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# **The Swedish Inheritance and Gift Taxation, 1885–2004**

Gunnar Du Rietz, Magnus Henrekson and  
Daniel Waldenström

# The Swedish Inheritance and Gift Taxation, 1885–2004<sup>\*</sup>

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*Abstract:* This paper studies the evolution of the modern Swedish inheritance taxation from its introduction in 1885 to its abolishment in 2004. A thorough description is offered of the basic principles of the tax, including underlying ideas and ambitions, tax schedules, and rules concerning valuation of assets, liability matters and deduction opportunities. Using these rules, we calculate inheritance tax rates for the whole period for a number of differently endowed family firms and individuals. The overall trend in inheritance tax burden exhibits an inverse-U shape for all firms and individuals. Up until World War II, inheritance tax rates were very low (never above six percent), but in the postwar era tax rates increased rapidly for both inherited firms and individual fortunes. Effective tax rates peaked in the mid-1970s. Valuation reliefs were introduced in the 1970s, which sharply reduced tax rates for inherited family businesses. Tax rates for deceased individuals were first cut in 1987 and then significantly reduced in 1991–1992. Finally, inheritance and gift tax revenues were relatively small, around a quarter of a percent of GDP.

*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

Modern inheritance taxation was introduced in Sweden in 1885, in the form of a single tax – the 1884 stamp ordinance. Various kinds of duties and fees on estates, inheritances and wills had existed earlier, but only for small and specific parts of the tax base and population strata.<sup>1</sup> This paper provides a detailed analysis of the evolution of Swedish gift, inheritance and estate taxes from 1885 until 2004 when they were abolished.

The main purpose of this study is to calculate the first long-term series of effective tax rates covering each year during the full period under study. Unlike previous studies where mostly statutory tax rates – typically the statutory top rate – are used, our effective rates both cover different inheritance amounts and account for the full spectrum of institutional factors affecting tax rates such as deductions, exemptions and valuation rules. We also present tax rates paid by heirs of individual fortunes as well as family firms.

Our long-run series provide new insights regarding the evolution of inheritance taxation in Sweden. Up until World War II, taxes were relatively low even for the largest inherited fortunes. In the postwar era, however, tax rates were raised gradually, reaching peak levels in the early 1970s. Thereafter, new valuation rules, especially concerning inherited family firms, lowered effective tax rates and additional eases in the 1990s and 2000s lead to further tax reductions until the final abolishment in 2004. Looking at the aggregate amounts of receipts of the gift, inheritance and estate taxes during the period of study, we find that these taxes were never fiscally important when compared to personal income or wealth taxes. Instead, it seems that the ambition with the inheritance tax was primarily to affect large intergenerational transfers at the top of the distribution.

The paper is organized as follows. In section 2 we present the main ideas behind the inheritance, gift and estate taxes in Sweden. The third and fourth section presents in some detail the rules governing the valuation of assets and liabilities and the tax schedules. Section 5 quantifies the importance of the inheritance and gift taxes as sources of government

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<sup>1</sup> The earliest Swedish estate tax was the “poverty percentage”, a fee of one eighth of one percent levied on the gross estate value. This tax was imposed between 1698 and the 1830s by local governments to fund local social spending. Probates were also taxed by a stamp duty (*Charta Sigillata*), but this was paid per sheet and had no relation to the value of the estate. See further Rydin (1882), Eberstein (1915) and Ohlsson (2011).

revenue. In section 6 we examine the impact of the gift and inheritance taxation by computing average inheritance tax rates, including gift and estate taxes, for synthetically constructed family firms and individuals. Most of the focus is on an assessment of the tax burden on owners of family firms of different sizes. Section 7 consists of a brief summary and our main conclusions.

## **2. Main ideas and aims behind the inheritance, gift and estate taxes**

### **2.1 Inheritance and estate taxation**

The starting point for calculating an inheritance tax is the remainder of a deceased person's estate, after settling outstanding debtors' accounts and, if the deceased was married, the spouse's right to its marital property (*giftorätt*). The remainder is then apportioned among the heirs and beneficiaries under the will, and as a final step the inheritance tax is calculated for each heir. Among the assets included in the taxable estate are real and financial assets, consumer durables and most private insurances. The tax-free property of the spouse removed from the taxable estate has usually amounted to half of the estate; from 1960 at least four price basic amounts.<sup>2</sup>

There are in general two different systems for taxing inheritance. The first is *estate taxation*, in which the estate is taxed in its entirety. This system is effectively a tax on the wealth of the deceased. This system is used in the United States, and was also practiced in Sweden during a decade in the 1940s and 1950s (see below). The second system is *inheritance taxation*, (*arvslottsbeskattning*) where the acquisitions of heirs and beneficiaries are taxed. When the Swedish 1884 stamp ordinance, was implemented, legislators discussed which of the two alternative tax systems to apply. Inheritance taxation was preferred, and even if it was designed to depart from the estate, the actual tax was imposed on the lots received by the heirs. Inheritance taxation is internationally the most common form of taxation of intergenerational transfers and is used for example in France, the Netherlands and the Nordic countries.

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<sup>2</sup> The price basic amount (previously the basic amount) is calculated based on changes in the general price level, in accordance with the National Insurance Act (1962:381). Many transfer payments, tax rates, entitlements etc. are determined by the price basic amount. The price basic amount was first introduced in September 1957 and set to SEK 4,000 (SOU 1977:91, p. 235–238). In 2004, the price basic amount was 39,300 SEK, and an average worker annual salary was SEK 262,200 (Table A2). The non-taxed spouse's marital property that year thus amounted to  $4 \times 39,300 / 260,200 = 60$  percent of the average annual worker salary.

The allotment of the taxable part of the estate is typically made according to a provisional (schematic) distribution of the estate inventory. The deceased's estate is then partitioned according to the legal rules of inheritance order and stipulations in the deceased's will (if any). If there are three children, the estate is thus divided up in three equal parts unless there is a will stipulating differently. If an heir abstains from his or her inheritance, the estate is passed on to his or her children. Assets emanating from insurance policies are taxed jointly with the deceased's estate, except for certain tax exempt allowances. Alternatively, the heirs can refer to a so-called real allotment of property as a base for the inheritance tax, but the allotment and the valuation of assets have to agree with inheritance law (SOU 2004:66, p. 84).<sup>3</sup>

## 2.2 Gift taxation

Along with the taxation of inheritance it is necessary to also tax gifts that the deceased may have transferred to the heirs during the years before the time of death. Several legal aspects need to apply if one is to talk about an *inter vivos* gift (a gift between the living). For an *inter vivos* gift to be taxable, it is required that it is associated with an ability to pay the tax, that it does not concern parents' obligation to support their children, and that it is not referring to estate division transfers between spouses or periodical transfers (Englund 1975, p. 155f).

The gift tax also rests on the ability-to-pay principle of taxation. The gift tax applies to wealth increases of the heir. Its main motivation, however, refers to the risk of tax avoidance if donors partition their wealth before the time of death in order to minimize inheritance taxes. In some countries, gift taxation is uniquely associated with inheritance and estate taxation, but in Sweden gift taxes had to be paid since 1914 on all kinds of gifts, not just those related to intergenerational transfers.

## 2.3 Summation rules

If every gift were considered as independent of earlier acquisitions, large tax gains could be accomplished simply by splitting up gifts into smaller installments spread over time. Analogously, inheritance and will acquisitions could then be split up into one acquisition in

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<sup>3</sup> However, the definition of lots in the real allotment cannot go against the rules of the Inheritance Code (*Ärvdabalken*). Nor can they violate the valuation rules in the AGL, and the estate division document must be handed in to the tax authorities before its decision on the matter. A referral to a real allotment also typically means that tax levels are higher since assets are included at full market values. For this reason such real allotments were rarely used when taxing inheritance.

connection with the decease of the owner and several subsequent gifts and delayed inheritances. As a result, the progressivity of the inheritance, estate and gift tax schedules would largely be avoided and tax payments substantially reduced (Englund 1975, p. 116).

To counteract any tendencies towards avoidance of inheritance, estate and gift taxes in this way, rules were constructed in the Inheritance and Gift Tax Ordinance (AGL) and the Estate Tax Ordinance (KVL), stipulating that gifts and bequests from the same donor should be added to inheritance lots and be taxed jointly. In the rules in the AGL, a distinction is made between immediate acquisitions (made before or at the time of death of the deceased) and cases when tax liability arose later, so-called delayed acquisitions.

The first summation rules (*sammanläggningsregler*) for immediate acquisitions in the inheritance and gift legislation were introduced in 1911 and concerned joining together inheritance lots with earlier gifts. The period of summation was two years. The value of gifts should be added on to the value of the inheritance lots and the inheritance tax calculated as if all acquisitions had occurred at the same time (§25, Official report 1910, p. 15).<sup>4</sup>

In the 1914 inheritance and gift tax ordinance (AGF 1914), the summation rules were expanded to include consecutive gifts, but the summation period was still two years until 1934 when it was extended to four years.<sup>5</sup> The summation period was prolonged because two years had turned out to be too short to effectively prevent tax payers from escaping part of the tax through avoidance strategies (SOU 1957:48, p. 85). Transfers of possessions were in many cases arranged as a series of gifts at intervals somewhat longer than two years.

Special rules of summation apply for delayed acquisitions taking place at some future point in time. Such a rule was first introduced in AGF 1941, when a ten-year period was decided to apply for such delayed transfers. The 1941 AGF also expanded the tax liability for gifts with future transfers. Now also beneficiary promissory notes regarding such (future) gifts were counted as taxable gifts.

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<sup>4</sup> These rules implied a change of the 1908 Stamp Duty Ordinance. The rules meant that inheritance lots should be added together with earlier gifts.

<sup>5</sup> The name or abbreviation AGF was changed in the 1970s to AGL (see SOU 1977:91, p. 233).

## 2.4 The ability-to-pay principle of taxation

The ability-to-pay principle of taxation has played an important role for the Swedish income tax system since the 1911 income tax reform. Taxes should be levied so as to minimize aggregate sacrifice and maximize welfare.<sup>6</sup> Traces of the ability-to-pay principle in the inheritance area can be found in the 1894 stamp ordinance as well as in the 1914 inheritance and gift tax ordinance. Acquisitions through inheritance and gifts normally provide the recipient with the ability to pay the ensuing tax. This equity consideration has been decisive for the progressivity of the inheritance and state income tax schedules and it also provides an important rationale for the origin of tax exemptions.

## 3. Valuation of assets and liabilities

### 3.1 General

The starting point for the valuation of assets and liabilities of estate inventories is that they should be listed at market values at the time of death of the deceased.

However, for certain types of assets special valuation rules also apply. Real estate should be taken up at tax-assessed value in the year preceding the death. The value of co-operative building society flats should correspond to members' share of wealth of the society. Personal property shall correspond to market value, and a business is valued as its sales value, estimated by trustees. Some asset types are listed at a part of their value. For example, shares registered on a stock exchange were (during some periods) listed at less than their full market value. From 1997 this was 80 percent; during the period 1978–1996 it was 75 percent, and before 1978 it was 100 percent. From 1978 unlisted shares (on the so-called O-list; an informal listing) and other OTC-shares were assessed at only 30 percent of their quoted or book value. Forest holdings (*skogskonto*) were listed at half their market value. Small firm

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<sup>6</sup> The ability-to pay principle was advocated by many groups of writers, including reformists and socialists. To them, this approach seemed a promising base from which to push for progressive taxation and income redistribution (Musgrave 1959, p. 112). A first, classical view of the ability to pay approach emanated from Mill (1848/1921). All taxpayers should be treated equally under the law. Tax shares are imposed in an equitable or just fashion. Equality in taxation means equality of sacrifice. The relative welfare position of individuals was in early stages of the debate formulated in terms of faculty (wealth), but a shift in emphasis to income followed. However, three distinct concepts of equal sacrifice were advanced, equal–absolute, equal–proportional and equal–marginal sacrifice. Whichever concept of equal sacrifice is chosen, the actual distribution of tax payments or rate structure required to implement it depends on the income–utility curve. Later on, economists like Edgeworth and Pigou advocated that taxes and expenditures should be allocated to minimize aggregate sacrifice and maximize welfare. This implies that taxes should be such that the excess burden is minimized, which requires that the effects of progressive taxation on output are taken into account. The rule of least total sacrifice must be defined to allow for such behavioral effects. See also *Egendomsskatter*, SOU 2004:66, p. 79.



inventories and stock-in-trade have, at times, also been valued below market prices (see more below).

### **3.2 Insurance with beneficiaries**

Insurance policies without provision for beneficiaries are taxed in the same way as other inherited assets. 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 insurances possessed by a surviving spouse. However, insurances with beneficiaries – which are in fact included in most insurance contracts – are typically tax-exempt following the Insurance Contract or Marriage Codes. Beneficiary acquisitions are regulated in the Inheritance and Gift Tax Code (12§AGL) and belong to the most complicated elements in the taxation of inheritance (Englund 1975, p. 99).

Insurance acquisitions were initially tax-exempt according to the Inheritance and Gift Tax Codes of both 1914 and 1941. The motivation was that insurance disbursements, after the decease of the owner, should not be included in the estate if beneficiaries were provided for. During a period from 1931, acquisitions were taxed although with a basic exemption of SEK 15,000 for each beneficiary (SOU 1957:48, p. 134).

Individual private pension insurance was exempted from taxation. Specifically, disbursements were not taxed if fee payments had been initiated more than ten years before the time of death. The same rule was applicable for pension plans entered into during employment if the yearly disbursement fell short of SEK 10,000 (basic exemption). Other life insurances were tax exempt if disbursements fell short of SEK 2,500 per year. The deductions for beneficiaries and the surviving spouse's marital property implied that insurances could be higher and still tax exempt.

The main rule after the 1914 inheritance and gift taxation ordinance was that beneficiary acquisitions were taxed as inheritance, though with a basic exemption. Tax liability arose at the death of the policy holder (Eberstein 1956). Before 1931, ordinary old-age insurance was included in the estate inventory, but if beneficiaries were included, no inheritance tax had to be paid. The tax-free exemption was increased in 1962 from SEK 15,000 to 32,000 (SOU

1969:54, p. 68), in 1974 from 41,000 to 45,000 (Bratt and Fernström 1975, p. 328)<sup>7</sup> and in 2004 to six price basic amounts (SOU 2004:66, p. 66). This exemption was adjusted so that ordinary group insurances would be exempt from inheritance tax.

Employment old-age insurances and certain pension insurances with beneficiaries were exempt from inheritance tax even after 1931 (SOU 1969:54, p. 68). During the period 1948–1958, estate taxation was applicable according to certain special rules for pension insurances; employment old-age insurances were exempt from estate tax as well as from inheritance lots taxation. Other life insurances were tax exempt if they were older than ten years, or if the fees fell short of SEK 50,000 (SEK 80,000 from 1958). Life insurance wrappers (*kapitalförsäkringar*) were tax exempt up to a basic exemption of SEK 15,000. Accident and sickness insurances were wholly exempt from estate tax, other insurance policies from inheritance and gift tax only up to SEK 15,000, or, in the case of interest income, only disbursements up to SEK 1,500 per year were exempted.

### **3.3 Tax and valuation reliefs for small firm business capital**

In the corporate tax code, reliefs in valuation of business capital have existed during the entire 20th century in the form of favorable rules for valuation of machinery, inventories and stocks-in-trade (Du Rietz, Johansson and Stenkula 2013b, p. 12).<sup>8</sup> In the wealth and estate taxes, however, reliefs for inheritance of small closely held (private) companies were not introduced until 1971. The purpose of the reliefs was to facilitate takeover of family firms by heirs. The reliefs applied to both gifts and bequests and regardless of whether companies were sole proprietorships (*enskild firma*), partnerships (*handelsbolag*) or private joint-stock companies. The tax relief was designed as a conditional tax concession of 10 percent of the inheritance tax on the recipient's lot. Initially, this was set up as a payment deferral, but later the relief was made permanent had the firm been held by the heirs for more than four years, provided that the net worth of the firm did not exceed SEK 2 million. Another requirement for tax relief was that at least 75 percent of the remainder of the estate be invested in the firm.<sup>9</sup>

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<sup>7</sup> The increase of the tax-free exemption from SEK 15,000 to 32,000 corresponded almost exactly to an increase from one to two average annual wages before tax for a full-time production worker, but due to the combined effect of inflation and real wage increases the exemption had once more declined to one annual wage by 1975 (see Table A2).

<sup>8</sup> The wealth tax on the net worth of companies was abolished in 1992, whereas it was completely repealed for all kinds of assets/wealth in 2007.

<sup>9</sup> In order to reduce the threshold effect, there was as a second size limit where firms with equity between SEK 2 million and 2.5 million were allowed a payment respite and late remittance of 5 percent of the recipient's inheritance tax. Firms eligible for a lower wealth valuation were only smaller family firms, where at least 75

In 1974, the 1971–1973 tax relief was extended by an option to explicitly allow stocks-in-trade and inventories to be undervalued. The new valuation rules stipulated that the lowest of either acquisition cost or replacement value were to be used as a basis for taxation, and then an additional five percent were deducted for obsolescence, and finally the remaining value was written down to 40 percent (Englund 1975, p. 62). In the tax rate computations below we have interpreted the deliberate underestimation of stocks-in-trade and inventories in 1974–1977 to be an assessment at 40 percent of equity.

In 1978, the valuation relief for small businesses became more generous. Small firms were valued at 30 percent of booked net equity value (assets less liabilities). This valuation rule was in force until the inheritance and gift tax was repealed on 17 December 2004.

## **4. Tax schedules**

### **4.1 Early tax schedules up to 1914**

An important determinant of how a tax works is its structure of tax rates, thresholds and brackets, and also the scope for deductions. The inheritance and gifts tax schedules were initially proportional, but the tax depended on consanguinity, i.e., the relationship and other personal relations between the deceased and the heirs. Before 1885, there had been stipulations about taxation of the deceased's estates in the so-called appropriations (see Du Rietz, Johansson and Stenkula 2013a, 2013b). In 1810, when the Swedish tax system was reformed, the inheritance tariff rate was increased to 3 percent and the estate report (*bouppteckningen*) was also liable to a stamp duty. Half a century later under the income tax reform of 1861, the income taxes as well as the inheritance tax were reduced to a flat rate at one percent.

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. As shown in Table 1, there were two inheritance tax classes having different tax rates during the period 1885–1894, one for direct heirs (0.5 percent) and another for other heirs (0.6 percent).

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percent of the equity was held by the entrepreneur, or jointly with at most 9 persons. Firms having equity exceeding SEK 2 million did not get any relief (SOU 1971:46, p. 128–134).

[Table 1 here]

The guiding principles of the inheritance and gift law (AGL) were laid down in the 1894 stamp ordinance. It was in force in 1895–1909 and is considered to be the first modern inheritance tax as it had progressive tax schedules that were based on the estate report and on a provisional distribution of inheritance lots. A stamp duty on gifts of personal property was also introduced if there was a gift deed (*gåvobrev*) present.<sup>10</sup> The AGL defined three classes of taxpayers (see Table 2). Class I, which had the lowest tax rates, included surviving spouse, cohabiter (*sammanboende*), children and descendants (§28, AGL, first passage). Class III consisted of juridical persons such as public utilities, private non-profit foundations and associations, of which some (e.g., public institutions, religious communities) were tax exempt. Class II, strictly speaking, encompassed all other heirs, i.e., those not belonging to Class I and III. In practice, this meant parents, brothers and sisters. Gifts to public authorities, religious communities and foundations promoting research, education, culture or sports were tax exempt.

[Table 2 here]

The 1894 stamp ordinance introduced a single inheritance lot system in force until 1947 when the estate taxation was added alongside of the then existing 1942 inheritance lot taxation, which made the taxation of deceased person's estate a dual tax system.<sup>11</sup> The lowest marginal tax rate was 0.5 percent in Class I and II. For lots above SEK 75,000, the rate was 1.5 percent in Class I. The rate was 3 percent for inheritances exceeding SEK 50,000 in Class II. The top marginal tax rate was 6 percent, levied on lots in Class III for amounts exceeding SEK 40,000. The tax-exempt amounts (*bottenbelopp*) were not yet deductible exemptions, but a taxable limit.<sup>12</sup>

The progressivity of the tax schedule introduced with the 1894 tax was increased in 1910, when tax rates were raised in all three tax classes (Table 3). At the same time, the taxable limit was raised in Class I from SEK 400 to 1,000, while it remained at SEK 200 in Class II

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<sup>10</sup> Earlier, there existed a stamp fee on gifts of real estate, SOU 1957:48, p. 77. Stamp duty on gifts of personal property was introduced as a means to prevent avoidance of inheritance tax (SOU 169:54, p. 84).

<sup>11</sup> The dual tax system lasted from 1948 to 1958, when the estate tax was abolished.

<sup>12</sup> Deductible exemptions were introduced much later, not until the estate tax in 1948 and the inheritance lot tax in 1971 (see below).

and III. The top marginal tax rates became 4 percent in Class I and 8 and 16 percent in Class II and Class III.

In 1911, a fourth tax class was added, with a taxable limit of SEK 200. The new tax Class IV was broken out from the preceding Class III in 1895–1910, and got a minimum tax rate of 1 percent and a top tax rate of 16 percent on amounts exceeding SEK 260,000. Class IV was abolished after 3 years, i.e., it only existed in the 1911–1913 period (and reappeared again in 1959–1970).

[Table 3 here]

[Table 4 here]

Since the tax schedules and taxable limits/exemptions are expressed in nominal terms we have included data on the evolution of the consumer price index (Table A1) and the average annual wage for a full-time production worker (Table A2) in order to facilitate comparison over time. Figure A1 shows the taxable limits (1894–1970) and basic exemptions (1971–2004) for descendants expressed as a share of the average annual wage of a production worker.

#### **4.2 The Inheritance and Gift Act of 1914**

In 1914, a new inheritance and gift tax ordinance was instituted, introducing the first modern inheritance and gift tax code. A new document, a so-called declaration, was also introduced for those cases when an estate inventory was missing. Liability for gift tax was deemed to arise whether or not a gift deed existed. The tax classes of inheritance now also came to include gifts, and the basic exemption was raised considerably to SEK 2,000 for all classes. Furthermore, the number of tax brackets was increased as shown in Table 5. The top marginal tax rates, however, were unchanged at 4, 8 and 16 percent. A special tax exemption applied for gifts regarding the so-called beneficial partition of joint property of husband and wife (*bodelning*).

[Table 5 here]

#### **4.3 Sharply increased tax rates in 1934**

Throughout the 1930s, there was a public debate in Sweden concerning inequality and fairness of the wealth distribution and inheritance flows. An early example is a critical report

on wealth equalization and inheritance taxation written by the Social Democrat Ernst Wigforss (Wigforss 1928). The Social Democrats gained governmental power in 1932. As the new Minister of Finance Wigforss immediately proposed the introduction of an estate tax alongside the inheritance tax.<sup>13</sup> This bill was rejected by Parliament, but instead the existing inheritance and gift taxation (*arvslottsskatten*) was increased (SOU 1957:48, p. 23).

As shown in Table 6, the new 1934 tax schedules were much more progressive than the previous schedules. The top marginal tax rate in Class I (children and spouse) was raised from 4.5 to 20 percent. The new top tax rate in Class II (brothers, sisters and parents) was 24 percent, and in Class III it was 30 percent.

[Table 6 here]

In 1941, the inheritance and gift tax ordinance of 1914 was replaced. The taxable limit for inheritance and gifts in Class I was raised from SEK 1,000 to SEK 3,000 and in the other classes from SEK 200 to 1,000. The inheritance marginal tax rates were the same during the whole period 1934–1958, but from 1948 until 1958, as mentioned earlier, a progressive estate tax was introduced and combined with an estate tax on gifts, to make it difficult to avoid the estate tax on inheritance. The taxable limits were increased in 1941, 1957 and 1958 (see Table 6).

#### **4.4 The estate tax of 1948 and the tax schedules in the 1950s**

The first few years following World War II were turbulent.<sup>14</sup> Two widely debated issues in Sweden concerned the extent of economic planning in the postwar 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) in which one important objective was to equalize income and wealth by means of higher taxation. Large fortunes were considered capable to bear – besides the annual wealth tax – an extra charge when transferred to heirs after the death of a wealthy person. The estate tax became a complement to the inheritance taxation already in place. Through the joint use of these two systems both the size of the estate and the size of

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<sup>13</sup> For a more systematic (cross-country) analysis of why inheritances are taxed, see Scheve and Stasavage (2012).

<sup>14</sup> Ohlsson (2011). The objective of the 1946 appreciation (by 17 percent) was to restrain cost increases (Lundberg 1953, p. 295). However, the demand side proved to be a greater problem than costs and caused an excess of imports over exports that led to a currency devaluation in 1949.

the inherited lots determined the total tax levied.

An estate tax alongside the existing inheritance tax was instituted in 1948. The two taxes were combined such that the estate was first taxed and then the tax payment was deducted from the estate before the inheritance lots were divided and taxed.<sup>15</sup> The estate tax was levied on total net value of the estate after the deduction of certain tax-exempt items, such as the marital property (half of the estate) and a tax-free amount of SEK 30,000. The tax threshold was later increased to SEK 50,000 in 1953 (SOU 1957:48, p. 9–11) and to SEK 80,000 in 1958 (SFS no. 107). Table 7 shows the estate tax schedule, and as can be seen it was quite progressive reaching a top marginal tax rate of 50 percent for estates exceeding SEK 5 million.

[Table 7 here]

In 1956 the Minister of Finance summoned a government commission on reforming the estate and inheritance taxation (*arvsskattesakkunniga*). The recently introduced estate tax was regarded as problematic for several reasons. It did not raise as much revenue as had been originally estimated; only half of what was anticipated (SOU 1957:48, p. 10). Furthermore, the threshold had been set so low that nearly one sixth of all estates were eligible for estate taxation.<sup>16</sup> Critique was also leveled against the fact that the tax affected people with relatively moderate income and financial wealth and whose savings were invested in real estate or family firms. It could also be expected that the number of such cases would increase.

Despite the high tax rates, tax revenue was low also due to substantial avoidance strategies by taxpayers. One measure taken to this effect was the explosion of gifts in 1947, the year before the estate tax was introduced (Ohlsson 2011). Other measures to avoid the estate tax were the establishment of tax-exempt family foundations, holding companies and limited partnerships (SOU 1957:48, p. 10).<sup>17</sup> In addition, these measures often led to reliefs of income and wealth tax. The inheritance tax experts therefore proposed that the estate tax be abolished. To prevent

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<sup>15</sup> A highly progressive income tax schedule was also introduced in 1948 (Du Rietz, Johansson and Stenkula 2012a) and a new wealth tax schedule more than doubled the statutory wealth tax rates (Du Rietz, Johansson and Stenkula 2012b).

<sup>16</sup> This primarily holds true for the period up to 1958 (see Table 6). According to tabulated estate sizes in 1966 in SOU 1969:54, Table 50, p. 249) about 20 percent of all estate excluding marital property amounted to SEK 30,000 or more.

<sup>17</sup> Feldt (2012) documents in some detail the drastic plans considered and measures eventually taken in the Johnson dynasty in order to avoid being too hard hit by the combined effect of the estate and inheritance tax, in case of the decease of Axel Ax:son Johnson, the patriarch and sole owner of the industry group.

a fall in total revenue from removing the estate tax, inheritance tax rates were sharply increased at the same time (Table 8). The estate tax was repealed from 1959. The top tax rate for children and spouses was increased to 60 percent and to 65 percent in Class II and IV. The new inheritance tax schedules were based on the proposals in the inheritance experts' committee report (SOU 1957:48) and applied during the period 1959–1970.

[Table 8 here]

#### **4.5 Tax schedules in the 1970s**

The Capital Taxation Committee (*Kapitalskatteberedningen*) was summoned in 1967 to make a complete overhaul of the taxation of capital in Sweden, including the rules of wealth, inheritance and gift taxation (SOU 1969: 54). The new tax schedules, implemented in 1971, adhered closely to the Committee proposal. The fourth tax class was dropped and the heirs formerly belonging to this class were incorporated into Class II, which henceforth consisted of all individual heirs not in Class I and all juridical persons not belonging to Class III. Table 9 shows that the top marginal tax rate in Class I was increased from 60 to 65 percent on inheritances exceeding SEK 5 million. In Class II, the top rate was raised from 65 to 72 percent. The earlier taxable limits (*bottenbelopp*) were changed to general deductible exemptions (*grundavdrag*), and the number of tax brackets was reduced, which resulted in a small tax increase.<sup>18</sup>

[Table 9 here]

In 1971, reliefs in the valuation of small firm assets in the estates were introduced.<sup>19</sup> From 1978 onwards, the taxable net worth of small firms (assets less liabilities) in wealth and inheritance taxation was further reduced to no more than 30 percent of the book value of firm equity.

Tax brackets were adjusted upwards in 1981 as shown in Table 10, which was a response to the higher inflation rates in the economy. In 1983, tax rates were increased for the last time to

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<sup>18</sup> If the inheritance lot was below the taxable limit (*bottenbelopp*) there was no inheritance tax. If the inheritance lot exceeded the taxable limit, the entire lot was taxed.

<sup>19</sup> Provisional reliefs in the assessment of taxable wealth in small companies were introduced in 1971, implying a relief of 25 percent of booked equity value. From 1974, a deliberate underestimation of stocks-in-trade and inventories was introduced which we have interpreted as an assessment (of equity) at 40 percent.



a maximum of 70 percent in Class I and 75 percent in Class II.

[Table 10 here]

#### **4.6 The first reduction of tax rates in 1987**

In 1987, the number of inheritance tax brackets was reduced and tax rates were adjusted downwards (see Table 11). An example of the impact of the tax rates in the period 1987–1990 is that the direct inheritance tax for our large family firm – one of three model firms analyzed below – was estimated to be 20.3 percent of equity, which is less than half the inheritance and estate tax burden in 1948 (48.1 percent) and less than one third of the maximum direct inheritance tax in 1973 (61.6 percent or 66.1 percent including the capital gains tax; see Figure 3 below).

[Table 11 here]

Furthermore, in 1991 (Table 12) tax bracket boundaries were adjusted upwards in response to the (partly inflation-driven) sharp increase in property values.<sup>20</sup> The taxable limit for gifts, which had been reduced from SEK 3,000 to 2,000 in 1959, was now raised to SEK 10,000.

[Table 12 here]

#### **4.7 Sharply reduced inheritance tax rates in 1992**

In September 1991, a coalition of non-Socialist parties gained power. Effective from 1992 they cut inheritance tax rates substantially and adjusted bracket boundaries upwards. The lower tax was motivated by the fact that inheritance taxes had reached a very high level in Sweden compared to other countries, and a perceived need to lower taxation of capital more generally (SOU 2002:52, p. 18).

Table 13 shows that the top marginal tax rate in Class I was reduced to 30 percent on taxable amounts exceeding SEK 600,000 after a basic exemption of SEK 280,000 for spouse or cohabiter, of SEK 70,000 for children and of SEK 21,000 for others. The basic exemptions had also been raised in 1987, 1989, and 1991. Children and descendants of children were

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<sup>20</sup> Proposition 1990/199:54, SFS 1990: 1430. Because of high inflation, the adjustments in 1991 were not sufficiently large to impede higher real inheritance tax burdens.

allowed an exemption of SEK 10,000 for every year remaining until the age of 18. Also in 1991, Parliament decided to abolish the wealth tax on business working capital and on stocks registered on the informal over-the-counter (OTC) listings and unlisted (private) stock from 1 January 1992. The gift tax rates were identical to the inheritance tax rates, except that the basic exemption was only SEK 10,000. Gifts to non-profit organizations – like churches and charities – were tax-exempt. A significant decline of inheritance and gift tax revenues followed the cut in tax rates.

[Table 13 here]

The inheritance tax was removed for bequests to spouses in 2003. Parliament decided to abolish the inheritance and gift tax altogether in 2004.<sup>21</sup>

## **5. Revenues from the inheritance tax**

Figure 1 shows revenues from inheritance, gift and estate taxes as a share of GDP since the late 19th century. Figure 2 shows the evolution of inheritance and gift tax revenue as a share of total tax revenue and of the gift tax share of total tax revenue from gifts and inheritances. These shares indicate, admittedly a bit bluntly, the fiscal as well as economic significance of the inheritance taxation in Sweden over this long time period. One striking feature of the series in Figure 1 is the considerable short-term variation it exhibits with spikes in the tax revenue when tax receipts nearly doubled. The explanation, however, lies in the nature of estate data: the death of abnormally rich individuals can influence the cross-sectional distribution of estates (and inheritances). Furthermore, the volatility of tax revenues also reflects discrete changes in tax rates. For example, the hump in 1983–1984 results from the 1983 increase in tax rates, and the drop in 1988 emanates from the lowered tax rates and reduced number of tax brackets in 1987. The 1992–1993 trough of the tax revenue curve is a result of the raise of bracket boundaries in 1991, and a considerable decrease in the marginal tax rates in 1992. From 1992, the maximum tax rate was 30 percent.

[Figure 1 here]

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<sup>21</sup> The tax was abolished effective from 17 December 2004, not 1 January 2005, which was originally decided by Parliament. This 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.

[Figure 2 here]

At the beginning of the period, the revenue from inheritance and gift taxation amounted to some 0.02 percent of GDP. At this point, the inheritance tax was only 0.5 percent for spouses and children (recall Table 1). In the following years, the tax was raised, which resulted in markedly increased tax revenues up until the 1940s. Tax revenue as a percentage of GDP increased to 0.07 percent in 1895 after the 1894 Stamp Ordinance and to about 0.2 percent in 1915, when the higher marginal tax rates of the 1914 inheritance and gift ordinance became effective. Tax revenue peaked at about 0.3 percent of GDP in 1934 following the hikes in inheritance and gift tax rates, when top marginal tax rates for children and spouses were raised to 20 percent (Table 6).

Tax revenues then started to decline and returned only temporarily to almost 0.3 percent when gift taxes exploded in 1945–1948 before the introduction of the estate tax in 1948.

After 1948, the relative importance of the inheritance tax receipts continued to decline, slowly but steadily. The repeal of the estate tax in 1959 did not affect revenues much since inheritance tax rates were increased at the same time.

The increased tax revenue during the period 1993–2002 is not due to higher tax rates or reduced base exemptions, but rather to the fact that inheritance and gift taxes were unusually low during the recession years in 1991–93 as well as bracket creep caused by a marked appreciation in asset values following the deregulation of financial markets. When assets, stock and real estate appreciated substantially, higher market values of inheritance estates and gifts in combination with unchanged tax rates led to increases in tax revenue.

Gift tax revenues have been more stable than inheritance tax revenues since the introduction of the gift tax in 1915. It varied as a share of GDP mostly between 0.1 and 0.2 percent but has a few distinct revenue peaks. The first peak of 0.86 percent occurred in 1933, before the sharp increase in tax rates the following years. Then gift tax receipts were almost half the size of the inheritance tax revenue. Thereafter, revenues were low and stable from 1938 to 1944 at a level around 0.1 percent of GDP. In 1945, gift tax revenue – as mentioned - suddenly increased to 0.7 percent of GDP. This increase accelerated in 1947 to 1.7 percent, the year before the introduction of the estate tax on gifts and inheritances. In 1947 gift tax revenue

exceeded inheritance tax revenue, which was a one-time occurrence due to the estate tax introduction the year after. During the period 1948–1950, gift tax revenue receded to the previous level of about 0.1 percent of GDP, or 10 to 20 percent of the combined inheritance and gift tax revenue.

The new estate tax and sharply increased taxes on inheritances, wealth and income in 1948 induced taxpayers to take offsetting measures. These high tax increases might explain the large transfer of wealth that seems to have taken place in 1947, particularly the explosion in gift tax revenue in 1947 (Bratt and Fernström 1975, p. 345).

It is noteworthy that the combined revenue from inheritance and gift taxation hovered around 0.1 percent of GDP from the early 1970s until the system was phased out in 2004, despite the high tax rates applicable in this period. Recall that the top marginal tax rate for spouses and descendants (who receive the bulk of all inheritances) was at least 60 percent through 1991 before it was lowered to 30 percent. Exemptions were small and tax rates increased sharply at fairly modest wealth levels. See Tables 8–13 for details. In fact, income from inheritance and gift taxation averaged roughly 2 percent of total tax income between 1911 and 1939, after that it trended sharply downward until the mid 1960s, when its aggregate importance became negligible.

A back of the envelope calculation is sufficient to make clear that the “the bite” of inheritance taxation was severely blunted. Let us assume a capital output of three, which is in line with typical estimates for Sweden (e.g., Domeij and Flodén 2005), that two thirds of the total capital stock is owned by the private sector, and that the private capital stock is ultimately owned by private individuals (the net wealth position of the private sector towards the rest of the world is assumed to be zero). Roughly one 80th of the population dies every year, and assuming that the wealth of an old person who dies is about double the overall average one 40th or 2.5 percent of the capital stock is inherited every year. With an assumed ratio of two of the private capital stock to GDP, total inheritances would amount to 5 percent of GDP. This calculation is admittedly crude, but it is fair to say that total annual inheritances are on the order of 3 to 7 percent of GDP. Given that inheritance tax revenue was between 0.1 and 0.2 percent of GDP, this implies an effective inheritance tax rate of 2 to 4 percent, which can be compared to the far higher nominal rates. Given the low effective inheritance tax rate there is reason to suspect that the tax was distortionary and had significant deadweight costs.

However, estimating the size of these costs is far beyond the scope of this study.

## **6. The evolution of inheritance tax rates for Swedish family firms and individuals**

How have the Swedish inheritance tax rates evolved over the course of the more than century-long period it existed? In this section, we present estimated average inheritance tax rates, including gift and estate taxes, for synthetically constructed family firms and individuals from 1885 up to the abolishment of the tax in 2004. Throughout the analysis, we assume that there are two children who each inherits half of the remainder of the estate and that there is no surviving spouse. This implies that the heirs are not subject to the full progressivity of the tax schedule, which typically applied to heirs or testators in other inheritance classes (i.e., who were not the children of the deceased).

When calculating the tax rate, we assume that the two heirs sell off enough stock to pay the direct inheritance and capital gains taxes arising from the sale. This assumption essentially minimizes additional costs or taxes incurred. In practice, however, selling off shares or assets may not always have been possible and there were alternative ways for heirs to finance their tax payments. One commonly used method to finance the tax payments was by means of extra dividend distributions. This was more expensive since dividends were taxed jointly with labor income until 1991, implying that heirs had to pay labor income tax on these dividends before the remainder could be used to meet inheritance tax obligations. Alternatively, heirs of family firms could exert an extra salary payment from the company to pay the inheritance tax, but this would give rise to additional taxation at an even higher rate, since in addition to the ordinary labor income taxes the firm would now also have to pay social security fees.<sup>22</sup> Finally, heirs could also take loans to finance the tax payments. Debt financing was favorable because it did not give rise to the extra income taxes associated with dividends. However, this strategy was normally not an option until the mid-1980s, because of the strict regulation of credit markets. In other words, in addition to the inheritance tax heirs potentially faced

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<sup>22</sup> In extreme cases, the total inheritance tax (direct inheritance tax plus indirect inheritance tax in form of extra income tax and social security fees) could be so high as to exceed total firm equity. After the tax reform in 1990/1991, the required withdrawal from the firm to pay inheritance tax fell substantially, but the top marginal tax rate was, in 1990, still as high as 65–66 percent, which means that almost three SEK had to be withdrawn from the firm in extra dividend to pay one SEK in inheritance tax. Total inheritance tax was 20 percent of equity while the direct inheritance tax was 16 percent. In 1991, two SEK had to be withdrawn from the firm per SEK in inheritance tax, depending on the more stringent 3:12 rules in that year. See further Du Rietz, Johansson and Stenkula (2012b). For an example of total inheritance tax under salary financing of the tax, see Du Rietz and Johansson (2003, p. 106).

indirect inheritance-related taxes. During the 1970s and 1980s, when the marginal dividend tax was at, or above, 70 percent, these indirect taxes were significant.<sup>23</sup> Our calculations do not account for these high indirect taxes, but assume that the family firm heirs sell off shares to pay for the inheritance tax and then have to pay indirect taxes in the form of capital gains tax (see below). Before 1966 the capital gains tax was zero in our calculations, because our entrepreneurs are assumed to have had a holding period of their shares of at least five years and thus avoided capital gains tax before the introduction of taxation of long-term capital gains in 1966 (Rundfelt 1982).

Until 1965, the total inheritance tax including the capital gains tax thus was the same as the direct inheritance tax. According to the 1966 rules, which were in force until 1976, ten percent of the proceeds of the sale of stock held for five years or more were included in the personal income tax base of the seller. However, for stock held less than five years only a part of realized capital gains was taxable, depending on the holding period. As shown in Table 14 capital gains taxation was changed several times based on the holding period of the stock.

[Table 14 here]

As capital gains were taxed together with other income until 1991, the marginal tax rate depends on the total income of the entrepreneur during this time period. Because of changes in the capital gains tax, the total inheritance tax became somewhat higher than the direct inheritance tax from 1966.

New rules in the 1970s allowed a lower equity valuation of inherited family firms. Specifically, inventories and stocks were valued at the lower level accepted in income assessment, which implied significantly lower values than according to earlier valuation rules. During 1971–1973, large firms were often not eligible for the tax relief that applied to small family firms (see 3.3 above), but from 1974 all firms were favored by the new lower valuation rules of equity capital.

Furthermore, capital gains taxation changed in 1977 from being a sales tax to being a tax on

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<sup>23</sup> At most, the marginal dividend tax rate was 86 percent (in 1978–79), which means that for every krona in inheritance tax, seven kronor had to be withdrawn from the firm in extra dividends. See Du Rietz, Johansson and Stenkula (2012a, Table B16).

realized capital gains.<sup>24</sup> Forty percent of long-term nominal capital gains (in excess of an exemption of SEK 3,000) became taxable at the marginal labor income tax rate. Short-term capital gains continued to be fully taxed. The time of acquisition of the shares is when the deceased bought the shares, not the subsequent inheritance date. Total inheritance tax then became 16–27 percent larger than the direct tax (the black segment in Figure 3). The reason for the sharp increase of capital gains taxation in 1977 is that we assume that the top marginal income tax applies to heirs of our three firms and this tax rate rose during the 1966–1976 period (from 58.3 to 79.2 percent), and also, that 40 percent of the rise in stock value gave rise to a higher taxable income than 10 percent of the proceeds of the sale of shares for our firms that grow with the wage of the average production worker).

The tax reform of 1990–1991 entailed a change in capital gains taxation which meant that the entire increase in value was taxable without exemptions (thus removing the previous exemption of 60 percent of gains for shares held for two years). Furthermore, the marginal dividend tax for entrepreneurs was cut to 50 percent (generally to 30 percent, but specific small firm regulation, the so-called 3:12 rules, was unfavorable for our entrepreneur in 1991).<sup>25</sup> The tax reform also reduced the value of interest cost deductions to at most a tax reduction effect of 30 percent.

## 6.1 Family firms

We calculate average inheritance and estate tax rates as total tax as a percentage of business equity when an entrepreneurial firm is inherited by the younger generation in the family, for each year during the entire period. The tax rates apply for three different stylized family firms: one large, one medium-sized and one small firm. The large firm has a business equity assumed to be equal to 1,000 average annual wages for a full-time production worker and start at SEK 499,000 in 1885 and ending at SEK 262 million in 2004.<sup>26</sup> The number of firms of this size can be estimated to have been about 100 in the late 1960s (see footnote 28). The

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<sup>24</sup> The increase in value is calculated as the equity value increase over the last 20 years per heir.

<sup>25</sup> See Du Rietz, Johansson and Stenkula (2012b, Table B16).

<sup>26</sup> How many such large firms could have existed? According to the report of the Capital Taxation Committee (*Kapitalskatteberedningen*, SOU 1969:54, p. 209) in 1968 there were 377 private fortunes larger than SEK 5 million. A considerable part of these were probably in the form of corporate equity. Each of our two heirs inherited SEK 11.7 million in 1968. This indicates, roughly, that in 1968 there probably existed about 100 corporations as large as our large firm. Our medium-sized corporation had equity per heir of about SEK 1.2 million in 1968. According to the same source, in 1968, there existed 4,800 fortunes exceeding 1 million. On this basis one might estimate that there were more than 3–4,000 firms as large as our medium-sized firm. The business capital of our small firm was 120,000 in 1968 and their existed probably more than 200,000 firms of this size in 1968.

medium-sized firm is assumed to have a nominal equity equal to 100 average annual worker wages and start at SEK 49,900 in 1885 and end at 26.2 million SEK in 2004. The number of corporations of this size can be estimated to have been three to four thousand (see footnote 28). The small firm is assumed to have a nominal business equity amounting to SEK 5,000 in 1885 SEK and 2.62 million in 2004; there probably existed some 200,000 firms of this size in Sweden in the late 1960s.

Figure 3 depicts the long-run evolution of both the direct and the total inheritance tax rates paid by one of two heirs of a large family firm with equity of SEK 266 million in 2004, almost 30 million Euros at the time. The assessed tax rate has varied tremendously over time, increasing in the postwar era with a peak in the early 1970s, and falling quickly from 1992. Beginning from a very low level at 0.5 percent in the early decades, the tax burden was raised in 1915 to a level of four percent. A further sharp rise in the tax burden occurred in 1934 when the company's inheritance tax burden more than quadrupled to 18 percent. The next hike in inheritance tax burden occurred in 1948. The introduction of the estate tax led to more than a doubling of the tax burden to 48 percent. The burden continued slowly upwards to 55 percent in 1958, the last year of the estate tax.

During the period 1958–1973, the tax burden was further increased from 55 to 66 percent. This was mainly due to the fact that the inheritance tax schedule remained nominally unchanged in 1959–1970, in spite of considerable inflation and real growth, and that the tax schedule of the Capital Taxation Committee (*Kapitalskatteberedningen*) led to an increase in tax burden; first, when it was introduced in 1971, and subsequently until 1973 because it remained nominally unchanged.

In 1974, the inheritance tax fell sharply to 24.7 percent because tax authorities accepted a greater undervaluation of an inherited firm's stocks in trade and inventories than before.<sup>27</sup> The tax burden on corporate equity dropped further in 1978 to 22.4 percent when only 30 percent of the net worth (*substansvärdet*) of the company was subject to inheritance taxation. The tax burden rose by 2 percentage points in 1983 as a consequence of increased tax rates in that year. The 1987 tax reform eliminated this increase and in 1992, the government dramatically reduced the tax schedule from rates between 10 and 60 percent in a great number of brackets

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<sup>27</sup> However, this alleviation was not uniform as it disfavored service firms with small stocks and limited inventories.



to only three brackets with tax rates of 10, 20 and 30 percent. This lowered the tax burden for our large firm to 11 percent.

In the 13 years after 1992 until the repeal of the inheritance tax in December 2004, the inheritance tax burden remained around 10 percent. The capital gains tax from the sale of shares peaked in 1976–90, but the total inheritance tax peaked in 1973 reaching 66 percent of net equity, of which the capital gains tax was 3 percentage points.

If the firm was instead transferred to heirs as a gift, the tax was usually not lower, because the basic exemption was lower and the tax rates were identical. Nor was it easy to reduce gift taxation by transferring ownership of a company by means of a combination of inheritance and multiple gifts, because of the summation rules discussed above. It should be pointed out, however, that the inheritance tax was not immediately payable. It could be paid in installments over a period of 10 years.

[Figure 3 here]

Turning to the medium-sized firm (having equity of 27 million SEK, or about 3 million Euros, in 2004), Figure 4 shows the average tax rate paid by heirs of such a firm. The long run trend resembles that of the large family firm, but at a lower level. Before the introduction of an estate tax in 1948, heirs paid about 3 percent of the inherited capital in tax. In 1934, the effective tax rate increased to 8 percent). In the postwar era, the tax rate increased until 1973 when it peaked at 44 percent. In 1974–1977 the inheritance tax rates declined to below 20 percent due to much lower valuation of inventories and stocks in trade. In 1978 and onwards, tax rates were further somewhat reduced because the valuation of business capital in small firms was decreased to 30 percent of net worth which lowered the inheritance tax to 15 percent. The lower inheritance tax schedule in 1992 cut the tax burden to not fully 10 percent.

[Figure 4 here]

Turning to the small-sized firm (with an equity of SEK 2.7 million or about 0.3 million Euro in 2004), Figure 5 shows the average tax rate paid by heirs of such a firm. The average tax rate started at 0.5 percent in 1885 was raised to 0.6 percent in 1910 and to 1.2 percent in 1915. The effective tax rate rose to 2.2 percent in 1934. One would expect a new sharp rise in 1948.

However, the introduction of the estate tax only led to a small increase of the tax burden to 3.5 percent, but the average tax rate continued upwards and peaked in 1973 at 16.3 percent in spite of the tax relief in 1971–73 of 10 percent of the inheritance tax, before it fell dramatically in 1974 and somewhat more in 1978 due to favorable valuation rules for business capital.<sup>28</sup> After the tax reform in 1992, the tax burden for this small firm hovered just below 3 percent until the repeal of the tax at the end of 2004.

[Figure 5 here]

Finally, if one would pull together the inheritance tax rates of all three firm types, both similarities and differences become apparent. First of all, they follow largely the same time trend in taxation, going from a relatively low level in the period before World War II. After the war, tax rates increased sharply up to the 1970s when the levels drop due to the comprehensive valuation reductions described above. In terms of tax levels, the experience of the three differently size family firms diverge notably. Comparing the small and the large firm, the inheritance tax rate paid by heirs to the large firm was roughly four times larger than the rate paid by heirs to the small firm.

## **6.2 Private individuals**

Figure 6, 7 and 8 present inheritance tax rates paid by the heirs of three deceased individuals with different wealth corresponding in value to the corporate wealth of the heirs to the large, medium-sized and small family firm in the previous section. Unlike for family firms, we – for simplicity – only calculate the direct inheritance tax for individuals since the heirs of partly liquid assets typically can use some assets – or borrow – in order to pay the inheritance tax.

However, in practice heirs are often forced to pay capital gains tax, which would mean that we tend to underestimate the total tax burden for individuals.

The results show that heirs of wealthy individuals faced the same tax rates as heirs of family firms in all years up to the 1960s, but after that the tax rates started to diverge significantly. First, the increased capital gains tax paid by firm heirs when realizing accrued holding gains implied that they paid a relatively higher tax. The first divergence appeared in 1966 because

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<sup>28</sup> The tax relief for small firms in 1971–1973 was too small to prevent the inheritance tax burden from rising because the inflation rate was high (above 7 percent; see Table A2 in Appendix A), the tax rates were raised in 1971 and the tax brackets were not adjusted for inflation.

of the capital gains that had to be paid by firm heirs when realizing accrued holding gains on the business equity. The second divergence occurred in 1976 when the capital gains tax was increased. The third, and more significant divergence, appears in 1974 after a large valuation discount was introduced in the tax code for family business equity. The beneficial treatment of family firm stock was reinforced through the tax rules introduced in 1978. No such beneficial treatment existed for inherited non-corporate assets and therefore heirs of such wealth paid between two times (super-rich deceased) and almost three times (moderately rich deceased) as high inheritance tax rates as heirs of similarly sized family firms.

[Figure 6 here]

[Figure 7 here]

[Figure 8 here]

Finally, Figure 9 presents the inheritance tax burden for a person of average wealth.<sup>29</sup> The inheritance tax rate was 0.5 percent in 1885–1994 because the tax was proportional and there was no taxable limit. The assessed tax rate dropped to zero in 1895 because the 1894 stamp ordinance introduced a tax-exempt limit of SEK 400 and our two heirs inherited only SEK 300 each, which was below the taxable limit.

[Figure 9 here]

In 1956, the inheritance lots of our two heirs again exceeded the taxable limit (then SEK 3,000), resulting in a tax rate of 1 percent. When the taxable limit was raised to SEK 6,000 in 1957, the inheritance turned tax-free, but in 1965–1970 the tax increased to about 2 percent as the size of the average inheritance exceeded the taxable limit. In 1971, the taxable limit was replaced by a deductible basic exemption, amounting to SEK 15,000 for descendants. As the average inheritance lot per heir was somewhat smaller, no tax was levied in 1971–1973. The inheritance tax again turned positive in 1974 at 0.3 percent and increased to 1.9 percent in 1977 and then trended slowly upward exceeding 5 percent in 2002–2004.

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<sup>29</sup> Average wealth is calculated using totals for assessed personal wealth published in tax records and Censuses for different years in the 20th century and reported by Roine and Waldenström (2009) and Hochguertel and Ohlsson (2012).

## 7. Summary and conclusions

In this paper we have analyzed gift, inheritance and estate taxes in Sweden. The analysis begins in 1885 when (a modern form of) inheritance taxation was first introduced in Sweden. In the 1910s, a formal gift tax was launched and during the period 1948–1958 there was also an estate tax in addition to the inheritance and gift taxes. The analysis stops in 2004 when the Swedish inheritance and gift taxation is abolished.

The inheritance tax was introduced in 1885 as a single tax – the 1884 stamp ordinance – with the estate report as the tax base. The first modern inheritance tax was introduced in the form of the 1894 stamp ordinance. It increased the maximum tax rate for spouses and children to 1.5 percent of taxable lots and to 6 percent for other heirs. The 1914 inheritance and gift tax ordinance – introduced in 1915 – integrated the two taxes and was also the first modern gift tax. It had a maximum marginal tax rate of 4.5 percent for spouses and descendants, and 18 percent for other non-legal heirs. After 1911, sizeable tax increases were implemented on two occasions.

The first substantial tax hike took place in 1934. In 1933, the government proposed a new high state tax on inheritances and gifts. This bill was, however, rejected by Parliament. After having failed to introduce an estate tax, the new Social-Democratic minority government instead substantially raised the taxes on gifts and on inheritance lots (*arvslottsskatten*). The maximum rate for children and spouses was raised from 4 to 20 percent and the maximum rate for others (Tax Class IV) from 18 to 35 percent.

The second drastic tax increase occurred in 1948 when a new and more successful attempt was made to introduce an estate tax – the 1947 estate tax ordinance. The new, high estate tax was imposed side by side with the earlier taxes on gifts and inheritance lots, but the estate tax was made deductible before the inheritance tax was calculated. The maximum marginal tax rate (the net sum of inheritance and estate taxes) for descendants and spouses was raised in 1948 from 20 to 60 percent and for others from 35 to 67.5 percent.

The marginal inheritance tax rate peaked in 1971–1973 at 65 percent for descendants and 72 percent for other family members. During the period 1948–1973, the *average* inheritance tax for wealthy persons and owners of large closely held corporations exceeded 48 percent.

Owing to the introduction of a tax relief for small firms in 1971, and a reduced valuation of business capital in 1974, the inheritance tax burden already peaked in 1973 for smaller family firms. In 1978, the valuation of business capital (defined as company net worth) was reduced to 30 percent of book value. Even though this caused the tax burden for family firms to drop, the high and progressive inheritance tax continued to make it difficult to transfer firms to family successors, and even for larger family firms to continue as independent entities. For large individual estates, the inheritance tax continued to be around 40–50 percent of the estate through 1991. A substantial reduction of tax rates was implemented in 1992, and then the tax on bequests to spouses was removed in 2003 followed by the final abolishment of the entire inheritance and gift tax in December 2004.

Inheritance and gift tax revenues were never particularly important as a source of revenue for the central government; with few exceptions less than two percent of total tax revenue was raised this way, and in the last forty years before abolishment the share was around one tenth of that level. Instead, these taxes were primarily motivated by distributional concerns, relating to an urge to even out 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 opportunity, but the low revenue from this source in the postwar period casts doubt on the effectiveness of the inheritance and gift tax in this regard.

Exactly what factors that can explain the removal of the inheritance tax in 2004 have not been analyzed systematically by researchers. According to Lodin (2009), the tax was abolished as part of a logrolling scheme between the Social Democrats and the Left Party, but whether there were other, more structural, determinants related to taxpayers' avoidance or to the public opinion remains to be established by future research.

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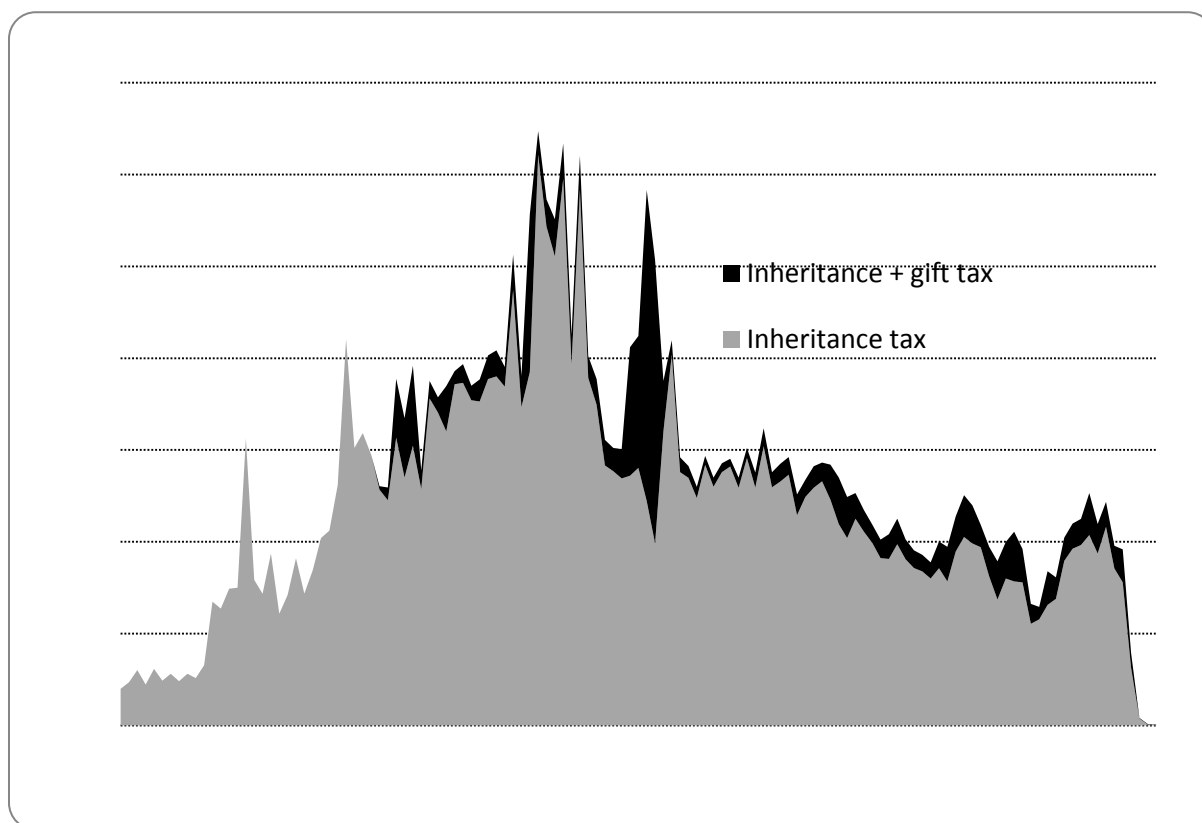
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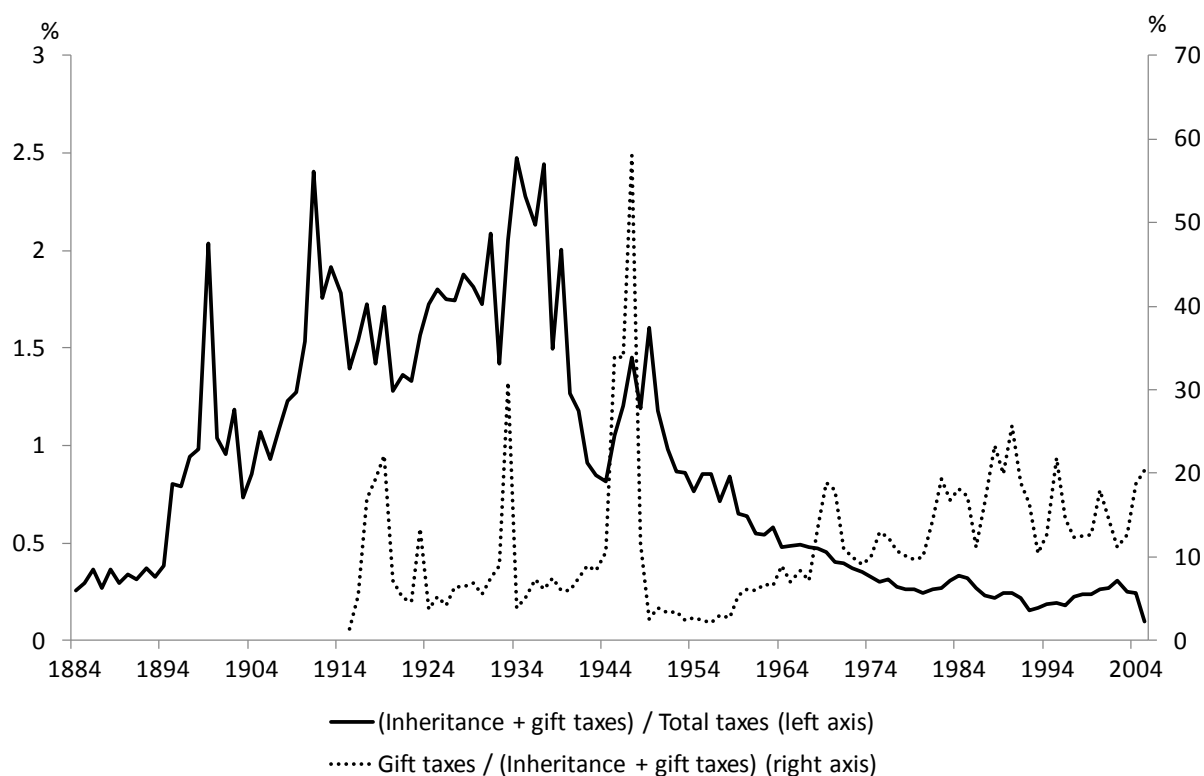
Figure 1 Inheritance, estate and gift tax revenue in Sweden, 1884–2005 (% of GDP).



*Note:* Estate tax payments between 1948 and 1959 are classified as inheritance tax payments. Due to lags in estate inventories and in tax payments, the taxes still generated revenue for a few 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 GDP is from Edvinsson (2005) and Statistics Sweden.

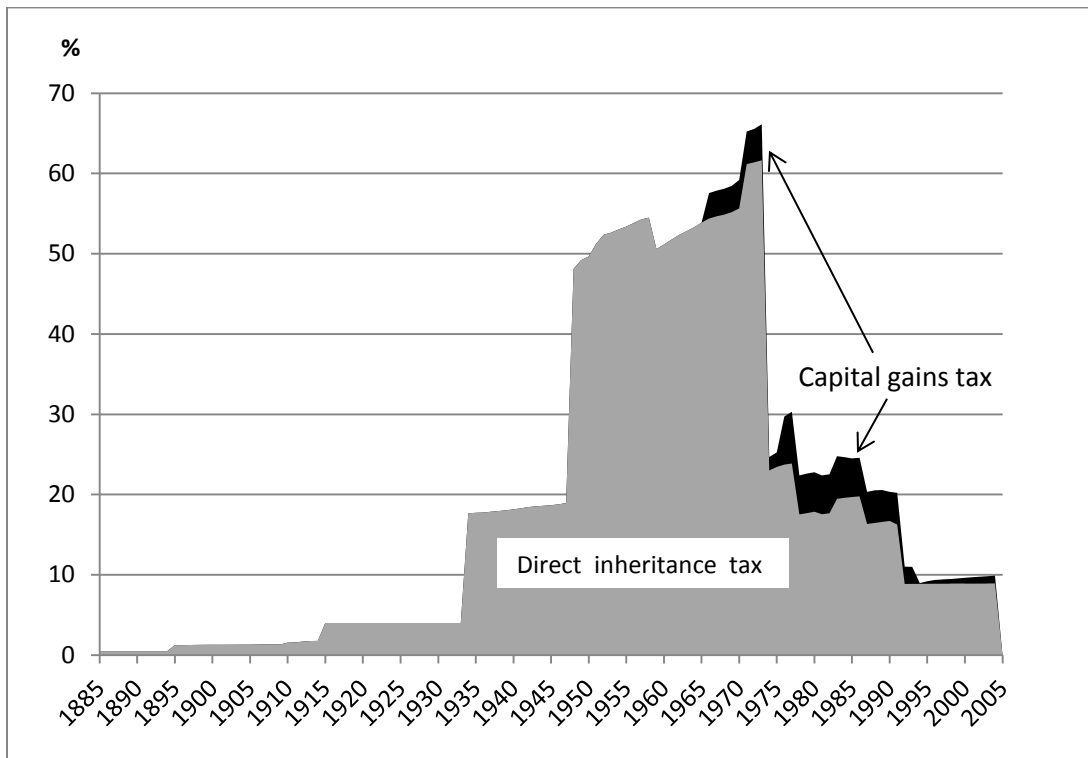
*Figure 2* Inheritance, and gift tax revenue as a share of total taxes and gift taxes as a share of inheritance and gift taxes, 1884–2005 (%).



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

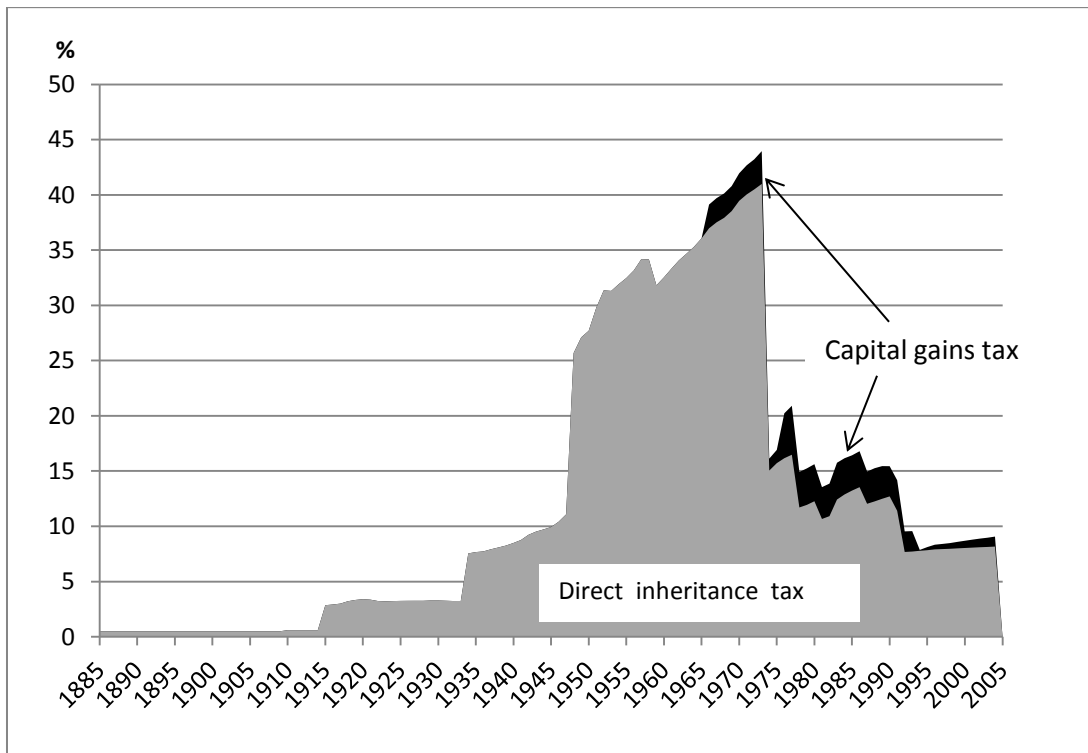
*Source:* Data on inheritance and gift taxes are from Ohlsson (2011) and data on total tax revenue are from Gårestad (1985), Rodriguez (1980) and Statistics Sweden.

Figure 3 Direct and total inheritance tax: large firm, percent of equity.



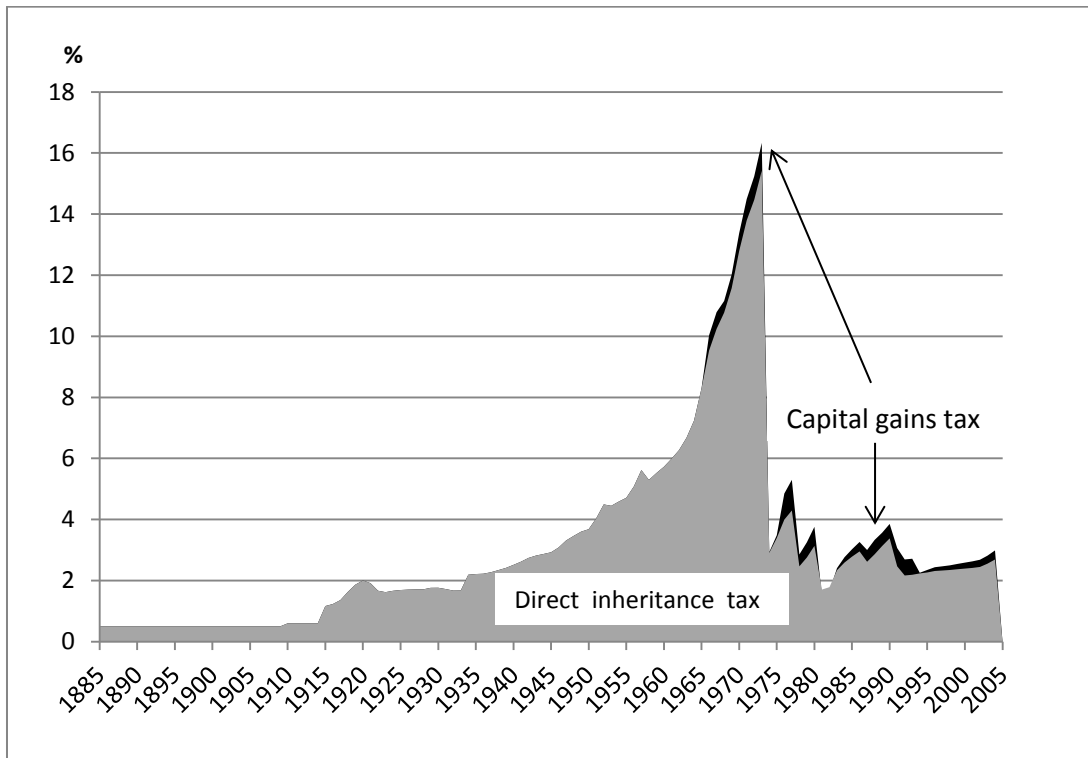
Source: Calculations made by the authors. A large-sized family firm had net business equity worth of approximately SEK 266 million in 2004, which implied a taxable value after basic exemption of 39.8 million per heir.

Figure 4 Direct and total inheritance tax: medium-sized firm, percent of equity.



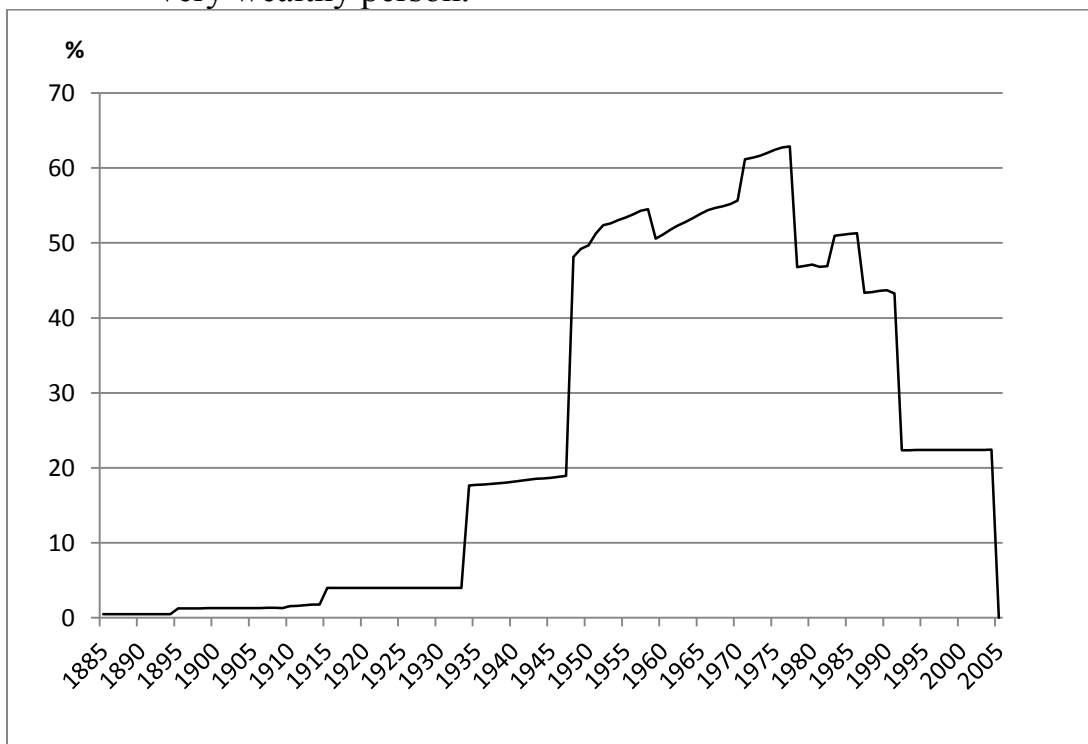
Source: Calculations made by the authors. A medium-sized family firm had net business equity worth approximately SEK 27 million in 2004, which implied a taxable value of 3.9 million per heir after basic exemptions.

Figure 5 Direct and total inheritance tax: small firm, percent of equity.



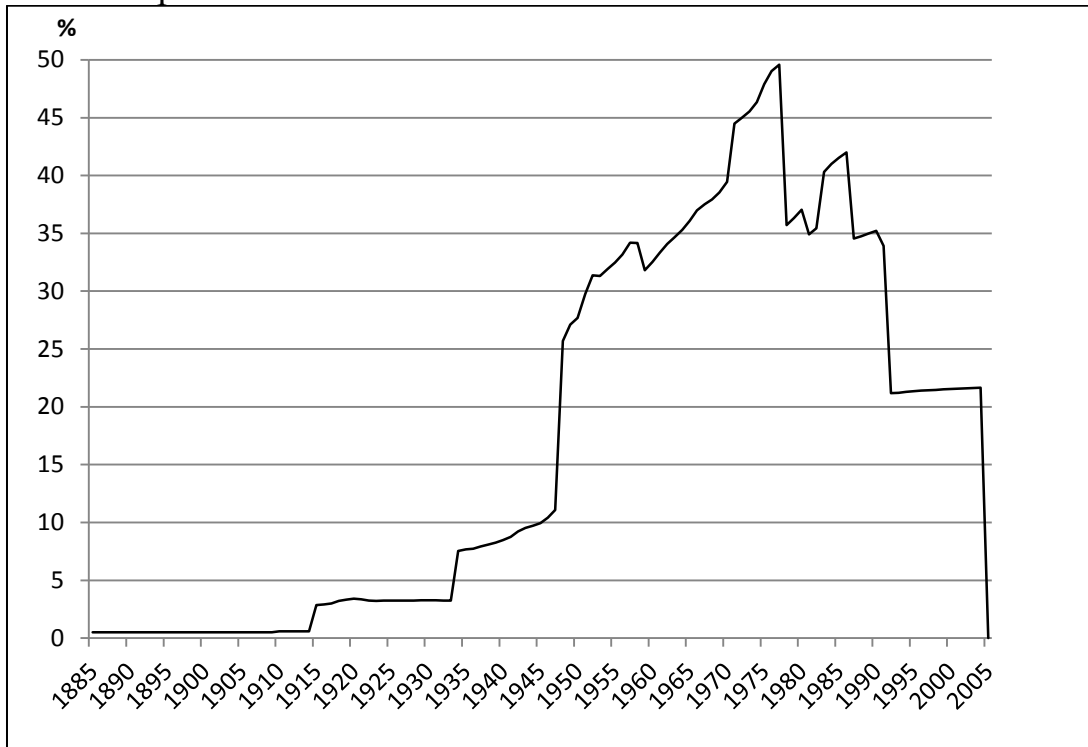
Source: Calculations made by the authors. A small family firm had a net business equity of SEK 2.7 million in 2004

Figure 6 Direct and total inheritance tax as a percentage of total wealth for a very wealthy person.



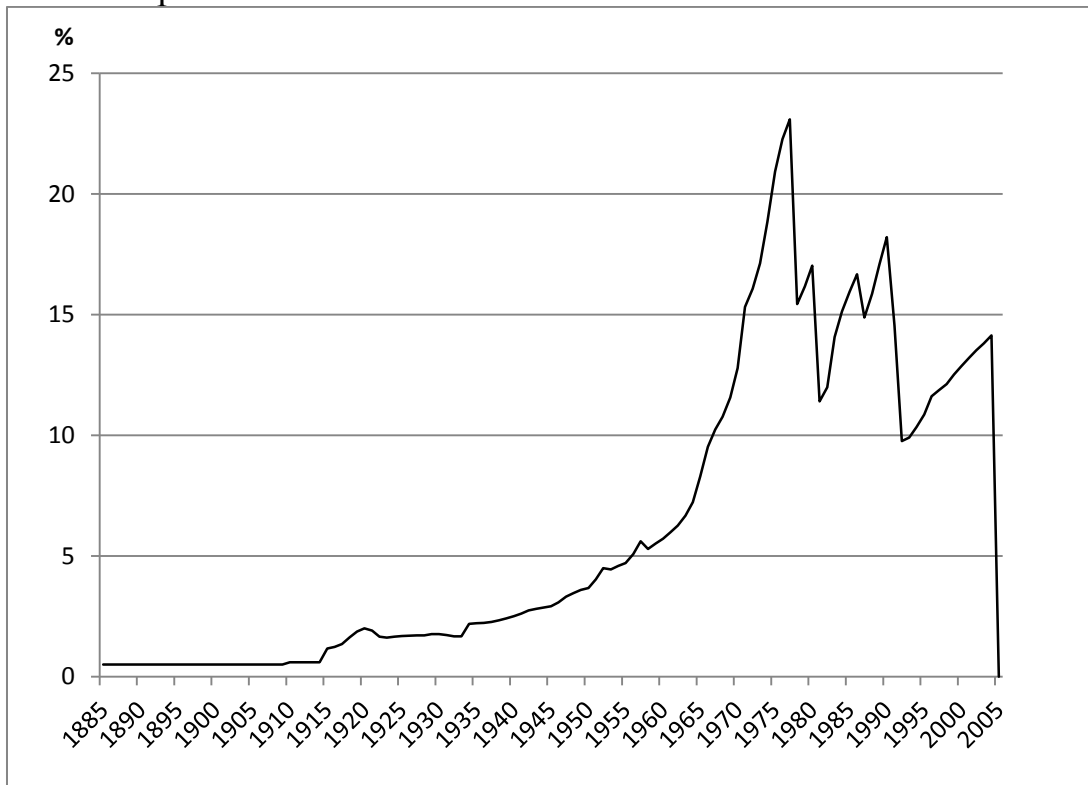
Note: We define as a “very wealthy person” someone with a taxable wealth of SEK 100 million in 2004.

Figure 7 Direct and total inheritance tax as a percentage of total wealth for a person of moderate wealth.



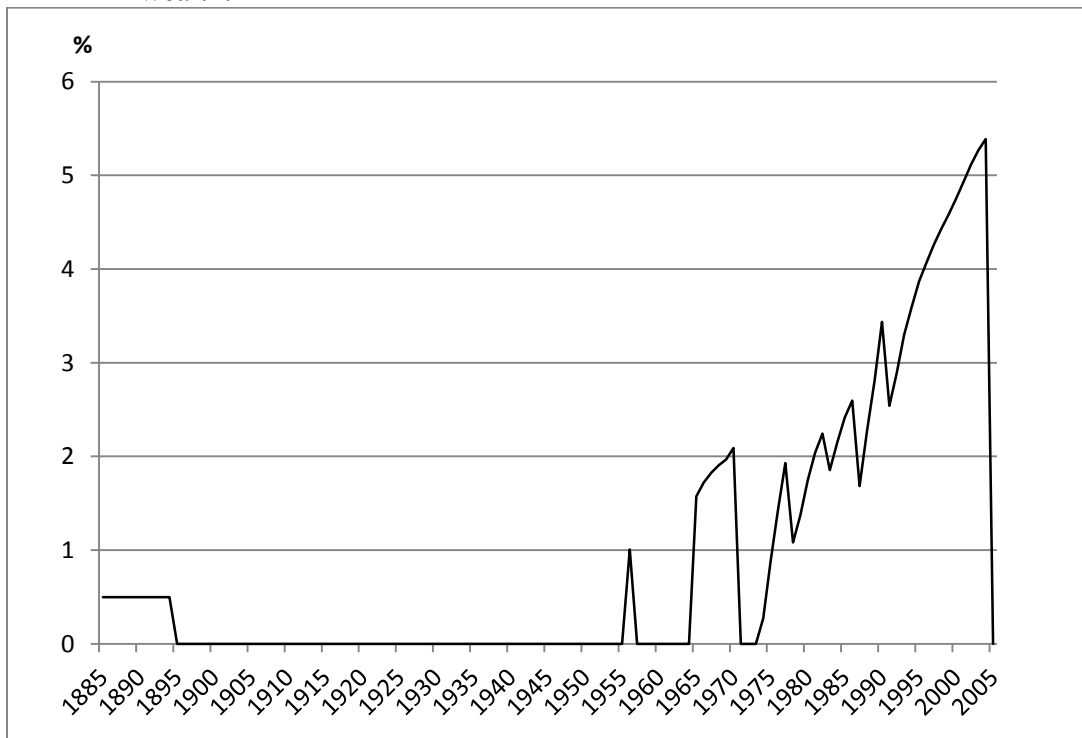
Note: A person is defined as moderately wealthy if her taxable personal wealth at the time of death in 2004 was SEK 10 million. This is approximately the average in the top wealth percentile in Sweden at this point (Roine and Waldenström, 2009 and Hochguertel and Ohlsson, 2012).

Figure 8 Direct and total inheritance tax as a percentage of total wealth for a person of small wealth.



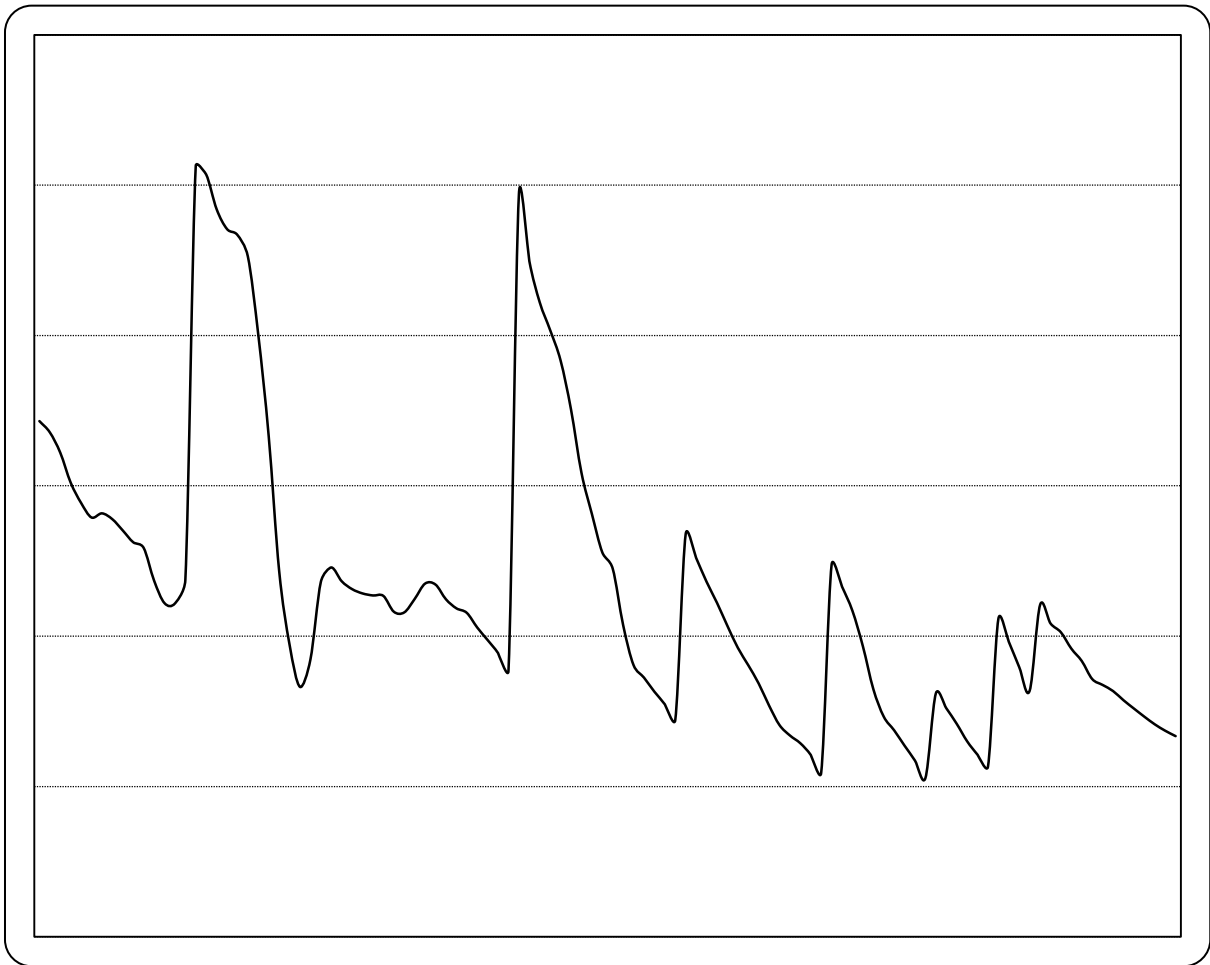
Note: An heir of small wealth is defined as a person with a taxable personal wealth at the time of death, in 2004 of SEK 927 thousands. This is approximately the average in the top wealth percentile in Sweden at this point (Roine and Waldenström, 2009 and Hochguertel and Ohlsson, 2012).

Figure 9 Direct inheritance tax as a percentage of total wealth for a person of average wealth.



Note: The average personal wealth is computed using total taxable personal wealth for all years divided by the number of households (see further Roine and Waldenström, 2009, for sources). An inheritance tax of zero means that average personal wealth for deceased persons in that year is below the taxable limit or the exemption level, respectively.

*Figure A1* Taxable limits (1894–1970) and basic exemptions (1971–2004) for descendants expressed as a share of the average annual wage of a production worker



*Note:* The taxable limit system, applied until 1970, meant that as soon as the limit was exceeded inheritance tax was levied on the entire inheritance received.



Table 1 Inheritance tax schedule, 1885–1894.

Class	Tax rate (%)
Direct heir	0.5
Other heirs	0.6

Source: Eberstein (1956, p. 5).

Table 2 Inheritance tax schedules, 1895–1909.

Class I: Children, spouse and descendants				Class II: Parents, brothers and sisters				Class III: Non-profit organizations and other heirs			
Taxable lot		Tax		Taxable lot		Tax		Taxable lot		Tax	
SEK	SEK	SEK	%	SEK	SEK	SEK	%	SEK	SEK	SEK	%
0	– 75,000	0	+ 0.5	0	– 50,000	0	+ 0.5	0	– 40,000	0	+ 0.5
75,000	–	375	+ 1.5	50,000	–	250	+ 3	40,000	–	200	+ 6
Taxable limit:		400				200				200	

Source: *Arvsbeskattning*, SOU 1957:48, p. 57. Note: The whole inheritance lot was taxable.

Table 3 Inheritance tax schedules for Classes I–II, 1910–14, and Class III, 1910.

Class I: Children, spouse and descendants				Class II: Parents, brothers and sisters				Class III: Non-profit organizations and other heirs			
Taxable lot		Tax		Taxable lot		Tax		Taxable lot		Tax	
SEK	SEK	SEK	%	SEK	SEK	SEK	%	SEK	SEK	SEK	%
0	75,000	0	+ 0.6	0	– 50,000	0	+ 0.6	0	– 40,000	0	+ 1.0
75,000	– 450,000	450	+ 1.5	50,000	– 375,000	300	+ 3.0	40,000	– 260,000	400	+ 6.0
450,000	–	6,075	+ 4.0	375,000	–	10,050	+ 8.0	260,000	–	13,600	+ 16
Taxable limit:		1,000				200				200	

Note: The tax schedule for Class III is for 1910 only.

Source: SOU 1957:48, p. 57.

Table 4 Inheritance tax schedule for Classes III–IV, 1911–1914.

Class III, Certain juridical persons				Class IV, Other heirs excluding certain juridical persons			
Taxable Lot		Tax		Taxable Lot		Tax	
SEK	SEK	SEK	%	SEK	SEK	SEK	%
0	– 260,000	0	+ 1.0	0	– 40,000	0	+ 1.0
260,000	–	260	+ 12.0	40,000	– 260,000	400	+ 6.0
				260,000	–	13,600	+ 16.0

Source: SOU 1957:48, p. 57.

Table 5 Inheritance tax schedules, 1915–1933.

Class I: Children, spouse and descendants				Class II: Parents, brothers, sisters, descendants and non-profit organizations				Class III: Other heirs			
Taxable lot		Tax		Taxable lot		Tax		Taxable lot		Tax	
SEK	SEK	SEK	% SEK	SEK	SEK	SEK	% SEK	SEK	SEK	SEK	%
1000 –	2,000	6 +	1.0	0 –	500	1.2 +	0.9	200 –	500	2 +	1.8
2,000 –	4,000	16 +	1.2	500 –	1,000	4 +	1.2	500 –	1,000	8 +	2.5
4,000 –	6,000	40 +	1.6	1,000 –	2,000	10 +	1.8	1,000 –	2,000	20 +	4.0
6,000 –	8,000	72 +	2.0	2,000 –	3,000	28 +	2.6	2,000 –	3,000	60 +	6.0
8,000 –	10,000	112 +	2.4	3,000 –	4,000	54 +	3.4	3,000 –	4,000	120 +	8.0
10,000 –	12,000	160 +	2.8	4,000 –	5,000	88 +	4.2	4,000 –	5,000	200 +	10.0
12,000 –	15,000	216 +	2.8	5,000 –	6,000	130 +	5.0	5,000 –	6,000	300 +	12.0
15,000 –	20,000	300 +	2.8	6,000 –	10,000	180 +	6.5	6,000 –	10,000	420 +	12.0
20,000 –	30,000	440 +	2.8	10,000 –	25,000	400 +	5.6	10,000 –	30,000	900 +	12.0
30,000 –	50,000	720 +	3.4	25,000 –	50,000	1,250 +	7.0	30,000 –	60,000	3,300 +	15.0
50,000 –	75,000	1,400 +	3.4	50,000 –	150,000	3,000 +	7.5	60,000 –	175,000	7,800 +	16.0
75,000 –	100,000	2,250 +	3.8	150,000 –	3,656,000	10,500 +	8.7	175,000 –	260,000	27,260 +	18.0
100,000 –	150,000	3,200 +	3.8	3,656,000 –		315,522 +	8.0	260,000 –		42,560 +	16.0
150,000 –	225,000	5,100 +	4.0								
225,000 –	325,000	8,100 +	4.25								
325,000 –	450,000	12,350 +	4.5								
450,000 –		18,000 +	4.0								
Taxable limit: SEK 1, 000				Taxable limit: SEK 200				Taxable limit: SEK 200			

Note: In Class I the marginal tax in the first taxable lot interval (up to SEK 1,000) is 0.6%.

Source: SFS 1914 (No. 38), p. 1169.

Table 6 Inheritance tax schedules, 1934–1958.

Taxable lot		Marginal tax rates, %				
		Class I. Children, spouse and descendants		Class II: Spouse Parents, brothers and sisters		
SEK	SEK	Tax SEK	%			
0	– 1,000	0	+	1	2	1
1,000	– 3,000	10	+	1	4	1
3,000	– 6,000	30	+	2	6	2
6,000	– 12,000	90	+	3	8	3
12,000	– 20,000	270	+	4	10	4
20,000	– 30,000	590	+	5	12	5
30,000	– 40,000	1,090	+	6	15	6
40,000	– 50,000	1,690	+	7	18	7
50,000	– 60,000	2,390	+	8	18	8
60,000	– 75,000	3,190	+	9	21	9
75,000	– 100,000	4,540	+	10	21	10
100,000	– 150,000	7,040	+	12	24	12
150,000	– 200,000	13,040	+	14	24	14
200,000	– 300,000	20,040	+	16	24	16
300,000	– 400,000	36,040	+	18	24	18
400,000	–	54,040	+	20	24	20
Taxable limit in 1934: SEK				1,000	200	200 1,000
Taxable limit in 1941: SEK				3,000	1,000	1,000 25,000
Taxable limit in 1957: SEK				6,000	2,000	1,000 40,000
Taxable limit in 1958: SEK				6,000	2,000	1,000 80,000

Note: In order to save space, we indicate marginal tax rates only for Class II.

Source: SFS 1941:416, p. 780ff.

*Table 6 continued* Inheritance tax schedules, 1934–1958.

Class III. Non-profit organizations		Class IV. Others	
Taxable lot SEK	Tax SEK	Taxable lot SEK	Tax SEK
1,000 – 3,000	40 + 10%	1,000 – 3,000	40 + 10%
3,000 – 6,000	240 + 15%	3,000 – 6,000	200 + 15%
6,000 – 20,000	690 + 20%	6,000 – 12,000	690 + 20%
20,000 – 60,000	3,490 + 25%	12,000 – 20,000	1,890 + 25%
60,000 –	13,490 + 30%	20,000 – 40,000	3,890 + 30%
		40,000 –	9,890 + 35%
Taxable limit in 1934	200		200
Taxable limit in 1941 (through 1970)	1,000		1,000

*Note:* Taxable lot equals inheritance lot when there is no basic exemption.

*Source:* SFS 1941:416, p. 780ff.

*Table 7* Estate tax schedules, 1948–1958.

Taxable estate		Tax 1957		Tax rate, %	
SEK	SEK	SEK		1948–1957	1958
0 –	50,000	0 +		0	0
50,000 –	70,000	0 +		5	0
70,000 –	80,000	1,000 +		10	0
80,000 –	100,000	2,000 +		10	10
100,000 –	200,000	4,000 +		15	15
200,000 –	300,000	19,000 +		20	20
300,000 –	500,000	39,000 +		25	25
500,000 –	1,000,000	89,000 +		30	30
1,000,000 –	2,000,000	239,000 +		35	35
2,000,000 –	5,000,000	589,000 +		40	40
5,000,000 –		1,789,000 +		50	50

Basic exemption 1948: SEK 30,000

Basic exemption 1953: SEK 50,000

Basic exemption 1958: SEK 80,000

*Source:* SOU 1957:48, p. 57.

Table 8 Inheritance tax schedules, 1959–1970.

Class I. Children, spouses, descendants				Class II. Brothers, sisters, parents and descendants			
Inheritance lot		Tax		Inheritance lot		Tax	
SEK	SEK	SEK	%	SEK	SEK	SEK	%
6,000 –	12,000	90	+ 3	2,000 –	5,000	60	+ 6
12,000 –	20,000	270	+ 4	5,000 –	10,000	240	+ 9
20,000 –	30,000	590	+ 5	10,000 –	15,000	690	+ 12
30,000 –	40,000	1,090	+ 6	15,000 –	20,000	1,290	+ 15
40,000 –	50,000	1,690	+ 7	20,000 –	30,000	2,040	+ 20
50,000 –	60,000	2,390	+ 8	30,000 –	40,000	4,040	+ 25
60,000 –	70,000	3,190	+ 9	40,000 –	50,000	6,540	+ 30
70,000 –	80,000	4,090	+ 10	50,000 –	75,000	9,540	+ 35
80,000 –	90,000	5,090	+ 15	75,000 –	100,000	18,290	+ 40
90,000 –	100,000	6,590	+ 20	100,000 –	150,000	28,290	+ 45
100,000 –	100,000	8,590	+ 24	150,000 –	200,000	50,790	+ 50
150,000 –	200,000	20,590	+ 28	200,000 –	500,000	75,790	+ 55
200,000 –	300,000	34,590	+ 32	500,000 –	1,000,000	240,790	+ 60
300,000 –	400,000	66,590	+ 36	1,000,000 –		540,790	+ 65
400,000 –	500,000	102,590	+ 40				
500,000 –	1,000,000	142,590	+ 44				
1,000,000 –	2,000,000	362,590	+ 48				
2,000,000 –	5,000,000	842,590	+ 52				
5,000,000 –		2,402,590	+ 60				
Taxable limit: SEK 6,000				Taxable limit: SEK 2,000			

Class III. Non-profit organizations				Class IV. Others			
Inheritance lot		Tax		Inheritance lot		Tax	
SEK	SEK	SEK	%	SEK	SEK	SEK	%
1,000 –	3,000	40	+ 10	1,000 –	5,000	200	+ 20
3,000 –	6,000	240	+ 15	5,000 –	10,000	1000	+ 30
6,000 –	20,000	690	+ 20	10,000 –	20,000	2,500	+ 40
20,000 –	60,000	3,490	+ 25	20,000 –	30,000	6,500	+ 50
60,000		13,490	+ 30	30,000 –	50,000	11,500	+ 60
				50,000 –		23,500	+ 65
Taxable limit: SEK 1,000				Taxable limit: SEK 1,000			

Note: The whole lot was taxable if the inheritance lot exceeded the taxable limit as there were no basic exemptions

Source: SFS 1958:562, p. 1613–1614.

Table 9 Inheritance tax schedules, 1971–1980.

Class I. Children, spouses, descendants				Class II. Parents, brothers, sisters and other heirs				Class III: Non-profit organizations			
Taxable lot		Tax		Taxable lot		Tax		Taxable lot		Tax	
SEK	SEK	SEK	%	SEK	SEK	SEK	%	SEK	SEK	SEK	%
0	–	25,000	0 + 5	0	–	10,000	0 + 8	0	–	10,000	0 + 8
25,000	–	50,000	1,250 + 10	10,000	–	20,000	800 + 16	10,000	–	20,000	800 + 16
50,000	–	75,000	3,750 + 15	20,000	–	30,000	2,400 + 24	20,000	–	30,000	2,400 + 24
75,000	–	100,000	7,500 + 22	30,000	–	50,000	4,800 + 32	30,000	–		4,800 + 30
100,000	–	150,000	13,000 + 28	50,000	–	70,000	11,200 + 40				
150,000	–	250,000	27,000 + 33	70,000	–	100,000	19,200 + 45				
250,000	–	350,000	60,000 + 38	100,000	–	150,000	32,700 + 50				
350,000	–	500,000	98,000 + 44	150,000	–	200,000	57,700 + 56				
500,000	–	1,000,000	164,000 + 49	200,000	–	500,000	85,700 + 61				
1,000,000	–	2,000,000	409,000 + 53	500,000	–	1,000,000	268,700 + 67				
2,000,000	–	5,000,000	939,000 + 58	1,000,000	–		603,700 + 72				
5,000,000	–		+ 65								

Basic deductible exemptions were introduced in 1971.

Spouse: SEK 3,000 plus a taxable limit of SEK 40,000 and phasing in rules of marginal inheritance tax rates

Children: SEK 15,000

Other heirs: SEK 3,000

*Note:* The phasing in rules of marginal inheritance tax rates for a surviving spouse meant that the tax rate was 3 percent in the bracket SEK 6,000–12,000 and rose gradually. In the bracket above SEK 5,000,000 the tax rate was 60 percent (SOU 1969:54, p. 70). Class IV was abolished in 1971. The heirs formerly belonging to Class IV were incorporated into Class II, which henceforth consisted of all individual heirs not in Class I and all juridical persons not belonging to Class III.

*Source:* SOU 1977:91, p. 236–237.

Table 10 Inheritance tax schedules, 1981–1986.

1981–1982					1983–86				
Class I. Children, spouse, descendants					Class I. Children, spouse, descendants				
Taxable lot		Tax			Taxable lot		Tax		
SEK	SEK	SEK		%	SEK	SEK	SEK		%
0	– 50,000	0	+	5	0	– 50,000	0	+	6
50,000	– 100,000	2,500	+	10	50,000	– 100,000	3,000	+	12
100,000	– 150,000	7,500	+	15	100,000	– 150,000	9,000	+	18
150,000	– 200,000	15,000	+	22	150,000	– 200,000	18,000	+	24
200,000	– 300,000	26,000	+	28	200,000	– 300,000	30,000	+	30
300,000	– 450,000	54,000	+	33	300,000	– 450,000	60,000	+	36
450,000	– 600,000	103,500	+	38	450,000	– 600,000	114,000	+	42
600,000	– 800,000	160,500	+	44	600,000	– 800,000	177,000	+	48
800,000	– 1,200,000	248,500	+	49	800,000	– 1,200,000	273,000	+	54
1,200,000	– 2,500,000	444,500	+	53	1,200,000	– 2,500,000	489,000	+	60
2,500,000	– 6,000,000	1,133,500	+	58	2,500,000	– 6,000,000	1,269,000	+	65
6,000,000	–	3,163,500	+	65	6,000,000	–	3,544,000	+	70
Class II. Brothers, sisters, parents and other heirs					Class II. Brothers, sisters, parents and other heirs				
0	– 20,000	0	+	8	0	– 20,000	0	+	10
20,000	– 40,000	1,600	+	16	20,000	– 40,000	2,000	+	20
40,000	– 60,000	4,800	+	24	40,000	– 60,000	6,000	+	28
60,000	– 90,000	9,600	+	32	60,000	– 90,000	11,600	+	36
90,000	– 120,000	19,200	+	40	90,000	– 120,000	33,400	+	44
120,000	– 150,000	31,200	+	45	120,000	– 150,000	35,600	+	50
150,000	– 200,000	44,700	+	50	150,000	– 200,000	50,600	+	55
200,000	– 250,000	69,700	+	56	200,000	– 250,000	78,100	+	60
250,000	– 600,000	97,700	+	61	250,000	– 600,000	108,100	+	65
600,000	– 1,200,000	311,200	+	67	600,000	– 1,200,000	335,600	+	70
1,200,000	–	713,200	+	72	1,200,000	–	755,600	+	75
Class III: Non-profit organizations					Class III: Non-profit organizations				
0	– 20,000	0	+	8	0	– 20,000	0	+	8
20,000	– 40,000	1,600	+	16	20,000	– 40,000	1,600	+	16
40,000	– 60,000	4,800	+	24	40,000	– 60,000	4,800	+	24
60,000	–	9,600	+	30	60,000	–	9,600	+	30
Basic exemptions					Basic exemptions				
Spouse: SEK 50,000					Spouse: SEK 50,000				
Others Class I: SEK 25,000					Others Class I: SEK 25,000				
Class II–III: SEK 5,000					Class II–III: SEK 5,000				
Children below age 18: additional SEK 3,000 per year until age 18					Children below age 18: additional SEK 5,000 per year until age 18				

Note: The heirs formerly belonging to Class IV were incorporated into Class II, which henceforth consisted of all individual heirs not in Class I and all juridical persons not belonging to Class III.

Source: SFS 1981:994, p. 1891ff. *Fakta för skattebetalare* (1986, p. 39).

Table 11 Inheritance and gift tax schedules, 1987–1990.

Class I. Children, spouse, descendants			
Taxable lot		Tax	
SEK	SEK	SEK	%
0	– 100,000	0	+ 10
100,000	– 200,000	10,000	+ 20
200,000	– 400,000	30,000	+ 30
400,000	– 800,000	90,000	+ 40
800,000	– 8,000,000	250,000	+ 50
8,000,000	–	3,850,000	+ 60
Class II. Brothers, sisters, parents and other heirs			
Taxable lot		Tax	
SEK	SEK	SEK	%
0	– 25,000	0	+ 15
25,000	– 50,000	3,750	+ 25
50,000	– 100,000	10,000	+ 35
100,000	– 200,000	27,500	+ 45
200,000	– 2,000,000	72,500	+ 55
2,000,000	–	1,062,500	+ 65
Class III. Non-profit organizations			
Taxable lot		Tax	
SEK	SEK	SEK	%
0	– 30,000	0	+ 10
30,000	– 60,000	3,000	+ 20
60,000	–	9,000	+ 30

Basic exemptions	1987–1988	1989–1990
Spouse: SEK	100,000	200,000
Children SEK	50,000	50,000
Others: SEK	15,000	15,000

Note: The heirs formerly belonging to Class IV were incorporated into Class II, which henceforth consisted of all individual heirs not in Class I and all juridical persons not belonging to Class III.

Source: *Fakta för skattebetalare* (1987, p. 40).



Table 12 Inheritance and gift tax schedules, 1991.

Class I. Children, spouse, descendants			
Taxable lot		Tax	
SEK	SEK	SEK	%
0	– 140,000	0	+ 10
140,000	– 280,000	14,000	+ 20
280,000	– 560,000	42,000	+ 30
560,000	– 1,200,000	126,000	+ 40
1,200,000	– 11,200,000	350,000	+ 50
11,200,000	–	5,390,000	+ 60

Class II. Brothers, sisters, parents and other heirs			
Taxable lot		Tax	
SEK	SEK	SEK	%
0	– 35,000	0	+ 15
35,000	– 70,000	5,250	+ 25
70,000	– 140,000	14,000	+ 35
140,000	– 280,000	38,500	+ 45
280,000	– 2,800,000	101,500	+ 55
2,800,000	–	1,487,500	+ 65

Class III. Non-profit organizations			
Taxable lot		Tax	
SEK	SEK	SEK	%
0	– 42,000	0	+ 10
42,000	– 84,000	4,200	+ 20
84,000	–	12,600	+ 30

Basic exemptions:

Spouse: SEK 280,000

Children SEK 70,000

Others: SEK 21,000

Gifts: SEK 10,000

*Note:* The heirs formerly belonging to Class IV were incorporated into Class II, which henceforth consisted of all individual heirs not in Class I and all juridical persons not belonging to Class III.

*Source:* Fakta för skattebetalare (1991).

Table 13 Inheritance and gift tax schedules, 1992–2004.

Class I. Children, spouse, descendants				
Taxable lot		Tax		
SEK	SEK	SEK	%	
0	– 300,000	0	+	10
300,000	– 600,000	30,000	+	20
600,000	–	90,000	+	30

Class II. Brothers, sisters, parents and other heirs				
Taxable lot		Tax		
SEK	SEK	SEK	%	
0	– 70,000	0	+	10
70,000	– 140,000	7,000	+	20
140,000	–	21,000	+	30

Class III: Non-profit organizations				
Taxable lot		Tax		
SEK	SEK	SEK	%	
0	– 90,000	0	+	10
90,000	– 170,000	9,000	+	20
170,000	–	25,000	+	30

Basic exemptions:

Spouse: SEK 280,000

Children: SEK 70,000

Others, SEK 21,000

Gifts: SEK 10,000

*Note:* The heirs formerly belonging to Class IV were incorporated into Class II, which henceforth consisted of all individual heirs not in Class I and all juridical persons not belonging to Class III.

*Source:* Fakta för skattebetalare (1992).

Table 14 Taxable share of capital gains on stock holdings, 1911–1990.

Time period	Holding period				
	< 2 years	2–3 years	3–4 years	4–5 years	> 5 years
1911–1950	100	100	100	100	0
1951–1965	100	75	50	25	0
1966–1975	100	75	50	25	25*
1976–1990	100	40	40	40	40

*Note:* Before 1911 only so-called “speculative” capital gains were taxable.

*Source:* Bratt and Fernström (1975), SOU 1977:91 (p. 242–243), Eberstein (1929, p. 154–155), Rundfelt (1982) and Södersten (1984, p. 106–107).

*Table A1* Swedish consumer price index, 1884–2005 (1884 = 100).

Year	CPI	Year	CPI	Year	CPI
1884	100.0	1925	211.7	1966	620.8
1885	95.33	1926	204.5	1967	645.9
1886	90.67	1927	202.2	1968	659.1
1887	87.44	1928	204.5	1969	677.0
1888	90.55	1929	201.0	1970	723.7
1889	94.62	1930	193.8	1971	777.5
1890	96.65	1931	187.8	1972	824.2
1891	99.64	1932	185.4	1973	879.2
1892	97.85	1933	180.6	1974	966.5
1893	93.90	1934	181.8	1975	1061
1894	89.11	1935	185.4	1976	1171
1895	90.79	1936	187.8	1977	1304
1896	90.07	1937	193.8	1978	1435
1897	92.94	1938	197.4	1979	1538
1898	97.37	1939	203.3	1980	1748
1899	101.7	1940	230.9	1981	1959
1900	102.9	1941	262.0	1982	2127
1901	100.4	1942	279.9	1983	2317
1902	101.2	1943	281.1	1984	2502
1903	102.9	1944	279.9	1985	2687
1904	101.7	1945	278.7	1986	2800
1905	103.8	1946	279.9	1987	2919
1906	106.0	1947	288.3	1988	3089
1907	111.5	1948	305.0	1989	3287
1908	113.2	1949	306.2	1990	3632
1909	112.1	1950	311.0	1991	3970
1910	112.1	1951	363.6	1992	4061
1911	115.4	1952	390.0	1993	4250
1912	117.8	1953	392.3	1994	4343
1913	118.2	1954	394.7	1995	4453
1914	119.6	1955	405.5	1996	4474
1915	137.6	1956	425.8	1997	4498
1916	155.5	1957	445.0	1998	4490
1917	196.2	1958	464.1	1999	4512
1918	288.3	1959	467.7	2000	4556
1919	318.2	1960	486.8	2001	4667
1920	324.2	1961	497.6	2002	4768
1921	264.4	1962	521.5	2003	4860
1922	220.1	1963	537.1	2004	4878
1923	208.1	1964	553.8	2005	4901
1924	208.1	1965	582.5		

*Source:* Statistics Sweden, [http://www.scb.se/Pages/TableAndChart\\_\\_\\_33895.aspx](http://www.scb.se/Pages/TableAndChart___33895.aspx) (accessed February 1, 2011).

*Table A2* Average annual wage for a full-time production worker in nominal SEK, 1885–2004.

Year	SEK	Year	SEK	Year	SEK
1884	505	1925	2,162	1966	21,300
1885	499	1926	2,189	1967	22,400
1886	484	1927	2,202	1968	23,300
1887	493	1928	2,205	1969	24,800
1888	512	1929	2,312	1970	27,500
1889	544	1930	2,317	1971	30,300
1890	561	1931	2,225	1972	32,200
1891	565	1932	2,128	1973	34,600
1892	560	1933	2,134	1974	38,800
1893	565	1934	2,227	1975	45,500
1894	573	1935	2,288	1976	51,200
1895	583	1936	2,320	1977	54,600
1896	596	1937	2,430	1978	59,000
1897	621	1938	2,533	1979	64,000
1898	662	1939	2,649	1980	71,000
1899	693	1940	2,825	1981	77,200
1900	717	1941	3,037	1982	82,200
1901	710	1942	3,337	1983	88,200
1902	720	1943	3,554	1984	96,100
1903	740	1944	3,717	1985	103,200
1904	762	1945	3,913	1986	110,400
1905	773	1946	4,277	1987	118,200
1906	844	1947	4,859	1988	127,400
1907	901	1948	5,331	1989	139,400
1908	902	1949	5,865	1990	152,700
1909	843	1950	6,125	1991	158,500
1910	975	1951	7,235	1992	167,900
1911	986	1952	8,300	1993	172,800
1912	1,033	1953	8,700	1994	182,600
1913	1,062	1954	9,200	1995	190,800
1914	1,071	1955	9,700	1996	204,100
1915	1,105	1956	10,400	1997	208,900
1916	1,249	1957	11,200	1998	214,100
1917	1,502	1958	11,900	1999	222,400
1918	2,054	1959	12,700	2000	230,500
1919	2,574	1960	13,500	2001	239,000
1920	3,008	1961	14,500	2002	247,600
1921	2,711	1962	15,600	2003	255,300
1922	2,118	1963	16,600	2004	262,200
1923	2,035	1964	17,800		
1924	2,114	1965	19,500		

*Source:* 1861–1951: Edvinsson (2005, p. 371, Table P and p. 385, Table U); 1952–1993: Du Rietz (1994, p. 44, Table 3.1); 1994–2003: Johansson (2004, p. 93, Table A1); 2004: National Mediation Office (2011).

*Table A3. Taxable limits 1894–1970 and basic exemptions 1971–2004 for children in nominal and real terms, 1895–2004. SEK, thousands*

	1894	1895	1910	1915	1933	1941	1957	1958	1959	1970	1971	1980	1981	1983	1986	1987	1990	1991	1992	2004
Nominal taxable limit	0	0.4	0.4	1.0	1.0	3.0	6.0	6.0	6.0	6.0	0	0	0	0	0	0	0	0	0	0
Nominal basic exemption	0	0	0	0	0	0	0	0	0	0	15.0	15.0	25.0	25.0	25.0	50.0	50.0	70.0	70.0	70.0
2004 CPI Index	89.11	90,79	112.1	137.6	180.6	262.0	445.0	464.1	467.7	723.7	777.5	1748	1959	2317	2800	2919	3632	3970	4061	4878
Nominal APW, thousand SEK	.573	.583	.975	1.105	2.134	3.037	11.2	11.9	12.7	27.5	30.3	71.0	77.2	88,2	110.4	118.2	152.7	158.5	167.9	262.2
Taxable limit 2004 prices	0	20,5	17.4	43.51	27.01	55,85	65.77	63.08	62.58	40.44	0	0	0	0	0	0	0	0	0	0
Basic exemption 2004 prices	0	0	0	0	0	0	0	0	0	0	94.1	41.9	37.4	52.6	43.6	83.7	67,2	86.1	84.1	70,0
Basic exemption/APW	0	0	0	0	0	0	0	0	0	0	0,495	0,211	0,194	0,283	0,226	0,423	0,327			
Taxable limit/APW	0	0.686	0.474	0.905	0.469	0.988	0.536	0.504	0.472	0.218	0	0	0	0	0	0	0	0	0	0

*Note:* All nominal figures are in thousand SEK. APW = Average annual wage of a production worker (see Table A2).