

Drometer, Marcus et al.

Article

Wealth and Inheritance Taxation: An Overview and Country Comparison

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Marcus Drometer, Marco Frank,
Maria Hofbauer Pérez, Carla Rhode,
Sebastian Schworm and Tanja Stitteneder¹

Wealth and Inheritance Taxation: An Overview and Country Comparison

Although having attracted more attention in recent years, wealth and wealth distributions still play a minor role compared to income distributions in discussions concerning inequalities within and across countries (see, for example, sustainable development goals from the UN²; OECD 2015). This article provides an overview of existing data on wealth and wealth taxes around the globe. Firstly, we present data on wealth levels for selected OECD countries and discuss the general difficulties in measuring wealth. Secondly, we investigate the existing net wealth taxation regimes in selected OECD countries. Thirdly, we compare inheritance and gift taxation regimes across the same sample of OECD countries and illustrate that tax regimes differ vastly from one another.

MEASUREMENT DIFFICULTIES

In contrast to income, wealth has proven difficult to be measured for several reasons. Firstly, these data are often well protected, and their usage is restricted to administrative purposes. Secondly, because there is a clear incentive for individuals to record minimised values to reduce tax payments, the data are unable to fully capture tax avoidance and sheltering. Thirdly, some data sources might not be updated regularly. As a result of these inherent difficulties to gather accurate data, annual wealth data can often only rely on estimates (see e.g., Global Wealth Databook 2017; Kopczuk 2015).

Kopczuk (2015) summarizes four approaches to measure the wealth distribution in the case of the US: the capitalization method, household surveys, the estate tax multiplier method, and listings of the wealthiest (e.g., the Forbes 400 list). These approaches differ vastly from each other in terms of data collection method, data sources, and time of introduction. None of these approaches were found to be the ultimate measure to account for wealth levels perfectly. On the contrary, different measures yield diverging wealth estimates (especially from 1980 onwards), and each approach brings along its own set of drawbacks that requires reconciliation. Some of the measures, for instance, do not capture the entire population and may

therefore under- or overestimate the underlying wealth stock. Furthermore, the worth of assets that do not generate taxable returns, such as artwork or jewellery, is difficult to value. Sceptics of the survey-based method relegate on the low response rate and the possibility of misreporting. In addition to the drawbacks mentioned by Kopczuk (2015), other factors complicate the measurement of wealth. For one, heterogeneous definitions of wealth consequently impede comparisons World Inequality Report (2018). Moreover, most valuations of wealth include private pension funds while excluding public ones (Global Wealth Report 2017). Therefore, an individual with a privately funded pension system appears statistically wealthier than an individual with comparable pension claims in a country that relies more heavily on a public pension system. The fact that tax avoidances and tax sheltering usually go unrecorded complicates the assessment of true wealth stocks even further – Zucman (2013) and Alstadsæter et al. (2017) suggest that up to 8-10% of households' financial wealth is held in tax havens. Finally, most definitions of wealth exclude non-material assets such as human capital.³ All these drawbacks suggest that the best results to accurately measure wealth can only be obtained by matching available administrative or national account data while combining multiple data collection approaches.

WEALTH LEVELS

The OECD defines household wealth as the ownership of economic capital. The definition is further classified into “financial assets, non-financial assets and liabilities” (OECD 2015). Financial assets are intangible and include stocks, bonds, bank deposits, and cash. By contrast, non-financial assets, like property or vehicles, are of physical worth. The OECD measures are mainly obtained by combining data from national surveys and statistical records. However, so far not all countries have fully adopted the OECD guidelines to report wealth levels, thus making the OECD wealth data unavailable for certain countries and years.⁴

Following the OECD definition for wealth, the Research Institute of Credit Suisse provides data on worldwide aggregate wealth levels and individual country-level wealth estimates for 171 countries since 2000.⁵ Figure 1 shows the annual percentage change in total global wealth from 2001 to 2017. Although global wealth has grown on average by 5.5% per year since 2000, the wealth growth rate has fluctuated considerably. From the early to mid-2000s, global wealth has experienced a sharp uplift due to both strong financial and non-financial (mostly housing) wealth compo-

³ A World Bank analysis suggests that human capital constituted a 64% share of total wealth per capita in 2014 (Worldbank Group 2018).

⁴ For more details, see a set of ‘Guidelines’ for micro statistics on household wealth issued by OECD (OECD 2013).

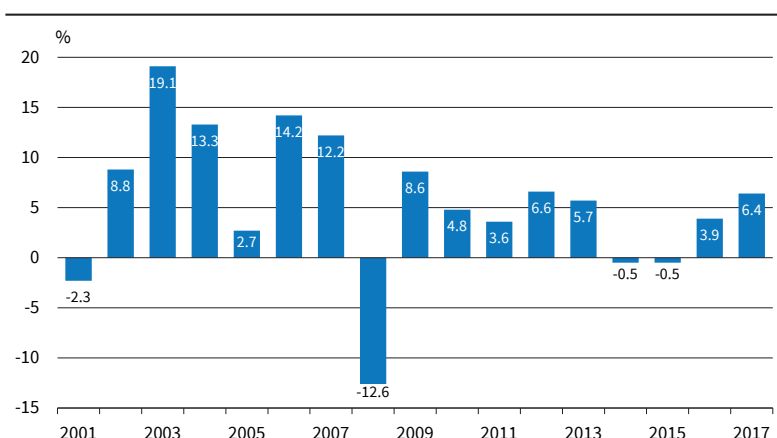
⁵ Data are collected through surveys. In addition, wealth levels are estimated for countries with scarce information. For more details, see: Global Wealth Databook (2017).

¹ ifo Institute (all)

² See http://www.un.org/sustainabledevelopment/wp-content/uploads/2018/01/16-00055j_Why-it-Matters_Goal10_Equality_new-icon.pdf

Figure 1

Annual Percentage Change in Total Global Wealth, 2001–2017



Source: Credit Suisse Global Wealth Databook (2017).

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nents. The year 2008, however, stands out with a large decline in total global wealth during the financial crisis. After 2008, the world economy gradually recovered, but wealth growth remained below the pre-financial-crisis growth rate. Total global wealth grew by 6.4% from 2016 to mid-2017, amounting to 280 trillion US dollars in mid-2017.

Table 1 shows the increase in total wealth and wealth per adult from 2016 to mid-2017 for a selected number of OECD countries. Given the size of its wealth stock, the US is the most significant contributor to the rise in total global wealth from 2016 to mid-2017. Europe and China registered growth rates similar to the global figure of 6.4%. In Europe Bulgaria, the Czech Republic, Poland, and Sweden in particular showed notable wealth growth rates. Wealth has also increased in Latin America, but still lagged behind compared to the other regions (3.9%). At less than 1%, wealth grew least in the Asia-pacific region and Africa⁶ (Global Wealth Report 2017). Wealth levels decreased in a few countries like Japan, Turkey, Ukraine, and the United Kingdom, showing negative growth rates. Yet the overall wealth increase is mainly driven by financial assets that make up 54% of total global wealth. However, non-financial assets also contribute to recent

which wealth is distributed within a country. However, studies agree that regardless of the method used, wealth is generally more unequally distributed than income (e.g., Kopczuk 2015 among others). Table 2 illus-

⁷ For a variety of reasons this is even more the case in lower income countries, such as Indonesia and India, where non-financial assets account for more than 80% of the wealth share (Global Wealth Databook 2017). One explanation would be that household wealth mainly comprises assets like the household's home and other belongings rather than financial wealth.

wealth growth rates to a large extent.⁷ When looking at the data on wealth per adult, Switzerland had the wealthiest residents in 2017 with approximately 537,599 US dollars held by an average adult, followed by Australia (402,603 US dollars per adult) and the United States (388,585 US dollars per adult) (Global Wealth Report 2017; World Inequality Report 2018).

WEALTH INEQUALITY

Given the difficulties of measuring wealth, it is hard to estimate precisely the extent to

Table 1

Country Comparison of Total Wealth Levels and Wealth per Adult

| | Total Wealth in USD bn (mid-2017) | Total Wealth Growth 2016 – mid-2017 (%) | Wealth per Adult in USD (mid-2017) | Wealth per Adult Growth (2016 – mid-2017, %) |
|----------------|-----------------------------------|---|------------------------------------|--|
| Australia | 7,329 | 11.0 | 402,603 | 9.5 |
| Austria | 1,562 | 8.2 | 221,456 | 7.6 |
| Belgium | 2,453 | 7.3 | 278,139 | 6.6 |
| Bulgaria | 101 | 11.0 | 17,394 | 11.7 |
| Canada | 7,407 | 8.0 | 259,271 | 6.8 |
| Czech Republic | 440 | 11.1 | 51,472 | 11.0 |
| Denmark | 1,245 | 9.1 | 281,542 | 8.3 |
| Finland | 686 | 9.4 | 159,098 | 8.9 |
| France | 12,969 | 8.2 | 263,399 | 7.7 |
| Germany | 13,714 | 8.3 | 203,946 | 7.9 |
| Ireland | 853 | 8.4 | 248,466 | 7.8 |
| Italy | 10,853 | 7.0 | 223,572 | 7.0 |
| Japan | 23,682 | -6.2 | 225,057 | -6.1 |
| Luxembourg | 141 | 7.6 | 313,687 | 6.6 |
| Netherlands | 2,692 | 2.0 | 204,045 | 1.5 |
| New Zealand | 1,162 | 12.8 | 337,441 | 11.4 |
| Norway | 1,286 | 6.2 | 320,475 | 4.9 |
| Poland | 859 | 18.0 | 28,057 | 17.9 |
| Portugal | 750 | 7.0 | 89,437 | 7.1 |
| Spain | 4,845 | 8.7 | 129,578 | 8.7 |
| Sweden | 1,994 | 12.7 | 260,667 | 11.9 |
| Switzerland | 3,630 | 4.0 | 537,599 | 3.0 |
| Turkey | 1,068 | -6.0 | 20,061 | -7.9 |
| Ukraine | 43 | -4.4 | 1,224 | -2.6 |
| United Kingdom | 14,073 | -0.2 | 278,038 | -0.9 |
| United States | 93,560 | 10.1 | 388,585 | 9.0 |

Source: Authors' calculations based on World Inequality Report (2017).

⁶ Excluding India and China.

Table 2

Wealth Shares across Countries, 2017

| Country | Wealth decile | | | | | | | | | | Top 1% |
|--------------------------|---------------|------|-----|-----|-----|-----|-----|------|------|------|--------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | |
| Wealth shares (%) | | | | | | | | | | | |
| Australia | 0.2 | 0.8 | 1.6 | 2.8 | 4.1 | 5.8 | 7.8 | 10.2 | 14.5 | 52.3 | 22.9 |
| Austria | -0.6 | 0.1 | 0.4 | 0.8 | 1.8 | 3.7 | 5.9 | 8.7 | 13.6 | 65.7 | 31.1 |
| Belgium | -0.1 | 0.2 | 1.2 | 3.1 | 5 | 6.7 | 8.8 | 11.5 | 16.3 | 47.2 | 17.5 |
| Canada | -0.2 | 0.1 | 0.5 | 1.4 | 2.7 | 4.5 | 6.9 | 10.1 | 15.6 | 58.5 | 26.1 |
| Czech Republic | 1 | 1.8 | 2.5 | 3.1 | 4.1 | 4.9 | 5.9 | 7.6 | 11.6 | 57.6 | 30.6 |
| Denmark | -1.9 | -0.1 | 0.4 | 1.2 | 2.5 | 3.8 | 5.5 | 8 | 12.5 | 68.3 | 33.2 |
| Finland | -0.8 | 0 | 0.3 | 1.2 | 2.8 | 4.5 | 6.4 | 9.1 | 13.9 | 62.7 | 31.3 |
| France | -0.2 | 0.1 | 0.4 | 1.3 | 3.4 | 5.8 | 8.2 | 11.1 | 16.2 | 53.7 | 21.6 |
| Germany | -0.5 | 0.1 | 0.3 | 0.8 | 1.7 | 3.2 | 5.5 | 9.2 | 14.6 | 65.2 | 32.3 |
| Ireland | -2.5 | -0.1 | 0.2 | 0.9 | 2.6 | 4.2 | 6.1 | 8.5 | 14.3 | 65.8 | 33.1 |
| Italy | -0.1 | 0.2 | 0.8 | 2.8 | 4.8 | 6.4 | 8.2 | 10.6 | 15.2 | 51.2 | 21.5 |
| Japan | 0.3 | 0.8 | 1.7 | 3 | 4.7 | 6.4 | 8.8 | 11.7 | 17.5 | 45.2 | 14.6 |
| Netherlands | -2.6 | 0.1 | 0.7 | 1.9 | 3.7 | 5.7 | 8.4 | 11.5 | 16.4 | 54.3 | 22.3 |
| New Zealand | -0.9 | 0 | 0.9 | 1.7 | 3.4 | 5.1 | 6.8 | 10.2 | 16.3 | 56.5 | 23.8 |
| Norway | -3.6 | -0.3 | 0.2 | 1.4 | 3.1 | 5.1 | 7.1 | 9.8 | 14.4 | 62.9 | 30.6 |
| Poland | 0.6 | 1.3 | 1.8 | 2.5 | 3.2 | 4 | 5 | 6.6 | 10.1 | 65 | 39.2 |
| Portugal | -0.2 | 0.2 | 1.1 | 2.4 | 3.6 | 5 | 6.7 | 9.3 | 13.4 | 58.5 | 28.2 |
| Spain | 0.1 | 0.4 | 1.8 | 3.6 | 4.4 | 5.6 | 7.3 | 9.5 | 13.6 | 53.8 | 25.1 |
| Sweden | 0.1 | 0.3 | 0.6 | 1 | 1.4 | 2.1 | 3.2 | 4.9 | 8.7 | 77.8 | 41.9 |
| Switzerland | -0.2 | 0.9 | 1.7 | 2.6 | 3.5 | 5.2 | 6.7 | 8.4 | 12.7 | 58.7 | 28.9 |
| United Kingdom | -0.8 | 0.2 | 0.6 | 1.4 | 2.8 | 4.7 | 7 | 10.5 | 16.4 | 57.2 | 24.3 |
| United States | -0.4 | -0.2 | 0.2 | 0.5 | 1 | 2 | 3.4 | 5.7 | 11.2 | 76.7 | 38.3 |

Source: Global Wealth Databook (2017).

trates the unequal distribution of wealth by showing wealth shares held by each wealth decile. In terms of wealth, the world's poorest 10% hold on average -0.4% of the global wealth stock, meaning that liabilities exceed the value of assets of the households concerned. The bottom 90% of the world's wealth holders owns on average a total of 12.2% of the total wealth stock versus an average of 87.8% held by the top 10%. However, in the sample of OECD countries presented, wealth is less unequally distributed. In addition, Table 2 reveals that inequality is higher in some countries than in others. For instance, the top 10% in the US hold 76.7% of US wealth stock. In Canada, on the other hand, the wealthiest 10% only hold 58.5% of Canadian wealth. The distribution of wealth is most equal in Japan (followed by Belgium) in which the top 10% hold less than 50% and the remaining 90% of the population hold 54.9% of the country's total wealth stock.

In most Western countries, wealth inequality fell during the first half of the last century until the 1980s (Alstadsæter et al. 2017). The reasons for the decline are manifold, including the Great Depression, the destruction of capital in the World Wars, capital taxation and changes in rent policies that led to fewer incentives to accumulate wealth, among other things. However, the downward trend stopped in the 1980s and wealth inequality levels have risen again ever since (World Inequality Report 2018; Zucman 2017). Nonetheless, the current levels are still lower than the wealth inequality

levels at the beginning of the 20th century (Piketty and Zucman 2014; Jones 2015).

NET WEALTH TAXATION

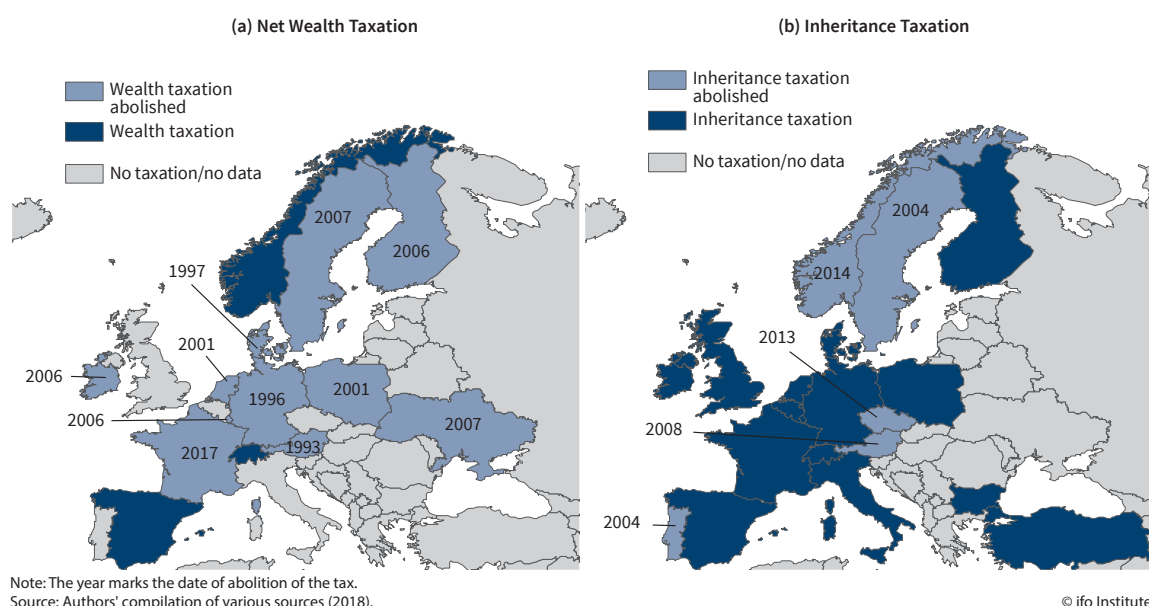
The following section presents selected OECD countries that have net wealth taxes or some measures to tax net wealth in place and countries that abolished their wealth tax regime recently. Net wealth -- or net worth -- refers to the total value of equity of a person (household), a company or a government.⁸ Wealth taxes differ in how often they are levied and whether they occur on the holding, transfer, or appreciation of financial and non-financial assets. While taxes on net wealth accrue periodically (usually annually), transfer taxes are levied when a gift transfer occurs -- or as in the case of inheritance taxes just once in a generation (Brülhart 2016). Like income taxes, wealth taxes can be progressive with the tax rate increasing along with the amount to be taxed.

The current worldwide trend leans towards abolishing net wealth taxes. While 15 years ago, ten of the 26 OECD economies mentioned in this article incorporated net wealth taxes, there are only three of them doing so nowadays: Switzerland, Norway, and Spain. In a recent tax reform, France abolished net wealth taxation from its taxation spectrum. Meanwhile, Italy and the Netherlands have some elements in their tax system that go beyond income or inheritance taxation, but do not tax an entity's net wealth per se. Around half of the OECD

⁸ This article focuses individual net wealth taxes only.

Figure 2

Net Wealth and Inheritance Taxation in Europe, 2017/2018



countries have never implemented net wealth taxation, and 13 countries in total abolished it in the past three decades.

Among the countries employing a levy on net wealth (Switzerland, Spain, Norway), the share derived from net wealth taxes in 2016 was largest in Switzerland with 3.7% of total tax revenue (OECD Revenue Statistics 2018). In Switzerland, the taxation system is organised de-centrally and hence enables tax competition between cantons. Worldwide assets of private individuals are subject to the tax, and taxes are levied in the canton or commune in which the individual's tax residence lies. The tax-free threshold ranges, depending on the canton, from 50,000 Swiss francs to 250,000 Swiss francs (around 59,110 euros to 295,550 euros) for married households without children. The remaining wealth stock is then taxed progressively at between 0.03% to 1.09% of its value (Eidgenössische Steuerverwaltung (ESTV) 2016).

In Norway, the share from net wealth taxation made up 1.1% of total tax revenue in 2016 (OECD Revenue Statistics 2018). The same tax rates apply throughout the country, but are allocated to different authorities: the majority (0.7%) of the tax is payable to the respective municipality and 0.15% to the central government. Assets subject to taxation include financial

assets and housing. The latter constitutes 65% of net wealth according to Statistitcs Norway (2012). The Norwegian net wealth tax rate is linear. Wealth stocks exceeding the tax-free threshold of 1,480,000NOK (around 154,000 euros) are taxed at 0.85%.

In Spain, 0.5% of total tax revenues is realized through net wealth taxation (OECD Revenue Statistics 2018). An asset is subject to taxation if an economic value can be attributed to it. As in Switzerland, autonomous regions in Spain hold some authority over both tax allowances and tax rates. The wealth tax is progressive with marginal tax rates ranging from 0.2% to 2.5%. In Spain, net wealth of up to 700,000 euros plus an additional 300,000 euros for housing are tax-exempt. Out of the three countries presented, Spain applies the highest tax-free exemptions. In 2009, the Spanish Government abolished taxes on net wealth, but reinstated this form of taxation on an annual basis from 2011 to 2017. So far, the extension has not been carried out for the year 2018 (El Pais 2018).

Next to the three countries mentioned, other countries have tax regimes in place that tax a part of an individual's or household's wealth stock respectively. France put forward a reform for its wealth taxation that would come into effect in January 2018. While all net worldwide assets above 1.3 million euros were subject

Table 3

Comparison of Net Wealth Taxation across Countries, 2018

| Country | Tax regime | Tax-free exemption limit | Tax rate |
|-------------|-------------|---|--|
| Switzerland | Progressive | 50,000CHF (59,110€) - 250,000CHF (295,550€) for married households without children | 0.03% to 1.09% |
| Norway | Linear | 1,480,000NOK (157,658€) | 0.7% to municipality and 0.15% to central government |
| Spain | Progressive | 700,000€ on worldwide assets + 300,000€ on housing | 0.2% to 2.5% |

Note: Any currency exchanges were conducted using the exchange rate as of the 16th of May 2018.

Source: Authors' compilation of various sources (2018).

to net wealth taxation prior to the reform, the taxation now applies solely to immovable property above the same threshold. Effectively the net wealth tax was replaced by a tax on real property.⁹ Additionally, a 30% flat tax on capital income was introduced, replacing prevailing progressive tax rates (service-public.fr 2018). Italy is another example in this context. Until now, Italy does not apply a net wealth tax, but taxes financial assets at 0.2% and properties held abroad at 0.76% (taxing.it 2017). The Netherlands abolished net wealth taxation in 2001 and reformed its prevailing income tax as well. Unlike other countries, the Dutch authorities assume that certain assets will generate an annual yield (1.63% to 5.5%), which is taxed at 30% instead of taxing the effectively realised returns (orangetax.com 2016). Income from savings and investments (excluding liabilities) that exceed a certain tax-free amount (25,000 euros in 2017) is subject to taxation (Belastingdienst.nl 2018). In addition, many exemptions apply, such as when the immovable property is considered an owner-occupied home.

In a number of countries, net wealth taxes have been abolished altogether over time for various reasons (see Figure 2a). Austria, for example, abolished the wealth tax in 1993 mainly due to the high administrative costs that accrued in the data collection process and because of the economic burden the wealth tax meant to Austrian enterprises.¹⁰ Denmark used to apply some of the highest marginal tax rates, but the country abolished the tax scheme in the 1990s after gradually reducing it in the preceding years (Jakobsen et al. 2018). Germany abolished its net wealth tax in 1997 after it was deemed unconstitutional by the Federal Constitutional Court in 1995. The Court ruled the tax's discrimination of property and financial assets to be an infringement against the fiscal principle of tax equality (BVerfG 1995). The wealth tax was soon abolished altogether. One evident reason was the comparatively small tax revenue that it yielded (only 0.8% of total tax revenues) and the weak enforcement given the high administrative costs of implementing it (Gruener 1996).

INHERITANCE TAXATION

Taxation of inheritance is more widely regarded as a more popular mechanism to reduce wealth inequality in industrialized countries. While taxes on net wealth accrue periodically (usually annually), transfer taxes are levied when a gift transfer occurs – or as in the case of inheritance taxes just once in a generation (Brühlhart 2016). Transfer taxes are assessed on transferred taxable assets from one person to another (Rudnick and Gordon 1996) and can be further distinguished by

Table 4

Estate, Inheritance and Gift Tax Revenue as well as Total Tax Revenue as % of GDP, 2016

| Country | Tax revenue as % of GDP: Net wealth | Tax revenue as % of GDP: Estate, inheritance and gift taxes | Total tax revenue as % of GDP |
|----------------|-------------------------------------|---|-------------------------------|
| Australia | | 0.0 | 28.2 |
| Austria | | 0.0 | 42.7 |
| Belgium | | 0.7 | 44.2 |
| Canada | | 0.0 | 31.7 |
| Czech Republic | | 0.0 | 34.0 |
| Denmark | | 0.2 | 45.9 |
| Finland | | 0.2 | 44.1 |
| France | (0.2)* | 0.6 | 45.3 |
| Germany | | 0.2 | 37.6 |
| Ireland | | 0.2 | 23.0 |
| Italy | | 0.0 | 42.9 |
| Japan | | 0.4 | 30.7 |
| Luxembourg | | 0.2 | 37.1 |
| Netherlands | | 0.3 | 38.8 |
| New Zealand | | 0.0 | 32.1 |
| Norway | 0.4 | 0.0 | 38.0 |
| Poland | | 0.0 | 33.6 |
| Portugal | | 0.0 | 34.4 |
| Spain | 0.2 | 0.2 | 33.5 |
| Sweden | | 0.0 | 44.1 |
| Switzerland | 1 | 0.2 | 27.8 |
| Turkey | | 0.0 | 25.5 |
| United Kingdom | | 0.3 | 33.2 |
| United States | | 0.1 | 26.0 |

Note: * Net wealth taxation was abolished in 2017/2018.

Source: OECD Revenue Statistics (2018); 4210 for net wealth tax and 4300 for estate, inheritance and gift tax.

whether they are levied on the receiver or the benefactor.¹¹ As shown in Figure 2b, 17 of the 26 OECD countries studied in this article tax inheritances, while only nine do not (Australia, Austria, Canada, Czech Republic, New Zealand, Norway, Portugal, Sweden, Ukraine and United States). In the following, we compare the inheritance tax regimes of the 17 OECD countries that tax inheritance.

The revenue from inheritance and gift taxation as a share of GDP (%) is shown in Table 4. In general, revenue from inheritance taxation only accounts for a small portion of the total tax revenues. The total tax revenue as a share of GDP ranges between 26.0% in the US and 45.9% in Denmark. Estate, inheritance, and gift tax combined only made up a maximum of 0.7% of GDP in Belgium. On average, among OECD countries, these joint taxes make up 0.1% of GDP, while total tax revenue accounts for 34.3%.

Within the group of countries taxing inheritance, differences between taxation systems can be categorized according to the following characteristics: the tax regime (fixed or progressive), the different tax classes (distance to heir), the marginal tax rates, and the levels of exemptions. Table 5 gives an overview of the current

⁹ There are a number of OECD countries taxing property and/or other forms of estate, such as land and vehicles (e.g., Ukraine, some states in the US, Denmark, Turkey). However, such tax mechanisms go beyond the scope of this article and are therefore not mentioned in greater detail.

¹⁰ For more details, see "Vermögenssteuer" - report by Wirtschaftskammer Österreich (Eberhartinger, Past and Morozov 2013).

¹¹ The descriptive summary of the international tax regimes focuses on inheritance taxation. Hence, in countries where inheritances and gifts are taxed differently gift taxation is not examined in detail.

Table 5

Comparison of Inheritance Taxation in Selected OECD Countries 2017/2018

| Inheritance Taxation (Marginal Tax Rates in %) | | | | | | | | | | |
|---|---|---|--|-----------|-----------|-----------|-------------|-------------|--------------|--|
| Country | Tax regime | Tax classes | € 50,000 | € 100,000 | € 250,000 | € 500,000 | € 1,000,000 | € 5,000,000 | € 30,000,000 | (Personal) Exemptions |
| Belgium (Brussels, Flemish region, Walloon region) | Double progressive | Spouse, children, parents | 3.0 | 8.0 | 18.0 | 24.0 | 30.0 | | | €15,000 |
| | | | 3.0 | 9.0 | 9.0 | 27.0 | | | | |
| | | | 5.0 | 7.0 | 18.0 | 24.0 | 30.0 | | | €12,500 |
| | | Siblings | 30.0 | 40.0 | 60.0 | 65.0 | | | €1,250 | |
| | | | 30.0 | 55.0 | 65.0 | | | | | |
| | | | 35.0 | 50.0 | 65.0 | | | €620 | | |
| | | Uncles/ aunts, nieces/ nephews | 35.0 | 50.0 | 70.0 | | | €1,250 | | |
| | | | 40.0 | 55.0 | 70.0 | | | €620 | | |
| | | | Others | 40.0 | 65.0 | 80.0 | | | €1,250 | |
| | | 45.0 | | 55.0 | 65.0 | | | | | |
| | | 60.0 | | 80.0 | | | €620 | | | |
| Bulgaria | Progressive relationship (rate depends on municipality) | Siblings, nieces/ nephews | 0.4 - 0.8 per inheritance share above €128,000 | | | | | | | |
| | | Others | 3.3 - 6.6 per inheritance share above €128,000 | | | | | | | |
| Denmark | Progressive relationship | Children, grandchildren, children-in-law, parents, divorced spouse | 15.0 | | | | | | | €37,942 (>€372,814): ordinary income and capital gains tax, excluding the residence of the deceased |
| | | Others | 36.3 | | | | | | | |
| Finland | Double progressive | Spouses, children, grandchildren, fiancé | 10.0 | 13.0 | 16.0 | | | 19.0 | | |
| | | Others | 25.0 | 29.0 | 31.0 | 31.0 | 31.0 | 33.0 | 33.0 | |
| France | Double progressive | Children | 20.0 | | | | 40.0 | 45.0 | | €100,000 |
| | | Siblings | 45.0 | | | | | | | €15,932 |
| | | Blood relatives up to the fourth degree | 55.0/60.0 | | | | | | | |
| Germany | Double progressive | Spouse, children, grandchildren, parents (inheritance) | 7.0 | 11.0 | | 15.0 | 19.0 | | 30.0 | Spouse: €500,000; children and grandchildren: €200,000-€400,000; others €100,000 |
| | | Parents (gifts), stepparents, siblings, nephews/ nieces, in-laws, divorced spouse | 15.0 | 20.0 | | 25.0 | 30.0 | | 43.0 | €20,000 |
| | | Others | 30.0 | | | | | | 50.0 | Inheritances: €20,000, Gifts: €80,724 for spouses, €31,865 for grandchildren, €5,310 for great-grandchildren |
| Ireland | Progressive relationship | Child, grand-child, partner of predeceased child, parents | 33.0 | | | | | | | €310,000 |
| | | Siblings, niece/ nephew, sibling-in-law | | | | | | | | €32,500 |
| | | Others | | | | | | | | €16,250 |
| Italy | Progressive relationship | Spouse, linear relatives | 4.0 | | | | | | | €1,000,000 |
| | | Siblings | 6.0 | | | | | | | €100,000 |
| | | Other relatives and certain relatives by marriage | | | | | | | | |
| | | Others | 8.0 | | | | | | | |
| | | Persons with disablement | The rate depends on the relationship of heir and deceased. | | | | | | | €1,500,000 |
| Japan | Progressive rates | | 10.0 | 15.0 | 20.0 | 30.0 | 40.0 | 55.0 | | €229,221 + €45,844* number of statutory heirs. Minor heirs: € 764 * (20 – age), Handicapped heirs: €764/€1,528* (85 – age) |

| Inheritance Taxation (Marginal Tax Rates in %) | | | | | | | | | | |
|--|--------------------------|--|---|--|------------------|------------------|-------------|-------------|---|---|
| Country | Tax regime | Tax classes | € 50,000 | € 100,000 | € 250,000 | € 500,000 | € 1,000,000 | € 5,000,000 | € 30,000,000 | (Personal) Exemptions |
| Luxembourg | Double progressive | Children | Exceeding the statutory share: 2.5-5.0 | | | | | | | Spouse with children: €38,000 |
| | | Spouses | With children: 0; without children: 5.0 | | | | | | | |
| | | Siblings | Statutory share: 6.0; exceeding the statutory share: 15.0 | | | | | | | |
| | | Uncles/aunts, nieces/nephews, adopted children | Statutory share: 9.0; exceeding the statutory share: 15.0 | | | | | | | |
| | | Great-uncles/aunts, great-nieces/nephews, descendants of adopted children | Statutory share: 10.0; exceeding the statutory share: 15.0 | | | | | | | |
| | | Others | Statutory share and exceeding: 15.0 | | | | | | | |
| Netherlands | Double progressive | Partner, children | 10.0 | Up to 20.0 for inheritances above €122,269 | | | | | Inheritances: Partner: min. €164,842-€638,089; sick and disabled children: €60,621, children: €20,209; Gifts: €2,129-€5,320, depending on relationship | |
| | | Grandchildren | 18.0 | Up to 36.0 for inheritances above €122,269 | | | | | €20,209 | |
| | | Others | 30.0 | Up to 40.0 for inheritances above €122,269 | | | | | Parents: €47,859, others: €2,129 | |
| Poland | Double progressive | Tax on lower threshold €, rate on remainder (X-lower threshold) % | | | | | | | | €2,246 |
| | | Spouse, children, grandchildren, siblings, parents, grandparents, in-laws | <€2,246 | €2,246–€2,396 | | €2,396–€4,790 | | >€4,790 | | |
| | | | €0 / 0% | €0 / 3% | | €72 / 5% | | €192 / 7% | | |
| | | Nieces/nephews, uncles/aunts, siblings-in-law | <€1,696 | €1,696–€2,396 | | €2,396–€4,790 | | >€4,790 | €1,695 | |
| | | | €0 / 0% | €0 / 7% | | €168 / 9% | | €383 / 12% | | |
| | | Others | <€1,142 | €1,142–€2,396 | | €2,396–€4,790 | | >€4,790 | € 1,142 | |
| | | | €0 / 0% | €0 / 0% | | €287 / 2% | | €6 / 7% | | |
| Spain | Double progressive | Rate increases with relationship and prior wealth of acquirer (max. rate: 81.60%). | 13.6 | 18.7 | 29.8 | | 34.0 | | Spouse, children and parents: €15,956-€47,858; in case of disabled heir €47,858-€150,253; others: €7,993. Dwelling: 95% of the real estate value (up to €122,606) | |
| Switzerland | Progressive relationship | Spouses | No tax in all cantons | | | | | | | Allowances and free limits depend on canton |
| | | Children and grandchildren | Max. rate of 3.5 in Appenzell I. Rh., Lucerne, Neuchâtel, Vaud | | | | | | | |
| | | Parents | Taxes (max. 15.0) except for Aargau, Appenzell I. Rh., Basel Land, Fribourg, Geneva, Nidwalden, Obwalden, Solothurn, Schwyz, Ticino, Uri, Valais, Zug | | | | | | | |
| | | Siblings | Max. rate of 23.0; except: Obwalden, Schwyz | | | | | | | |
| | | Others | Max. rate of 49.5; except: Obwalden, Schwyz | | | | | | | |
| Turkey | Progressive rates | | 1.0 | 3.0 (>€ 50,000) | 5.0 (>€ 100,000) | 7.0 (>€ 250,000) | 10.0 | | €33,665 per share for both child and spouse, if no children: €67,381 for spouse | |
| UK | Fixed | | 40.0 | | | | | | | €369,395 |
| USA (estate and gift tax) | Progressive rate | | 24.0 | 28.0 | 32.0 | 34.0 | 39.0 | 40.0 | | €4,657,807 |

Note: Any currency conversions were conducted using the exchange rate as of the 16th of May 2018.
Source: EY (2017).

inheritance tax structures in selected countries according to these four characteristics.

Gifts are a potential means of avoiding inheritance taxation, and therefore their taxation is generally instrumented to prevent inheritance tax through gifts during lifetime. There are two types of countries listed in Table 5 — ones that differentiate gifts and inheritances, and the others that use united taxation systems to cover both cases. In France, Germany, Ireland, the Netherlands, Poland, Spain, and the USA, inheritances and gifts are taxed using united systems (greyly shaded in Table 5). In Belgium, Bulgaria, Denmark, Finland, Japan, Luxembourg, Switzerland, Turkey, and the United Kingdom, separate systems for inheritance and gifts are implemented.

Tax Regime

Tax regimes can be classified as progressive or non-progressive. A non-progressive tax regime applies either a fixed tax rate or a fixed chargeable amount independent of the value bequeathed. By contrast, some progressive tax regimes are considered “double-progressive” since not only does the tax rate increase with the amount bequeathed, but also with the tax classes of the heirs (i.e., the more distant the family relation, the higher is the tax rate). The most common tax regime is a double-progressive regime, which is applied in eight of the 17 countries – Belgium, Finland, France, Germany, Luxembourg, Netherlands, Poland, and Spain. Alternatively, a tax regime can be progressive in only one regard, namely either the tax class or the amount inherited. The progressive “tax class” regime is found in Bulgaria, Denmark, Ireland, Italy, and Switzerland. Ireland is an exceptional case, because it is not the marginal tax rate that increases with closeness of the relationship, but rather the exemptions that end up increasing, while all individuals and all amounts are taxed at a 33% rate, and only the exemption rules follow a progressive “tax class” regime. The progressive “tax rate” regime is found in Japan, Turkey, and the US. While the marginal tax rates in Turkey are at the lower end of the distribution, ranging from 1%-10%, Japan applies rates ranging from 10%-55%, and the US taxes between 24% and 40% of the amount bequeathed. In the United Kingdom, a fixed tax regime is followed, which means that all tax classes and all tax amounts are under the same marginal tax rate of 40%.

Tax Classes

While the fixed and progressive “tax rate” regimes do not distinguish between different tax classes, the closeness of relationship of the inheritance receiver and the deceased plays a role in determining the marginal tax rate under the double progressive or progressive “tax class” regimes. Bulgaria, Denmark, and Finland only distinguish between two tax classes, namely the close

relatives and others. The tax class “others” includes distant relatives and unrelated beneficiaries and is found in all countries except France. France, Germany, Ireland, the Netherlands, and Poland apply three categories; Belgium uses four; Italy and Switzerland apply five; and Luxembourg leads with six distinct tax classes. While countries with fewer tax classes often combine various degrees of blood relatives such as children, parents, and spouses, countries with more categories distinguish among these. In Luxembourg, there is a special category for children, spouses, siblings, and uncles/aunts each. On the other hand, in Poland, for example, children spouses, grandchildren, siblings, parents, grand-parents, and in-laws are all summarized and joined into the first tax class. Italy also applies a special category for persons with disablement.

Marginal Tax Rate

When comparing the marginal tax rates among the countries, it becomes evident that Belgium has both one of the lowest and highest marginal tax rates. Belgium applies a marginal tax rate of 80% for the group “others” and an amount bequeathed above 100,000 euros. For spouses, children, and parents and for bequests above 50,000 euros, Belgium applies 3%. Among the countries studied, only Luxembourg with 2.5% (for any bequests to children) and Turkey with 1% (for all tax classes and bequests above 50,000 euros) apply lower tax rates. Interestingly enough, Table 5 also shows that Belgium is the country where the revenue achieved from taxing gifts and inheritance generates the highest revenue among the countries. Children face the highest tax rate in Ireland with 33%, but it is also important to point out that this high rate should be analysed with respect to the exemption levels, which are particularly high at 310,000 euros for children, for example. Poland also follows a unique calculation to determine the amount to be paid in tax. For example, if the inherited amount to a child is 3,509 euros: the beneficiary must pay a fixed amount of 72 euros since the 3,509 euros falls in the range of 2,396-4,790 euros as well as a variable amount. The variable amount is calculated by applying a tax rate, specific for the recipient group and amount (in this case 5%) to the amount left once subtracting the tax-free threshold from the total inherited amount. For this recipient group the threshold is 2,246 euros, therefore the remaining 1,263 euros (3,509-2,246) are multiplied with the 5%, giving an additional 63,15 euros to be paid in taxes.

Exemptions

As previously pointed out, marginal tax rates must be examined together with the personal exemptions. In Italy, for example, the tax rate for bequests above 50,000 euros is 4%. This rate becomes 3% in Belgium (Brussels). Nonetheless, while Italy applies a 1,000,000-euro exemption for spouses, Belgium (Brussels) only

offers 15,000 euros. Other countries consider disability as a special case when determining personal exemptions. Italy has the highest personal exemption set at 1,000,000 euros for spouses and linear relatives. It is followed by Germany with an exemption of 500,000 for spouses. In Japan, the exemptions are calculated based on a base amount and the specific situation of either dependent on the number of statutory heirs or on the age of the recipient for both minor or handicapped recipients.

Abolition of Inheritance Taxation

Of those countries that do not currently levy an inheritance tax, some abolished it in the past, whereas the tax was never introduced in the others. This situation in Europe is summarized in Figure 2b. The US is a mixed case and falls into neither category, where no inheritance tax is imposed at the federal level, yet a minority of states independently maintain inheritance tax regimes.

Taxes on bequests were abolished in Austria, Czech Republic, New Zealand, Norway, Portugal, and Sweden. The most recent abolition of the inheritance tax took place in Norway in 2014, where arguments about the fairness with respect to middle-class individuals dominated the debate over abolition. Moreover, it was pointed out that the inheritance tax impeded the transfer of family businesses to the next generation because of the resulting burden of liquidity that must be available to pay the due taxes. Finally, the inheritance tax regime was considered complicated and caused high administrative costs (Sand 2015).

In New Zealand, the gift tax and the inheritance tax were both abolished, although at different times. Inheritance taxation was abolished in 1992 mainly because of increasing tax avoidance (Littlewood 2014). The gift tax was first placed under review and finally abolished in 2011 mainly due to high compliance costs affecting the private sector and the low tax revenues arising from it. While historically, the gift tax was considered an instrument to prevent income tax avoidance and fraud with social security benefits, the review revealed that this mechanism of protection did not fulfil the efficiency criteria (Inland Revenue's Policy and Strategy Group 2011).

In the case of Sweden, inheritance taxation was abolished in 2004 by the Social-Democratic minority government in cooperation with the Left Party. As in Norway, the decisive argument was that the rich managed to avoid inheritance and gift taxation while increasing inheritance tax rates led to a financial burden for middle-class individuals. Moreover, the tax revenue from inheritance taxation was so low that the redistributive purpose and the effectiveness of the tax were questioned. Therefore, the inheritance tax regime was considered unfair and ineffective and was finally repealed (Henrekson and Waldenström 2016).

While Norway, New Zealand, and Sweden simply abolished the tax on inheritance, Austria, Czech Republic, and Portugal incorporated inheritances as taxable grounds into other tax regimes after abolishing a direct tax on bequests. In the Czech Republic, inheritances and gifts were subject to income taxation after the abolition of the inheritance and gift tax regime. Alternatively, in the case of Portugal, inheritances and gifts became subject to stamp tax, which is due on documents and acts among other things (PwC 2017). In Austria, inheritance and gift taxation was declared unconstitutional in 2007 as financial assets and real estates were treated unequally by the regulations of the tax regime. The Austrian government therefore decided against a revision of the tax regime within the processing period prescribed by the Austrian constitutional court. However, the Austrian administration included inheritances of real estates into the tax regime for the land transfer tax (finanz.at 2018).

By contrast, Australia, Canada, and Ukraine never implemented an official inheritance and gift tax regime. In Ukraine, a tax on inheritance never existed, although bequests are considered by the income tax regime. In Italy, the inheritance tax was temporarily abolished but reintroduced in 2006.

SUMMARY

The distribution of wealth and underlying wealth stocks have proven difficult to be measured. Available data suggests that wealth is generally more unequally distributed than income and therefore tends to be concentrated at the top. In the public debate, taxing wealth is often portrayed as a means to combat inequality through redistributing wealth. This article compared the net wealth taxation schemes of the three OECD countries currently applying levies on net wealth. Unlike net wealth taxes, inheritance taxes are found in most of the OECD countries presented. It is apparent that wealth and especially inheritance and gift taxation systems vary vastly from one country to another. The revenue shares that the two tax types yield, however, are relatively low.

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