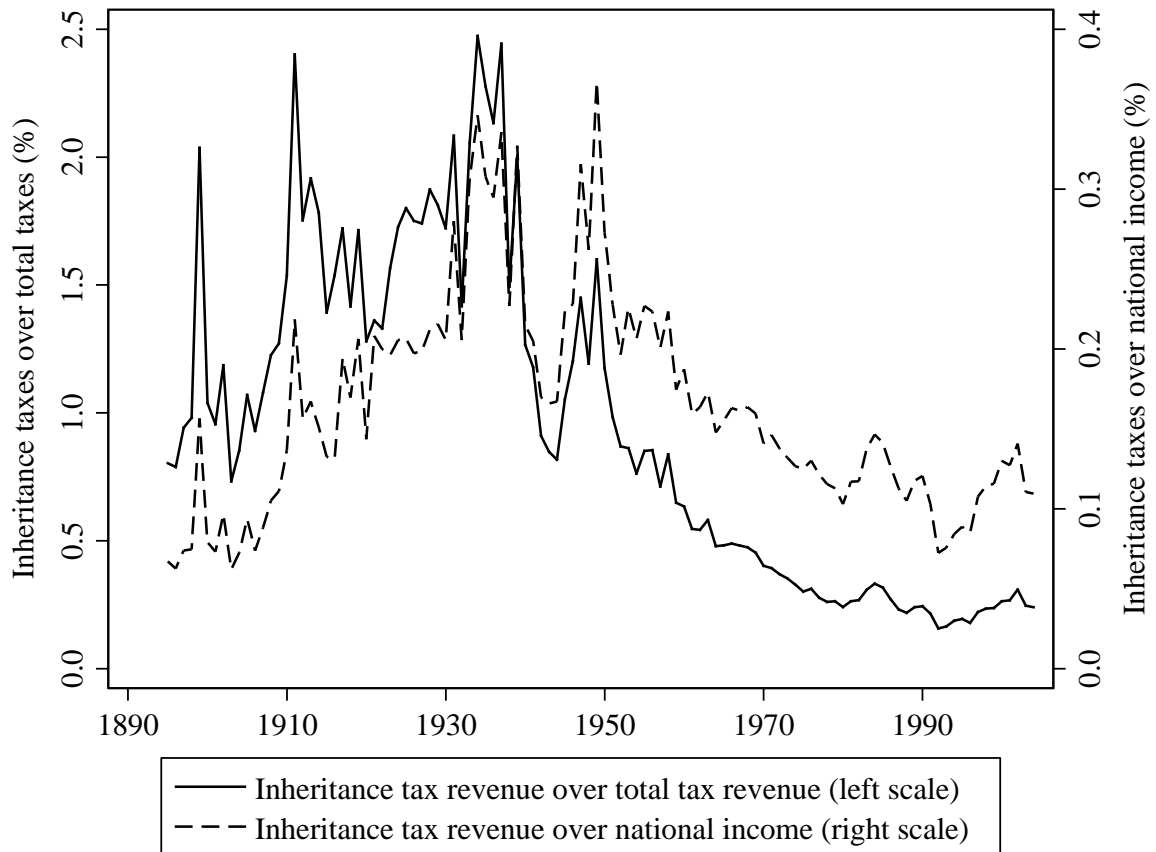
Note and source: Basic exemption levels are deducted for each schedule. Tax rates apply to spouses and children (heir Class I). Note that the figure bounds the size of the bequest on the x-axis and thus does not show the top marginal tax rate in 1940 (20 per cent from 202 worker incomes) and in 1960 (60 per cent from 591 worker incomes). For tax schedules and annual worker incomes, see Du Rietz, Henrekson and Waldenström (2015).

Figure 2: Effective inheritance tax rates on non-firm and family firm assets, 1885–2004.



Source: The sizes of the different estates were the following in 2004. A super-large estate was worth SEK 266 million (EUR 30 million), a large estate was worth SEK 26.6 million (EUR 3 million), a medium estate was worth SEK 2.66 million (EUR 0.3 million), and a small estate was worth SEK 0.67 million (EUR 74,000). See the text for details. Data are from Table A2.

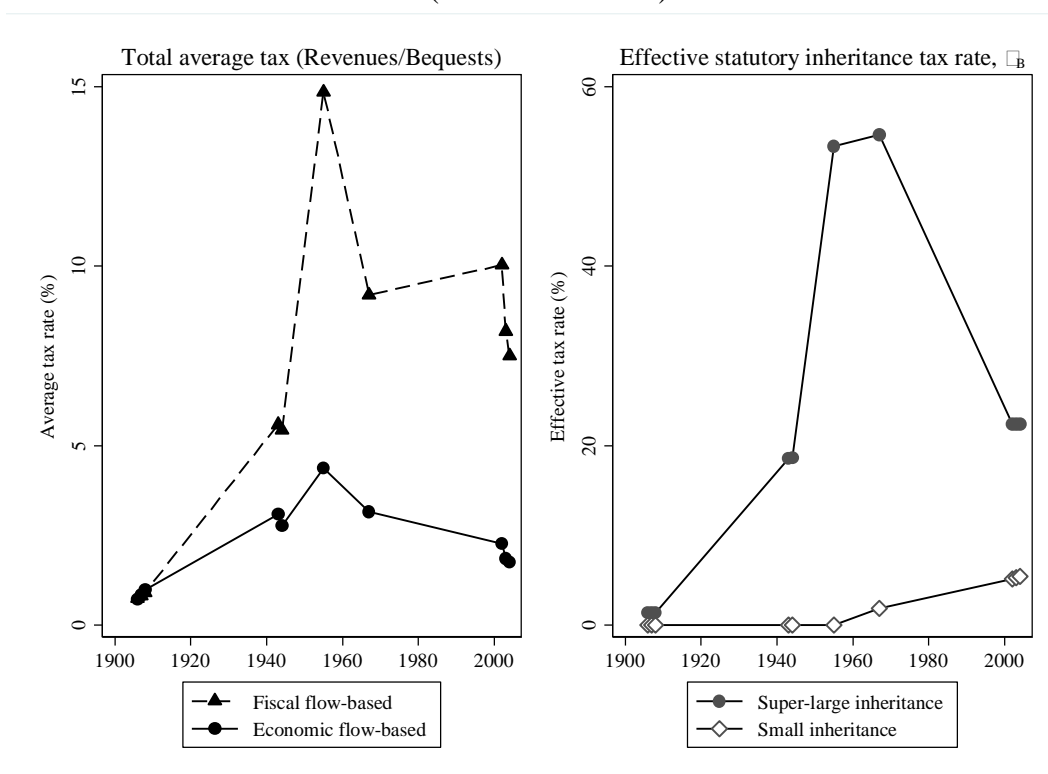
Figure 3: Revenues of Swedish inheritance and gift taxes, 1885–2004.



Note: Estate tax payments between 1948 and 1959 are classified as inheritance tax payments. Because of lags in estate inventories and tax payments, the taxes still generated revenue for several more years even though tax liability ceased for deaths after 16 December 2004.

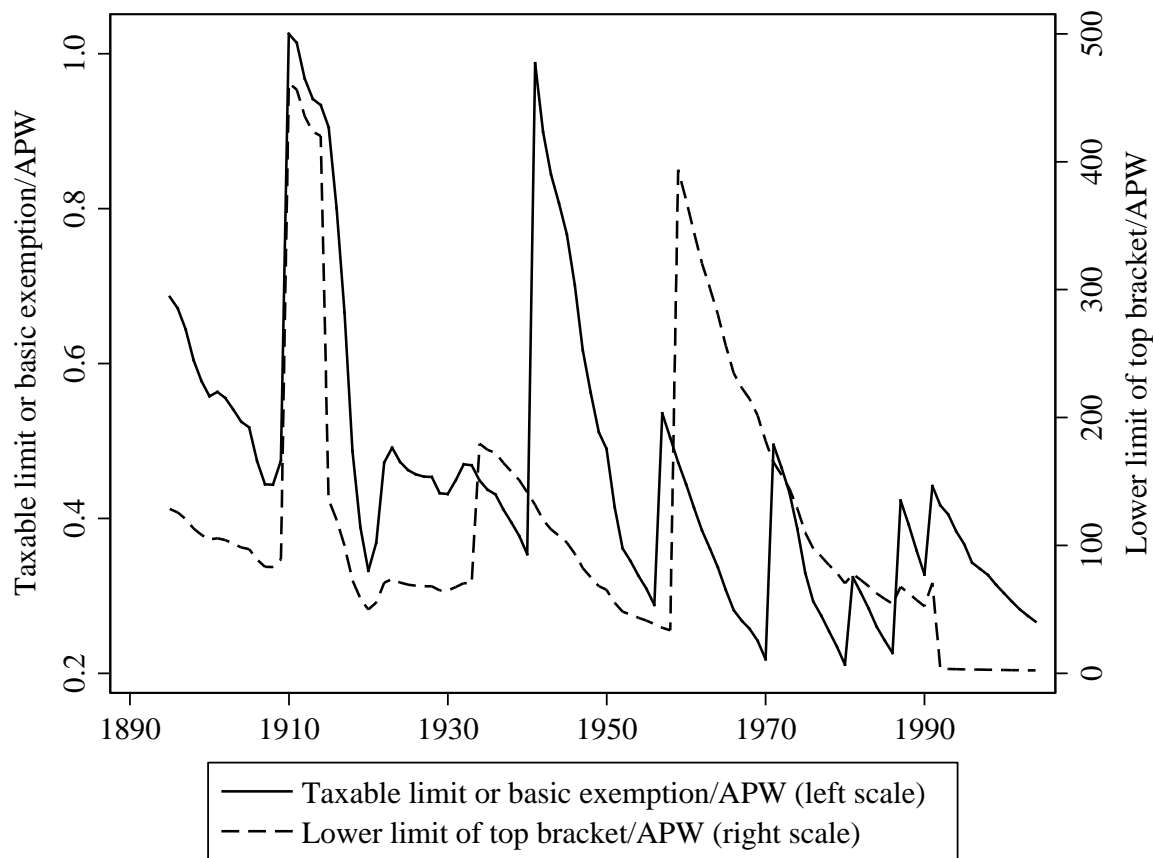
Source: Data on inheritance and gift taxes are from Ohlsson (2011), and data on total tax revenue are from Gårestad (1985), Rodriguez (1980) and Statistics Sweden. See Table A1.

Figure 4: The role of tax avoidance: The difference between tax-reported (“fiscal flow”) and estimated (“economic flow”) inheritance flows.



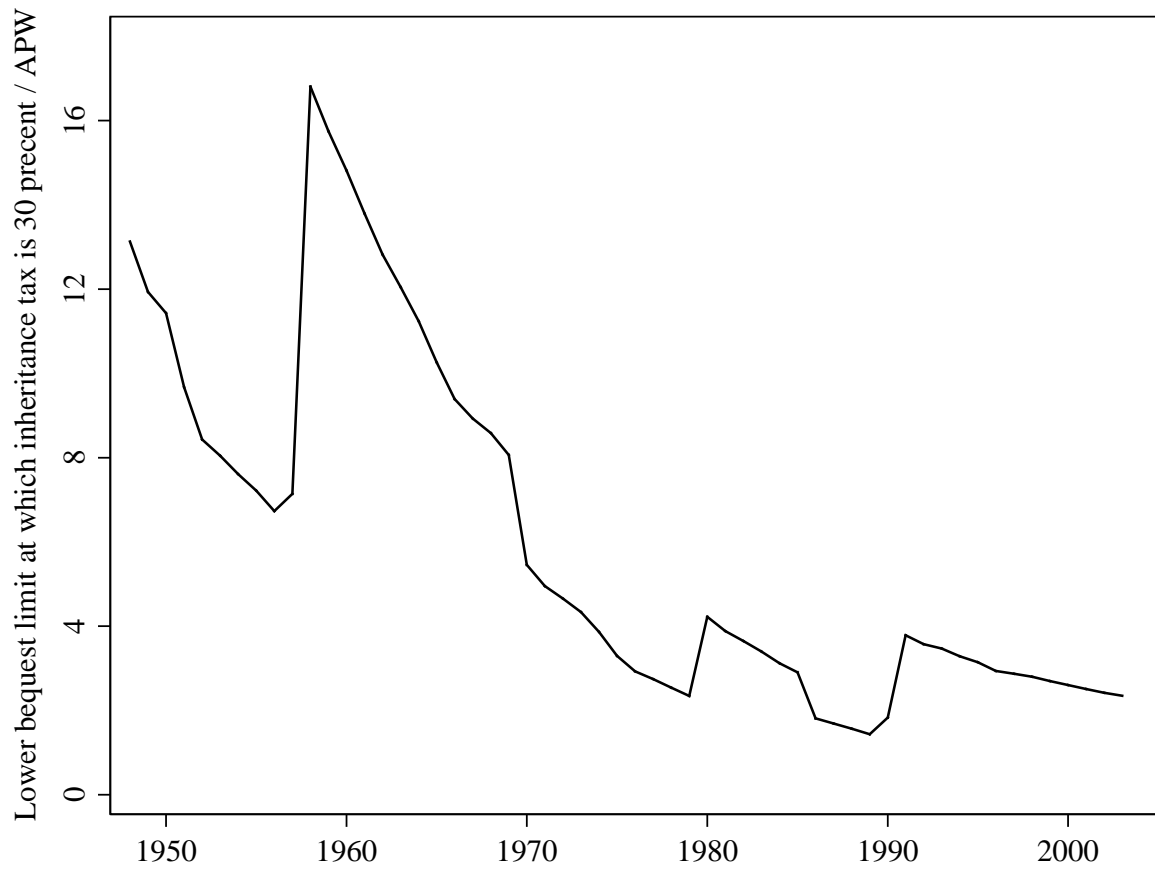
Note: The left panel shows total inheritance and gift revenues divided by inheritance flows, computed using either the “fiscal flow” (observed from estate tax returns) or “economic flow” (estimated from the relationship among aggregate wealth-income ratio, adult mortality and age-wealth patterns – see Ohlsson, Roine and Waldenström 2014). Effective statutory inheritance tax rates are $\tau_{B=Super-large}$ and $\tau_{B=Small}$ and reported in Table A1.

Figure 5: Basic exemption amount and lower bequest limit of the top tax bracket for descendants as a share of the average worker's annual salary.



Note: APW = average annual income of a production worker.
 Source: See Figure 3.

Figure 6: Limit at which the inheritance tax rate reaches 30 per cent 1948–2004.



Source: See Figure 3.

Table 1: Effective average inheritance tax rates in Sweden, 1885–2004.

Tax rates	1885	1910	1930	1950	1970	1990	2004
<i>Super-large estate</i>							
Personal wealth, τ_B	0.5	1.6	4.0	49.7	55.7	43.7	22.4
Family business, τ_{Bf}	0.5	1.6	4.0	49.7	55.7	16.7	8.9
Estate tax, τ_E	–	–	–	38.1	–	–	–
<i>Large estate</i>							
Personal wealth, τ_B	0.5	0.6	3.3	27.7	39.5	35.2	21.7
Family business, τ_{Bf}	0.5	0.6	3.3	27.7	39.5	12.7	8.2
Estate tax, τ_E	–	–	–	18.6	–	–	–
<i>Medium estate</i>							
Personal wealth, τ_B	0.5	0.6	1.8	3.7	12.8	18.2	14.1
Family business, τ_{Bf}	0.0	0.0	0.2	1.1	17.6	25.8	35.7
Estate tax, τ_E	–	–	–	0.0	–	–	–
<i>Small estate</i>							
Personal wealth, τ_B	0.5	0.0	0.0	0.0	2.1	3.4	5.4
Estate tax, τ_E	–	–	–	0.0	–	–	–
Statutory top rate, τ_I^{top}	0.5	4.0	8.0	20.0	60.0	60.0	30.0

Note: The sizes of the different estates were the following in 2004. A super-large estate was worth SEK 266 million (EUR 30 million), a large estate was worth SEK 26.6 million (EUR 3 million), a medium estate was worth SEK 2.66 million (EUR 0.3 million), and the small estate was worth SEK 0.67 million (EUR 74,000). See the text for details. The tax rates are the effective inheritance tax rate on bequest E being either non-corporate personal wealth (τ_B) or family business equity (τ_{Bf}).

Table 2: Countries where the top inheritance tax rates exceeded 60 per cent.

	From	Initial level (%)	Until	Peaked at (%)	Peak period
Germany	1946	60	1948	60	1946–1948
Japan	1950	90	2002	90	1950–1951
New Zealand	1958	60	1961	60	1958–1961
South Korea	1947	68	1988	90	1947–1988
Sweden	1948	60	1991	65	1971–1982
United Kingdom	1940	60	1987	80	1950–1974
United States	1934	60	1983	77	1940–1976

Note: The top inheritance tax rate is either defined as the top estate tax rate, the top inheritance tax rate for direct descendants or the combined effect of the top estate tax and the top inheritance tax rate for direct descendants.
Source: Scheve and Stasavage (2012) and Table A2, this study.

Table A1: Inheritance and other tax revenues, thresholds, national income, in Sweden.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Revenue from inheritance, gift and estate taxes (thousand SEK)	Revenue from gift tax (million SEK)	Total tax revenue (million SEK)	National income (million SEK)	Average annual income of production worker, APW (SEK)	Tax threshold (basic exemption) (thousand SEK)	Bequest threshold for paying top tax rate (thousand SEK)	Bequest threshold for paying 30 percent tax rate (thousand SEK)
1885	330		111	1,440	499			
1886	397		109	1,349	484			
1887	285		105	1,276	493			
1888	415		114	1,383	512			
1889	349		119	1,456	544			
1890	415		122	1,526	561			
1891	375		119	1,604	565			
1892	445		120	1,581	560			
1893	404		124	1,565	565			
1894	513		133	1,543	573			
1895	1,108		138	1,650	583	0.4	75	
1896	1,097		139	1,750	596	0.4	75	
1897	1,392		148	1,884	621	0.4	75	
1898	1,517		155	2,032	662	0.4	75	
1899	3,446		169	2,201	693	0.4	75	
1900	1,780		171	2,252	717	0.4	75	
1901	1,584		166	2,163	710	0.4	75	
1902	2,076		175	2,149	720	0.4	75	
1903	1,451		198	2,337	740	0.4	75	
1904	1,731		203	2,384	762	0.4	75	
1905	2,282		213	2,437	773	0.4	75	
1906	2,013		217	2,729	844	0.4	75	
1907	2,602		241	2,950	901	0.4	75	
1908	3,124		255	2,971	902	0.4	75	
1909	3,253		256	2,929	843	0.4	75	
1910	4,322		281	3,166	975	1	450	
1911	7,054		294	3,229	986	1	450	
1912	5,393		308	3,448	1,033	1	450	
1913	6,228		325	3,724	1,062	1	450	
1914	5,786		324	3,829	1,071	1	450	
1915	5,902	0.086	424	4,449	1,105	1	150	
1916	7,386	0.395	480	5,635	1,249	1	150	
1917	12,548	2.127	729	6,457	1,502	1	150	
1918	14,794	2.855	1,044	8,724	2,054	1	150	
1919	21,553	4.786	1,257	10,448	2,574	1	150	
1920	16,930	1.223	1,323	11,799	3,008	1	150	
1921	17,632	0.896	1,295	8,471	2,711	1	150	
1922	14,596	0.676	1,098	7,302	2,118	1	150	
1923	14,419	1.926	920	7,342	2,035	1	150	
1924	15,573	0.577	902	7,574	2,114	1	150	
1925	16,178	0.839	898	7,835	2,162	1	150	
1926	15,548	0.665	888	7,880	2,189	1	150	
1927	15,980	1.017	918	8,040	2,202	1	150	

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1928	17,687	1.131	944	8,335	2,205	1	150	
1929	18,815	1.305	1,038	8,726	2,312	1	150	
1930	18,102	0.993	1,051	8,802	2,317	1	150	
1931	22,365	1.682	1,073	7,988	2,225	1	150	
1932	15,542	1.386	1,096	7,561	2,128	1	150	
1933	23,226	7.160	1,130	7,582	2,134	1	150	
1934	29,225	1.158	1,181	8,443	2,227	1	400	
1935	27,858	1.436	1,224	9,048	2,288	1	400	
1936	28,580	2.096	1,340	9,695	2,320	1	400	
1937	35,982	2.187	1,473	10,723	2,430	1	400	
1938	25,386	1.898	1,699	11,184	2,533	1	400	
1939	40,655	2.414	2,028	12,428	2,649	1	400	
1940	28,115	1.662	2,221	13,078	2,825	1	400	
1941	29,640	2.200	2,514	14,457	3,037	3	400	
1942	26,854	2.401	2,950	15,826	3,337	3	400	
1943	28,336	2.376	3,340	17,080	3,554	3	400	
1944	29,481	3.127	3,606	17,635	3,717	3	400	
1945	41,690	14.165	3,959	18,593	3,913	3	400	
1946	48,886	16.556	4,068	21,445	4,277	3	400	
1947	74,333	43.180	5,126	23,554	4,859	3	400	
1948	68,220	7.930	5,721	26,041	5,331	3	400	70
1949	98,610	2.490	6,161	26,861	5,865	3	400	70
1950	81,940	3.180	6,971	30,026	6,125	3	400	70
1951	84,930	2.770	8,641	37,277	7,235	3	400	70
1952	79,230	2.690	9,114	40,314	8,300	3	400	70
1953	93,660	2.290	10,866	41,518	8,700	3	400	70
1954	91,790	2.500	12,030	44,443	9,200	3	400	70
1955	108,350	2.670	12,722	47,756	9,700	3	400	70
1956	115,770	2.470	13,550	51,819	10,400	3	400	70
1957	110,850	3.420	15,555	55,203	11,200	6	400	70
1958	130,420	3.620	15,552	58,364	11,900	6	400	80
1959	108,830	5.930	16,766	62,348	12,700	6	5,000	200
1960	127,460	7.740	20,087	68,016	13,500	6	5,000	200
1961	118,400	7.050	21,650	74,322	14,500	6	5,000	200
1962	132,800	9.000	24,457	81,126	15,600	6	5,000	200
1963	152,300	10.00	26,200	88,111	16,600	6	5,000	200
1964	144,600	13.00	30,162	97,861	17,800	6	5,000	200
1965	167,400	11.70	34,728	107,922	19,500	6	5,000	200
1966	191,600	15.90	39,186	117,514	21,300	6	5,000	200
1967	206,100	14.70	42,805	127,695	22,400	6	5,000	200
1968	222,000	29.80	46,803	135,632	23,300	6	5,000	200
1969	236,600	44.50	52,185	148,328	24,800	6	5,000	200
1970	235,100	42.30	58,452	166,756	27,500	6	5,000	200
1971	262,100	28.90	66,605	179,294	30,300	15	5,000	150
1972	269,500	27.10	72,789	195,559	32,200	15	5,000	150
1973	286,500	26.10	81,177	217,001	34,600	15	5,000	150
1974	309,000	30.80	94,079	243,826	38,800	15	5,000	150
1975	357,200	46.20	118,326	285,768	45,500	15	5,000	150
1976	420,700	51.90	134,534	323,199	51,200	15	5,000	150
1977	423,500	45.30	152,645	348,561	54,600	15	5,000	150
1978	446,800	45.20	171,064	386,883	59,000	15	5,000	150
1979	494,200	48.00	187,698	437,674	64,000	15	5,000	150

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1980	518,258	51.40	215,059	503,239	71,000	15	5,000	150
1981	638,077	92.43	241,773	545,586	77,200	25	6,000	300
1982	694,263	134.54	258,865	591,848	82,200	25	6,000	300
1983	909,855	152.83	294,426	659,939	88,200	25	6,000	300
1984	1,089,397	197.75	327,450	743,532	96,100	25	6,000	300
1985	1,140,694	197.33	359,632	807,020	103,200	25	6,000	300
1986	1,122,565	125.27	412,371	888,248	110,400	25	6,000	300
1987	1,089,600	179.92	470,153	965,770	118,200	50	8,000	200
1988	1,106,940	257.76	506,548	1,053,249	127,400	50	8,000	200
1989	1,364,655	272.00	567,124	1,161,395	139,400	50	8,000	200
1990	1,532,832	393.09	627,177	1,270,797	152,700	50	8,000	200
1991	1,390,630	262.50	644,662	1,350,922	158,500	70	11,200	280
1992	961,600	157.58	610,058	1,326,552	167,900	70	600	600
1993	990,843	103.89	601,374	1,308,775	172,800	70	600	600
1994	1,211,931	152.87	645,374	1,439,297	182,600	70	600	600
1995	1,388,000	303.00	712,880	1,562,108	190,800	70	600	600
1996	1,363,000	198.00	759,332	1,599,669	204,100	70	600	600
1997	1,795,000	222.00	809,517	1,666,375	208,900	70	600	600
1998	2,005,000	250.00	852,156	1,755,139	214,100	70	600	600
1999	2,149,579	271.79	906,107	1,857,632	222,400	70	600	600
2000	2,548,000	460.00	966,769	1,959,361	230,500	70	600	600
2001	2,576,000	377.00	962,038	2,022,582	239,000	70	600	600
2002	2,975,355	332.12	962,146	2,112,221	247,600	70	600	600
2003	2,490,027	314.66	1,008,670	2,251,405	255,300	70	600	600
2004	2,551,291	477.69	1,060,935	2,329,737	262,200	70	600	600
2005	1,092,082	222.52	1,122,927	2,445,212				

Note and sources: Estate tax payments between 1948 and 1959 are classified as inheritance tax payments. Because of lags in estate inventories and tax payments, the taxes still generated revenue for several more years even though tax liability ceased for deaths after 16 December 2004. Data on inheritance and gift taxes are from Ohlsson (2011), and data on total tax revenue are from Gårestad (1985), Rodriguez (1980) and Statistics Sweden.

Table A2: Effective average tax rates (inheritance, estate, and capital gains) on super-large, large, medium and small non-firm wealth (τ_B) and family-firm equity (τ_{Bf}) and statutory top marginal tax rates, percentage points, 1885–2004.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	Super-large estate			Large estate			Medium estate			Small estate	Top statutory rate on heirs:	
	τ_B	τ_{Bf}	τ_E	τ_B	τ_{Bf}	τ_E	τ_B	τ_{Bf}	τ_E	τ_B	Child	Any
1885	0.50	0.50		0.50	0.50		0.50	0.50		0.50	0.5	0.6
1886	0.50	0.50		0.50	0.50		0.50	0.50		0.50	0.5	0.6
1887	0.50	0.50		0.50	0.50		0.50	0.50		0.50	0.5	0.6
1888	0.50	0.50		0.50	0.50		0.50	0.50		0.50	0.5	0.6
1889	0.50	0.50		0.50	0.50		0.50	0.50		0.50	0.5	0.6
1890	0.50	0.50		0.50	0.50		0.50	0.50		0.50	0.5	0.6
1891	0.50	0.50		0.50	0.50		0.50	0.50		0.50	0.5	0.6
1892	0.50	0.50		0.50	0.50		0.50	0.50		0.50	0.5	0.6
1893	0.50	0.50		0.50	0.50		0.50	0.50		0.50	0.5	0.6
1894	0.50	0.50		0.50	0.50		0.50	0.50		0.50	0.5	0.6
1895	1.24	1.24		0.50	0.50		0.50	0.50		0.00	1.5	6
1896	1.25	1.25		0.50	0.50		0.50	0.50		0.00	1.5	6
1897	1.26	1.26		0.50	0.50		0.50	0.50		0.00	1.5	6
1898	1.27	1.27		0.50	0.50		0.50	0.50		0.00	1.5	6
1899	1.28	1.28		0.50	0.50		0.50	0.50		0.00	1.5	6
1900	1.29	1.29		0.50	0.50		0.50	0.50		0.00	1.5	6
1901	1.29	1.29		0.50	0.50		0.50	0.50		0.00	1.5	6
1902	1.29	1.29		0.50	0.50		0.50	0.50		0.00	1.5	6
1903	1.30	1.30		0.50	0.50		0.50	0.50		0.00	1.5	6
1904	1.30	1.30		0.50	0.50		0.50	0.50		0.00	1.5	6
1905	1.31	1.31		0.50	0.50		0.50	0.50		0.00	1.5	6
1906	1.32	1.32		0.50	0.50		0.50	0.50		0.00	1.5	6
1907	1.33	1.33		0.50	0.50		0.50	0.50		0.00	1.5	6
1908	1.33	1.33		0.50	0.50		0.50	0.50		0.00	1.5	6
1909	1.32	1.32		0.50	0.50		0.50	0.50		0.00	1.5	6
1910	1.55	1.55		0.60	0.60		0.60	0.60		0.00	4	16
1911	1.58	1.58		0.60	0.60		0.60	0.60		0.00	4	16
1912	1.69	1.69		0.60	0.60		0.60	0.60		0.00	4	16
1913	1.75	1.75		0.60	0.60		0.60	0.60		0.00	4	16
1914	1.77	1.77		0.60	0.60		0.60	0.60		0.00	4	16
1915	4.00	4.00		2.86	2.86		1.17	1.17		0.00	4	16
1916	4.00	4.00		2.92	2.92		1.23	1.23		0.00	4	16
1917	4.00	4.00		3.00	3.00		1.36	1.36		0.00	4	16
1918	4.00	4.00		3.22	3.22		1.63	1.63		0.00	4	16
1919	4.00	4.00		3.33	3.33		1.87	1.87		0.00	4	16
1920	4.00	4.00		3.40	3.40		2.00	2.00		0.00	4	16
1921	4.00	4.00		3.36	3.36		1.91	1.91		0.00	4	16
1922	4.00	4.00		3.23	3.23		1.67	1.67		0.00	4	16
1923	4.00	4.00		3.21	3.21		1.62	1.62		0.00	4	16
1924	4.00	4.00		3.23	3.23		1.66	1.66		0.00	4	16
1925	4.00	4.00		3.24	3.24		1.69	1.69		0.00	4	16
1926	4.00	4.00		3.25	3.25		1.70	1.70		0.00	4	16
1927	4.00	4.00		3.26	3.26		1.71	1.71		0.00	4	16
1928	4.00	4.00		3.26	3.26		1.71	1.71		0.00	4	16
1929	4.00	4.00		3.28	3.28		1.76	1.76		0.00	4	16

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1930	4.00	4.00		3.28	3.28		1.76	1.76		0.00	4	16
1931	4.00	4.00		3.26	3.26		1.72	1.72		0.00	4	16
1932	4.00	4.00		3.24	3.24		1.67	1.67		0.00	4	16
1933	4.00	4.00		3.24	3.24		1.68	1.68		0.00	4	16
1934	17.67	17.67		7.55	7.55		2.19	2.19		0.00	20	35
1935	17.73	17.73		7.66	7.66		2.21	2.21		0.00	20	35
1936	17.76	17.76		7.72	7.72		2.22	2.22		0.00	20	35
1937	17.86	17.86		7.92	7.92		2.27	2.27		0.00	20	35
1938	17.95	17.95		8.08	8.08		2.34	2.34		0.00	20	35
1939	18.04	18.04		8.26	8.26		2.41	2.41		0.00	20	35
1940	18.16	18.16		8.49	8.49		2.51	2.51		0.00	20	35
1941	18.29	18.29		8.76	8.76		2.62	2.62		0.00	20	35
1942	18.44	18.44		9.23	9.23		2.74	2.74		0.00	20	35
1943	18.54	18.54		9.52	9.52		2.82	2.82		0.00	20	35
1944	18.60	18.60		9.72	9.72		2.87	2.87		0.00	20	35
1945	18.67	18.67		9.93	9.93		2.93	2.93		0.00	20	35
1946	18.79	18.79		10.41	10.41		3.08	3.08		0.00	20	35
1947	18.93	18.93		11.08	11.08		3.31	3.31		0.00	20	35
1948	48.13	48.13	36.38	25.68	25.68	16.87	3.46	3.46	0.00	0.00	60	67.5
1949	49.21	49.21	37.62	27.10	27.10	18.06	3.60	3.60	0.00	0.00	60	67.5
1950	49.67	49.67	38.15	27.69	27.69	18.57	3.68	3.68	0.00	0.00	60	67.5
1951	51.25	51.25	39.97	29.77	29.77	20.32	4.04	4.04	0.00	0.00	60	67.5
1952	52.38	52.38	41.25	31.36	31.36	21.57	4.49	4.49	0.18	0.00	60	67.5
1953	52.64	52.64	41.54	31.31	31.31	21.26	4.45	4.45	0.00	0.00	60	67.5
1954	53.04	53.04	42.00	31.92	31.92	21.74	4.59	4.59	0.00	0.00	60	67.5
1955	53.39	53.39	42.41	32.47	32.47	22.16	4.71	4.71	0.00	0.00	60	67.5
1956	53.84	53.84	42.92	33.16	33.16	22.69	5.08	5.08	0.19	1.01	60	67.5
1957	54.28	54.28	43.43	34.19	34.19	23.53	5.62	5.62	0.54	0.00	60	67.5
1958	54.50	54.50	43.67	34.16	34.16	23.15	5.29	5.29	0.00	0.00	60	67.5
1959	50.59	50.59		31.81	31.81		5.52	5.52		0.00	60	65
1960	51.15	51.15		32.53	32.53		5.73	5.73		0.00	60	65
1961	51.76	51.76		33.32	33.32		5.99	5.99		0.00	60	65
1962	52.34	52.34		34.08	34.08		6.27	6.27		0.00	60	65
1963	52.80	52.80		34.67	34.67		6.67	6.67		0.00	60	65
1964	53.29	53.29		35.30	35.30		7.24	7.24		0.00	60	65
1965	53.87	53.87		36.06	36.06		8.30	8.30		1.57	60	65
1966	54.39	54.39		36.98	39.13		9.53	10.03		1.72	60	65
1967	54.67	54.67		37.52	39.71		10.24	10.79		1.83	60	65
1968	54.87	54.87		37.92	40.13		10.77	11.15		1.91	60	65
1969	55.18	55.18		38.53	40.79		11.57	12.02		1.97	60	65
1970	55.66	55.66		39.46	41.95		12.79	13.38		2.09	60	65
1971	61.17	61.17		44.49	42.68		15.33	14.49		0.00	65	72
1972	61.39	61.39		44.99	43.22		16.07	15.24		0.00	65	72
1973	61.64	61.64		45.55	43.96		17.13	16.33		0.00	65	72
1974	62.01	23.01		46.35	16.13		18.85	2.93		0.27	65	72
1975	62.45	23.45		47.90	16.91		20.93	3.49		0.88	65	72
1976	62.73	23.73		49.03	20.23		22.28	4.85		1.43	65	72
1977	62.87	23.87		49.59	20.91		23.09	5.30		1.93	65	72
1978	46.78	17.53		35.71	14.92		15.44	2.85		1.08	65	72
1979	46.94	17.69		36.32	15.24		16.17	3.25		1.37	65	72
1980	47.11	17.86		37.03	15.62		17.04	3.76		1.75	65	72
1981	46.80	17.55		34.92	13.54		11.41	1.51		2.04	65	72

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1982	46.92	17.67		35.45	13.86		12.00	1.65		2.24	65	72
1983	50.97	19.47		40.31	15.75		14.07	2.41		1.86	70	75
1984	51.10	19.60		41.00	16.16		15.14	2.76		2.16	70	75
1985	51.19	19.69		41.54	16.43		15.95	3.03		2.42	70	75
1986	51.28	19.78		42.01	16.79		16.67	3.26		2.60	70	75
1987	43.34	16.34		34.54	14.96		14.89	3.00		1.69	60	65
1988	43.46	16.46		34.75	15.26		15.87	3.33		2.27	60	65
1989	43.59	16.59		34.99	15.45		17.09	3.57		2.81	60	65
1990	43.72	16.72		35.21	15.44		18.21	3.85		3.44	60	65
1991	43.27	16.27		33.90	14.17		14.55	3.07		2.54	60	65
1992	22.37	8.87		21.18	9.54		9.76	2.69		2.89	30	30
1993	22.37	8.87		21.22	9.57		9.91	2.72		3.30	30	30
1994	22.38	8.88		21.28	7.86		10.34	2.26		3.59	30	30
1995	22.38	8.88		21.34	8.12		10.86	2.35		3.87	30	30
1996	22.39	8.89		21.41	8.33		11.62	2.44		4.07	30	30
1997	22.39	8.89		21.44	8.40		11.87	2.47		4.26	30	30
1998	22.40	8.90		21.46	8.48		12.13	2.50		4.43	30	30
1999	22.40	8.90		21.50	8.59		12.52	2.54		4.58	30	30
2000	22.40	8.90		21.54	8.69		12.87	2.59		4.75	30	30
2001	22.41	8.91		21.57	8.79		13.21	2.63		4.93	30	30
2002	22.41	8.91		21.60	8.89		13.53	2.68		5.12	30	30
2003	22.41	8.91		21.63	8.97		13.80	2.82		5.27	30	30
2004	22.42	8.92		21.66	9.07		14.15	2.99		5.39	30	30

Note: The sizes of the different estates were the following in 2004. A super-large estate was worth SEK 266 million (EUR 30 million), a large estate was worth SEK 26.6 million (EUR 3 million), a medium estate was worth SEK 2.7 million (EUR 0.3 million), and a small estate was worth SEK 0.67 million (EUR 74,000). See the text for sources. The tax rates are τ_B , the effective inheritance tax rate on bequest E being either non-corporate personal wealth or family business equity. The top marginal inheritance tax rate for “Child” refers to the rate paid by heirs in Class I, i.e., spouses and children, and that for “Any” refers to any type of heir or beneficiary.

Table A3: Average and effective tax rates in Sweden, single years 1906–2004.

	“Economic flow” of inheritance	“Fiscal flow” of inheritance	Inheritance tax revenue	Average tax of “Economic flow” inheritances	Average tax of “Fiscal flow” inheritances	Average tax differential: “Fiscal flow” vs “Economic flow”	Effective tax on super-large estate ($\tau_{B=Large}$)	Effective tax on small estate ($\tau_{B=Small}$)	Effective tax differential: Super-large vs small
1906	288	270	2	0.70	0.75	0.05	1.32	0.00	1.32
1907	312	322	3	0.83	0.81	-0.02	1.33	0.00	1.33
1908	321	345	3	0.97	0.91	-0.07	1.33	0.00	1.33
1943	920	508	28	3.08	5.58	2.50	18.54	0.00	18.54
1944	1,066	543	29	2.77	5.43	2.66	18.60	0.00	18.60
1955	2,483	729	108	4.36	14.86	10.50	53.39	0.00	53.39
1967	4,540	2,241	152	3.35	6.80	6.04	54.67	1.83	52.84
2002	131,485	29,646	2,975	2.26	10.04	7.77	22.41	5.12	17.29
2003	134,483	30,414	2,490	1.85	8.19	6.34	22.41	5.27	17.14
2004	145,940	33,996	2,551	1.75	7.50	5.76	22.42	5.39	17.03
2004*		41,996	2,551	1.75	6.08	4.33			

Note and sources: The series “Total average tax differential: Fiscal vs. Economic flows” shows the difference between the average tax rates computed by dividing the revenues from inheritance, gift and estate taxes by either tax-reported (“fiscal flow”) inheritance flows or estimated (“economic flow”) inheritance flows. The series “Effective tax differential: Super-large vs. Small bequests” shows the difference in the actual years between $\tau_{B=Super-large}$ and $\tau_{B=Small}$. The year 2004* marks where we add an estimate of the deceased’s unpaid pensions, SEK 8 billion according to Ohlsson, Roine and Waldenström (2014), to the fiscal flow inheritances. Data on inheritance flows are from Ohlsson, Roine and Waldenström (2014). Data on inheritance tax revenue are from Table A1.