

## INHERITANCE TAXES

Inheritance Taxes play only a minor role in the total tax revenues of countries. Within the industrialised OECD countries the US reaches with 1.25 percent one of the highest shares of inheritance taxes in total tax revenues. In Austria, by contrast, the share is less than 0.2 percent and is one of the lowest. Also in Germany is the share with about 0,7 percent quite modest (figures of 2003).

The motivation for taxing bequests is mainly driven by considerations of fairness. Specifically, inheritance taxes are introduced and maintained to counter a tendency of concentration of property in a small number of very wealthy families or “dynasties”. Besides their distributional effects, inheritance taxes also exert income and substitution effects. The substitution effect of an inheritance tax makes it “more expensive” – in terms of foregone present consumption – for a bequeather to shift one Euro of consumption possibilities to his heirs. This would tendentially increase present consumption (decrease savings). On the other hand, by the income effect of the inheritance tax the bequeather is made “poorer” and would, thus, tendentially reduce his present consumption (increase savings). The net effect is, of course, an empirical question.

The general relevance of an inheritance tax for economic behaviour and long-term economic growth can be roughly assessed when one knows the intentions for the savings of an individual, i.e. whether savings are mainly intended to serve as a security reserve for one’s own old age or for making bequests. In other words, whether and how far bequests are made intentionally or unintentionally. In a still influential research Kotlikoff and Summers (1981) came to the conclusion that up to two thirds of capital accumulation might be motivated by making bequests. If this were so, a growth-conscious government should be careful to levy too high inheritance tax rates.

A comparison of the different national systems of inheritance taxation would be easy if the differences were only in the tax rates applied. But the systems are characterised by many aspects in which they differ widely. One is the general concept of the inheritance tax, namely whether the bequest and the following taxation is defined on the side of the bequeather (as e.g. in the UK and the US) or

on that of the heir (as in most other countries). Denmark has a mixed system in this respect. Within the first system the personal relationship between bequeather and heir is irrelevant for the tax rate to be applied.

Another question is how far bequests from or to foreigners are taxed. One might think that bequests *to* foreigners are not taxed in those countries who conceptually define the tax liability on the side of the heir. But this is not the case. In many countries (e.g. Germany, France, Austria) for a tax liability to exist it is enough that either the bequeather or the heir is a citizen of the country concerned. This regulation is mainly meant to limit tax evasion.

Of importance is also the definition of the tax basis and its valuation as well as allowances and exemptions. The valuation is straightforward only in the cases of cash, deposits and tradable stock shares. Here the bequest is generally valued at its nominal amount or market value at the moment of the bequest. The valuation is more difficult, however, when houses or non tradable shares of enterprises are bequested. In many countries special schemes of valuation are used which often underestimate the factual value of the bequested assets.

The inheritance tax systems generally try to avoid negative effects on the continuation of enterprises by introducing special allowances, exemptions, or possibilities to defer tax payments.

In order to avoid incentives for tax evasion inheritance taxes must be integrated with gift taxes. In most countries tax-free donations to near relatives might be made once in a certain period (often, as in Germany, once in 10 years) and up to a certain limit. There is also some, although less systemic, need to integrate inheritance taxes with property taxes. Only a minority of OECD countries still has property taxes. Instead, most countries have inheritance taxes. Only very few countries, e.g. Canada and Estonia, have neither inheritance nor property taxes.

Table 1 informs about the general characteristics of the inheritance tax systems of nearly all EU and of some important non-EU countries. The information has been recently compiled by CESifo from national sources. Some important information has also been taken from a recent research report of

Table 1

## Inheritance Taxation, General Characteristics, 2004

	Inheritance tax	Tax rate range by class	Description	Threshold for exemption
Austria (1)	Yes	Class 1: 2 – 15% Class 2: 4 – 25% Class 3: 6 – 40% Class 4: 8 – 50% Class 5: 14 – 60%	Class 1: spouse, children Class 2: grandchildren Class 3: parents, siblings Class 4: nephews Class 5: others	Class 1+2: € 2,000 Class 3+4: € 440 Class 5: € 110
Belgium (2)	Yes	Class 1: 3 – 30% Class 2: 20 – 65% Class 3: 25 – 70% Class 4: 30 – 90%  Different number of brackets by region.	Different tax rates in three regions: Flemish region, Walloon region, Brussels; Categories of beneficiaries: Class 1: spouse, children; Class 2: siblings; Class 3: nephews, uncles, aunts; Class 4: others. In the Flemish region: 3+4 combined.	Different rules apply for every category and for every region depending on the amount transferred.
Cyprus (8)	Yes	10 – 30%	There is an initial exemption granted to heirs in the immediate family such as children, a life partner and others. The amount of the exemption is between CYP 50,000 and 150,000. An asset with a value of less than CYP 20,000 is exempt from tax.	n.a.
Czech Republic	Yes	n.a.	Close relatives (children/spouse) are exempt from inheritance tax.	n.a.
Denmark	Yes	n.a.	n.a.	n.a.
Estonia	No	–	–	–
Finland (3)	Yes	10 – 16%  Over 3 brackets	Three categories of beneficiaries: Category 1: spouse, children and their direct heirs, parents; Category 2: siblings; Category 3: others.	Category 1 (spouse, children and their direct heirs, and parents): € 2,200.
France (4)	Yes	Descendants: 5 – 40% spouse: 5 – 45% others: up to 60%  Over 7 brackets	n.a.	Spouse: € 7,000 descendants: € 46,000 siblings: € 15,000
Germany (5)	Yes	Class 1: 7 – 30% Class 2: 12 – 40% Class 3: 17 – 50%	Three categories of beneficiaries: Class 1: (spouse, children and their direct heirs, and parents); Class 2: (siblings, divorced spouse, nephews); Class 3: Rest.	Class 1: € 307,000 (spouse) € 205,000 (children) € 51,000 (rest) Class 2: € 10,300 Class 3: € 5,200 (rest)
Hungary (8)	Yes	2.5 – 25%	Subject to certain conditions, including the degree of relationship with the deceased, part of an inheritance is exempt from tax or is taxable at a lower rate.	n.a.
Ireland (6)	Yes	n.a.	n.a.	€ 441,198 if the beneficiary is a direct descendant or parents, € 44,120 if the beneficiary is a sibling or nephew, € 22,060 for the rest.

continued Table 1

	Inheritance tax	Tax rate range by class	Description	Threshold for exemption
Italy	No, abolished 18 October 2001	–	–	–
Lithuania	Yes	n.a.	There is an exemption for inheritances received by a spouse, children, grandchildren, siblings.	LTL 10,000.
Luxembourg	No	–	–	–
Netherlands (7)	Yes	Spouses, children and unmarried couples living together: 5 – 27% parents, brothers and sisters: 26 – 53% non-relatives: 41 – 68%	Substantial amounts are not taxable.	n.a.
Poland	Yes	7 – 20%	n.a.	There is a basic sum that is exempt from tax, depending on the type of asset. There is an exemption for a group of assets such as antique art, farms and more, subject to certain conditions.
Portugal (8)	Yes	3 – 50%	n.a.	n.a.
Slovakia	Yes	n.a.	Three degrees of relationships with heirs.	n.a.
Slovenia	Yes	Class 2: 5 – 14% Class 3: 8 – 17% Class 4: 11 – 30%	Class 1: all direct descendants and spouses; Class 2: parents, siblings and their descendants; Class 3: grandparents; Class 4: others.	No tax for Class 1 beneficiaries.
Spain	Yes	n.a.	n.a.	n.a.
Sweden	Yes	n.a.	n.a.	n.a.
United Kingdom	Yes	n.a.	Tax rate is not based on the relationship between parties.	Taxable threshold from 6 April 2004: GBP 263,000.
Norway (10)	Yes	n.a.	The tax rates are decided annually by the Storting (Norwegian Parliament).	n.a.
Switzerland (11)	Yes	n.a.	n.a.	n.a.
Australia	No	–	–	–
Canada	No	–	–	–
Japan (12)	Yes	10 – 70% Over 9 brackets	n.a.	n.a.
New Zealand	No	–	–	–
United States	Yes	18 – 55% Over 17 brackets	Tax rate is not based on the relationship between parties.	n.a.

Note: In general: The amount of taxes in every country knowing an inheritance tax, depends on the amount inherited and the relationship between inheritor and descendant. This relationship is mainly characterized by “classes”.

Source: (1) [www.help.gv.at](http://www.help.gv.at); – (2) AXA Insurance (Belgium); – (3) Finish Tax Administration; – (4) Service Publique (France); – (5) Bundesfinanzministerium; – (6) The Irish Revenue Commissioners; – (7) Ministerie van Financiën; – (8) World Tax Inc.; – (9) Inland Revenue Service; – (10) Skatteetaten; – (11) Kantonales Steueramt Zürich; – (12) Ministry of Finance (Japan).

Date of research in sources: July 2004.

Table 2

## Inheritance Taxation, Tax Rates, for Bequests to Spouses and Children, in Percent, 2004

	100,000 €		250,000 €		500,000 €		1,000,000 €		5,000,000 €		30,000,000 €		Notes
	MTR	ATR	MTR	ATR	MTR	ATR	MTR	ATR	MTR	ATR	MTR	ATR	
Austria (1)	6.00	4.21	9.00	6.39	10.00	7.96	11.00	9.25	15.00	12.68	15.00	14.61	(a)
Belgium (2)	8.00	6.50	18.00	16.10	24.00	17.15	30.00	23.58	30.00	28.73	29.79	30.00	(b)
Denmark (3)	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	
Finland (4)	16.00	13.74	16.00	15.10	16.00	15.55	16.00	15.77	16.00	15.95	16.00	15.99	(c)
France (5)	20.00	18.30	20.00	19.32	20.00	19.66	35.00	25.38	40.00	36.38	40.00	39.40	
Germany (6)	11.00	8.92	11.00	10.17	15.00	12.54	19.00	15.72	19.00	18.34	30.00	24.95	(d)
Ireland (7)	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	(e)
Italy	No inheritance tax												
Luxembourg	No inheritance tax												
Netherlands (3, 8)	n.a.	n.a.	n.a.	14.44	n.a.	18.07	27.00	21.22	27.00	25.84	27.00	26.81	
Spain (3)	n.a.	n.a.	n.a.	17.09	n.a.	22.15	n.a.	26.81	n.a.	32.56	n.a.	33.76	
Sweden (3)	n.a.	n.a.	n.a.	26.60	n.a.	28.30	n.a.	29.15	n.a.	29.83	n.a.	29.97	
United Kingdom (9)	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00	
Norway (10)	20.00	n.a.	20.00	n.a.	20.00	n.a.	20.00	n.a.	20.00	n.a.	20.00	n.a.	
Switzerland (11)	2.80	2.80	3.80	3.80	4.68	4.68	5.50	5.50	6.00	6.00	6.00	6.00	
Australia	No inheritance tax												
Canada	No inheritance tax												
Japan (3)	40.00	27.30	50.00	43.00	50.00	35.95	50.00	46.50	50.00	49.29	50.00	49.88	
New Zealand	No inheritance tax												
United States (3)	n.a.	n.a.	n.a.	29.52	n.a.	32.40	n.a.	35.97	n.a.	45.86	n.a.	48.48	

Notes: MTR: Marginal tax rate; ATR: Average tax rate for a bequest of the amount mentioned in the head line.

(a) Tax rates only valid for domestic beneficiary (descendants). - (b) Tax rates only valid for Brussels (Class 1 beneficiaries). - (c) Rates for First Category (spouse, children, parents). - (d) Tax rates only valid for domestic Class 1 beneficiaries. - (e) The threshold is valid until December 31, 2000, afterwards, it is indexed to inflation.

Source: (1) [www.help.gv.at](http://www.help.gv.at); - (2) AXA Insurance (Belgium); - (3) Zentrum für Europäische Wirtschaftsforschung (ZEW), Inheritance Taxation, Feb. 2004; - (4) Finnish Tax Administration; - (5) Service Publique (France); - (6) Bundesfinanzministerium; - (7) The Irish Revenue Commissioners; - (8) Ministerie van Financiën; - (9) Inland Revenue Service; - (10) Skatteetaten; - (11) Kantonales Steueramt Zürich. Own calculations.

Zentrum für Europäische Wirtschaftsforschung (ZEW, 2004).

From the countries covered, an inheritance taxation does *not* exist only in Estonia, Italy, Luxembourg, Australia and Canada. Most countries differentiate the tax rates according to the degree of relationship which is often categorised in “classes”. A “class 1” relationship is mostly that between a bequeather and his spouse or children, while higher numbers of classes are for relationships of lower degree. In most cases, the tax rates increase with higher class number and with higher amounts bequeathed. As mentioned above, it is mainly the UK and the US where the class of relationship does not play a role. Thus, for most countries, a full description of an inheritance tax rate system must take the format of a matrix with, e.g., the head row for the amounts bequeathed and the head column for the degree of relationship.

In several countries the lowest tax rates (for small amounts bequeathed and high degrees of relationship) lie between 2 percent and 5 percent only, as in Austria, Belgium, France, Hungary, Netherlands, Portugal, Slovenia. Somewhat higher “entry” tax rates – between 7 percent and 10 percent – can be observed in Finland, Germany, Poland and Japan. Much higher is this lowest tax rate, with 18%, only in the US (indifferent to classes of relationships). On the other hand, the highest tax rates for high amounts of bequests and low degrees of relationship are realised in Austria, Belgium, the Netherlands and Japan (between 60 percent and 90%). In the US, this rate is, with 55%, not under the highest rates, but is still relatively high.

Table 2 tries to assess the average and the marginal tax rates for different specific amounts of bequests. It refers only to “class 1” relationships, i.e. to that of bequeather and spouse or children. Some countries employ a non-progressive system of inheritance taxation (Denmark, Finland, Ireland, UK, Norway). In the other countries the system is of a more or less progressive nature.

For a bequest of € 100,000 the average tax rate ranges from a mere 2.8 percent (Switzerland) to 40 percent (UK). Austria, Belgium, and Germany also have tax rates under 10%. For a rather large bequest of € 30,000,000 it is again Switzerland which employs a low tax rate (6%). The rates in the other countries are decidedly higher. Switzerland is

followed by Austria (14.6%), Denmark and Finland (15 percent and 15.9%). Tax rates of around 40 percent or even nearly 50 percent are found in France, UK, Japan and the US.

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## References

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