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Article

"A surge in inheritances, yet low inheritance tax revenue": Seven questions to Stefan Bach

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SEVEN QUESTIONS TO STEFAN BACH

»A Surge in Inheritances, yet Low Inheritance Tax Revenue«

1. Mr. Bach, how much wealth is being inherited or gifted within Germany? Assets among Germans are sizeable, and were for the most part built up during the *Wirtschaftswunderjahre* ("Economic Miracle"). This substantial wealth is now increasingly being passed on to the next generation: We estimate that 200 to 300 billion euros are transferred as inheritances or gifts in Germany every year. The exact number is unknown, because there are no reliable statistics—instead, we've had to piece it together from information we've collected from various sources.
2. How is the wealth distributed among the beneficiaries? The distribution of these inheritances and gifts is highly concentrated. A large portion of the total goes to a small group of individuals who are receiving major transfers. One-third of the total amount of the inheritances and gifts go to just 1.5 percent of beneficiaries, who are receiving inheritances of over 500,000 euros. And the wealthiest one percent of the heirs and gift recipients, who are receiving transfers of more than 5 million euros, account for 14 percent of the total transfer volume.
3. How much wealth is passed on to the next generation in the form of business transfers? We estimate that business transfers inheritances range from 30 to 40 billion euros per year in total. These transfers are significantly more concentrated, precisely because the large assets come primarily from companies and shareholdings.
4. Up until now, major business transfers have been largely tax exempt due to benefits. How much money has the government missed out on over the past few years as a result of this? Because many people had feared that the forthcoming inheritance tax reform would cut back the benefits, we've seen a substantial number of donations and clearly anticipatory behavioral effects over the past few years. As a result, 170 billion euros have been transferred virtually tax-free during this time period. If this amount had been subject to the inheritance tax, the government would have achieved 45 billion more euros in revenue.
5. Through the inheritance tax reform, benefits for large companies will be cut back; at the same time, family businesses and the middle class will not be too strongly burdened. Will this work? The grand coalition is trying to fit a square peg into a round hole. The largely tax-free transfers for large companies that have been in place up until now should be limited, or at the very least, a means test should take place. On the other hand, trade associations and family businesses are arguing that they are paying significantly more in taxes. That is the current conflict surrounding the inheritance tax, and this is what we have to solve right now.
6. How can we resolve this dilemma? One possibility would be radically cutting the tax breaks, which would lead to a significant broadening of the tax base. Then, tax rates could be lowered to such an extent—to no less than 15 percent—that they can also be borne by companies. Such a reform would actually achieve moderate extra revenue. However, the problem is that this will not work in the next few years, since many large assets have also been transferred tax-free due to the reform's anticipatory effects, and therefore will not be available for taxation.
7. What will the inheritance tax revenue look like over the next few years? The inheritance tax revenue will amount to roughly 4.5 to 5 billion euros. It won't be a major increase, because we are also dealing with the anticipatory effects of the reform, such that a slight decrease in revenue is actually to be expected under certain circumstances. With a much wider tax base and low tax rates, a noticeable spike in revenue could be achieved—just not in the short and medium term.

Interview by Erich Wittenberg



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