



# Inheritance taxation in OECD countries



*Inheritance taxation could play an important role in raising revenues, addressing inequalities and improving efficiency in OECD countries, particularly in the current context of persistently high wealth inequality and unevenly distributed wealth transfers. The COVID-19 crisis will also place countries under greater pressure to raise additional revenues and tackle inequality. However, inheritance, estate and gift taxes need to be carefully designed to achieve their objectives, and appropriate reforms will need to take into account country-specific circumstances.*

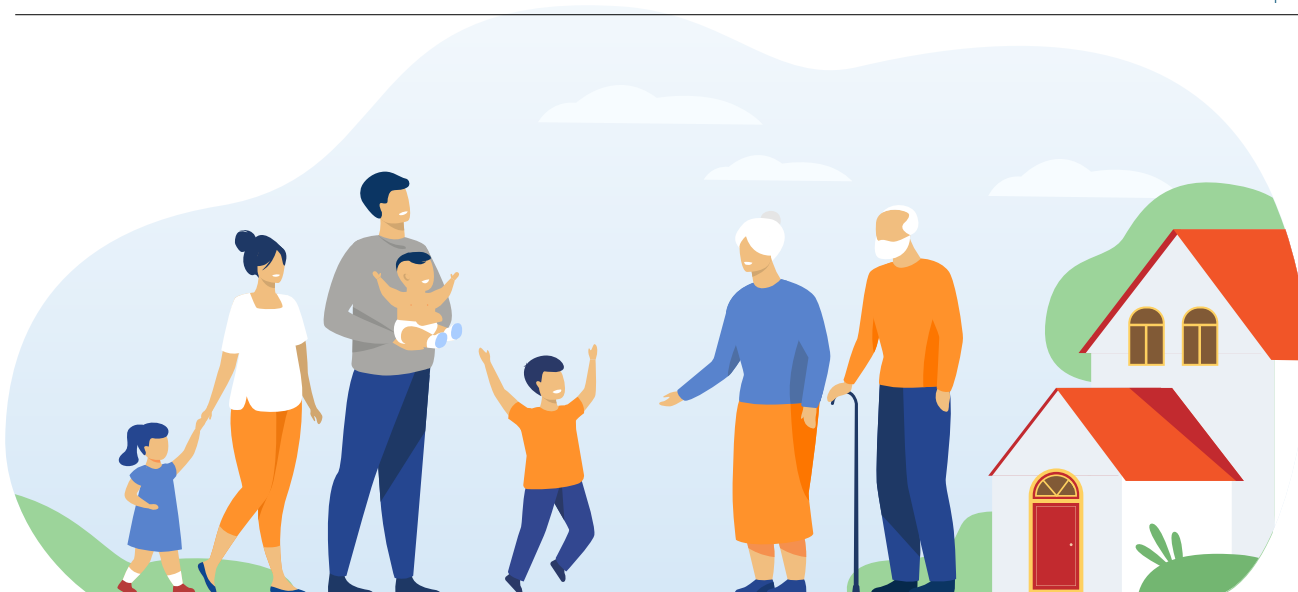
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## Summary

Inheritance taxation can play an important role in raising revenues, addressing inequalities and improving efficiency in OECD countries. This brochure summarises the key findings of the OECD's report on *Inheritance Taxation in OECD countries*. The report provides background on the distribution and evolution of household wealth and inheritances, assesses the case for and against inheritance taxation, and examines the design of inheritance, estate, and gift taxes in OECD countries. It concludes with a number of reform options that governments could consider to improve the design and functioning of inheritance taxes.

Inheritance taxation has the potential to play a particularly important role in the current context. Wealth inequality is high and has increased in some countries over recent decades. Inheritances are also unequally distributed across households, and they are likely to grow in value (if trends in asset prices continue) and in number (with the baby-boom generation getting older). The COVID-19 crisis will place countries under greater pressure to raise additional revenues and address inequalities, which have been exacerbated since the start of the pandemic.

The report finds that inheritance taxes can raise revenue and enhance equity, at lower efficiency and administrative costs than other alternatives. From an equity perspective, an inheritance tax, particularly one that targets relatively high levels of wealth transfers, can be an important tool to enhance equality of opportunity and reduce wealth concentration. The case for inheritance taxes might be strongest where the effective taxation of personal capital income and

wealth tends to be low. Inheritance taxes have generally been found to generate lower efficiency costs than other taxes on the wealthy and can have a number of positive efficiency effects, such as encouraging heirs to work and save more. There are also administrative advantages of inheritance taxation over other types of wealth taxes, particularly those levied annually.

Inheritance taxes need to be well-designed to achieve their objectives. In many countries, numerous provisions have narrowed inheritance tax bases. For example, taxpayers are often able to pass on significant amounts of wealth tax-free due to exemptions for the full amount or a sizeable part of transfers from donors to their close relatives and because of tax relief applying to transfers of certain assets. In addition to significantly reducing revenue collection, some of these relief provisions primarily benefit the wealthiest households, reducing the effective progressivity of inheritance taxes. There has also been evidence of tax avoidance and evasion, reducing effective taxation among the wealthy and well-advised and eroding confidence in the fairness of tax systems.

The report stresses the importance of having broad tax bases, ensuring alignment between inheritance and gift taxes, and focusing on the wealth received by beneficiaries, rather than the donor. The report also highlights the importance of country-specific circumstances – including the level of wealth inequality, administrative capacity, as well as the mix and coverage of other taxes levied on capital – to assess the need for and the appropriate design of inheritance, estate, and gift taxes.



# Household wealth and wealth transfers

## HOUSEHOLD WEALTH IS UNEVENLY DISTRIBUTED

A useful starting point is to examine who owns the wealth that may be inherited in future. Across OECD countries, household wealth is highly concentrated at the top of the wealth distribution. The wealthiest 10% of households own half of all household wealth on average across 27 OECD countries for which data were available and the wealthiest 1% own 18% of household wealth on average. Financial wealth is particularly concentrated; while the wealthiest 20% of households own more than half of all real estate wealth, they own nearly 80% of all financial wealth.

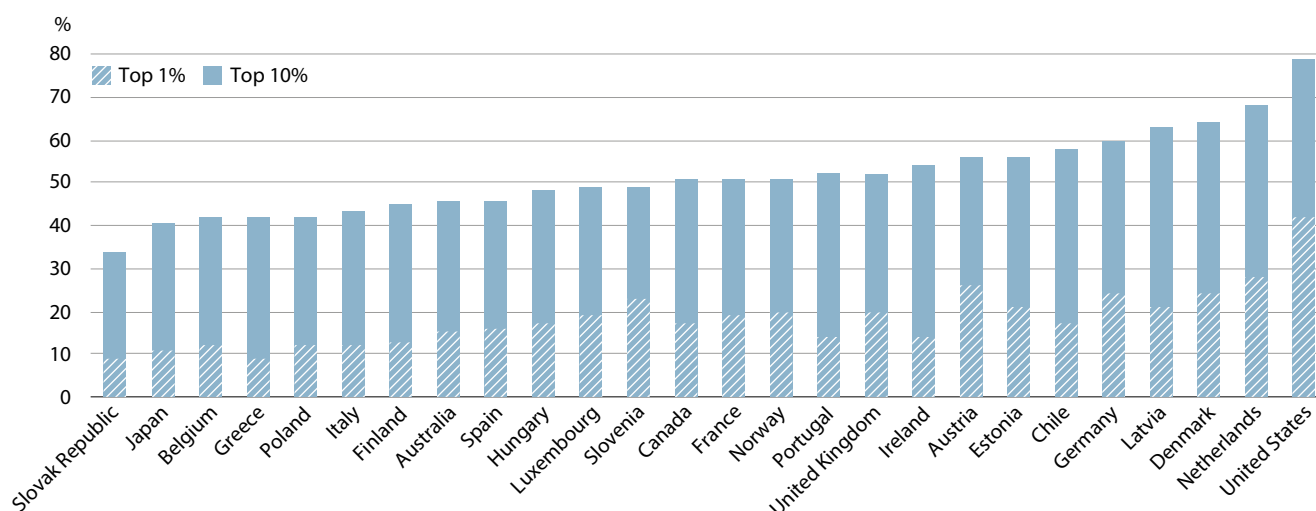
Income and wealth inequality may be mutually reinforcing. In particular, high-income households

can save more and often earn a higher return on their savings, while low-income households tend to save less and may invest in low-risk, low-return assets, which reinforces wealth inequality. Evidence shows a clear relationship between income and wealth, particularly at the top and bottom of all households.

## HOUSEHOLD WEALTH IS RISING AND WEALTH INEQUALITY HAS INCREASED IN SOME COUNTRIES

Household wealth has grown substantially in some countries over time. For example, between 1995 and 2019, per capita wealth nearly tripled in France and more than doubled in Canada and the United Kingdom. Rising asset prices were significant drivers of wealth growth, with countries experiencing larger increases in

Figure 1. Share of total net household wealth held by the top 1% and top 10% of the wealth distribution



Note: 2015 or latest available year. See *Inheritance Taxation in OECD Countries* for additional information on source data.

Source: OECD Wealth Distribution Database, [oe.cd/wealth](https://oe.cd/wealth).

housing and share prices generally experiencing higher wealth growth, while household saving rates appeared more weakly linked to wealth growth.

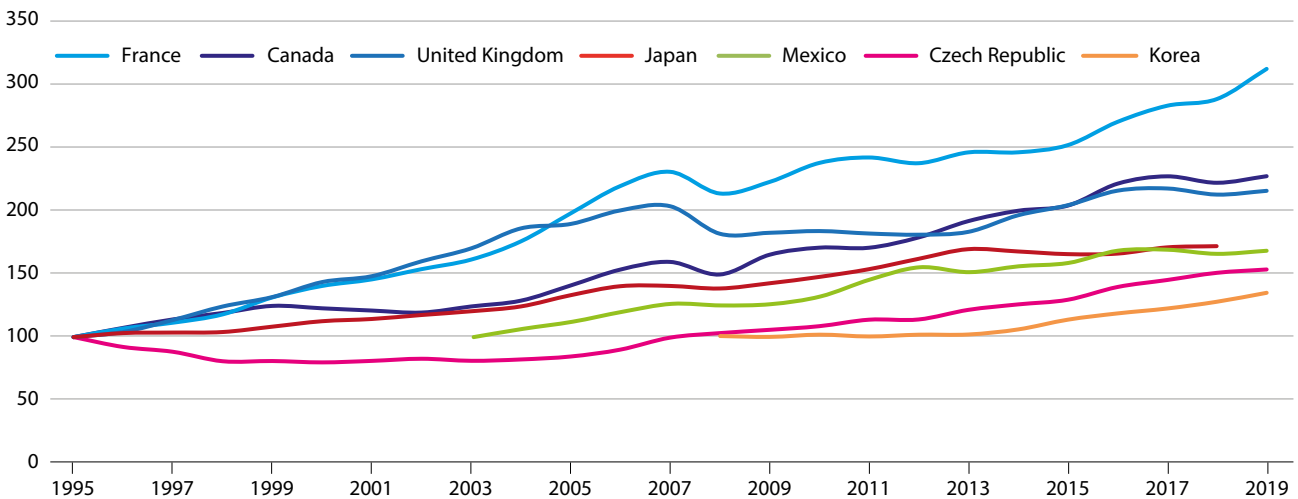
Rising household wealth has been accompanied by rising wealth inequality in some countries. Following strong declines in wealth inequality throughout the early and middle 20th century, top wealth shares increased during the latter part of the 20th century and the early 2000s in some countries. Unfortunately, long-run data on wealth inequality are only available for a few countries and, while the evolution of wealth inequality in these countries provides important insights, caution should be taken in generalising the trends, as the factors that drive long-run wealth inequality differ across countries and over time.

## WEALTH TRANSFERS ARE ALSO UNEQUALLY DISTRIBUTED

Wealth transfers include both gifts (i.e. transfers of assets made during the donor's lifetime) and inheritances (i.e. transfers of assets after the donor's death). Wealth transfers can affect wealth inequality and equality of opportunity, in part because wealthier people are more likely to receive an inheritance and typically receive higher value inheritances.

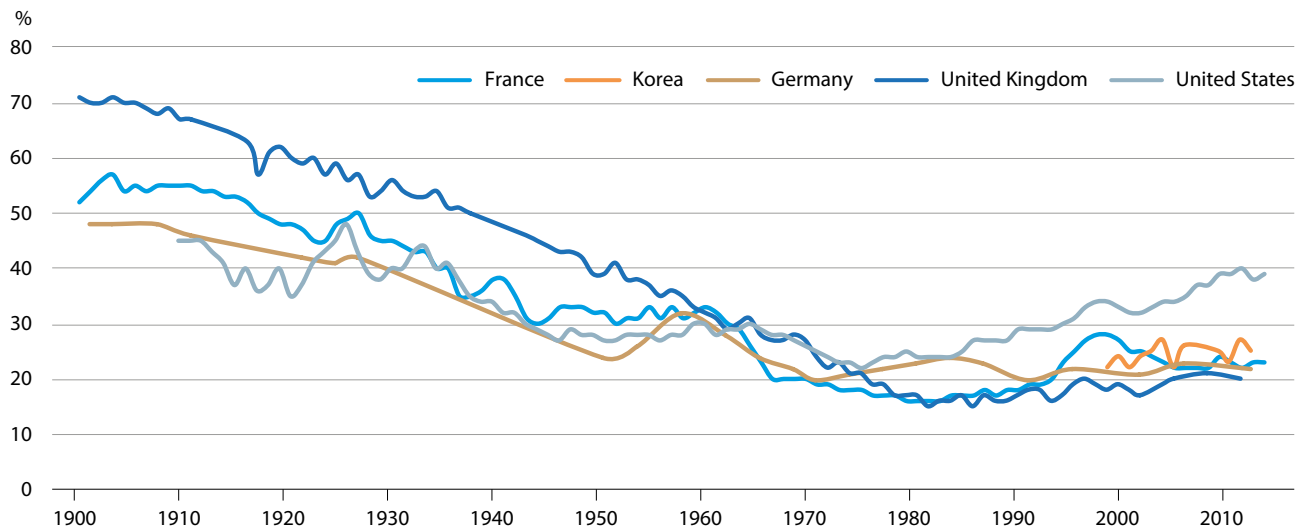
While between one quarter and one half of households across OECD countries report receiving an inheritance or a substantial gift, wealth transfers appear to favour wealthy households. Among the wealthiest 20% of households, the portion of households who report

Figure 2a. Assets held by households, per capita, 1995-2019, selected countries (base year 1995=100)



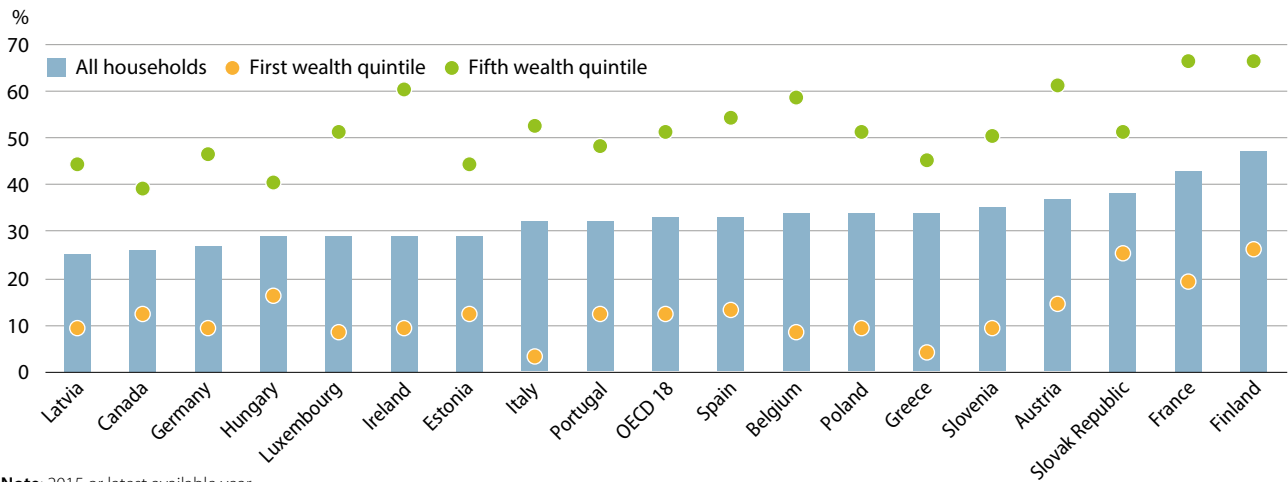
Source: OECD National Accounts

Figure 2b. Long run share of net wealth held by the top 1% wealthiest households, selected countries



Source: World Inequality Database, [wid.world/data/](http://wid.world/data/), data for Germany in Albers, Bartels and Schularick (2020<sub>[6]</sub>).

Figure 3. Share of the population that has reported receiving an inheritance or a substantial gift



Note: 2015 or latest available year.

Source: OECD Wealth Distribution Database, [oe.cd/wealth](https://oe.cd/wealth) (Balestra and Tonkin, 2018)

receiving an inheritance or gift ranges from 39% (Canada) to 66% (Finland), compared to between 3% (Italy) and 26% (Finland) among the poorest 20% of households.

Wealthy households also report receiving higher value inheritances and gifts. The average inheritance that households in the bottom wealth quintile reported receiving ranged from around USD 300 to USD 11 000. For the wealthiest 20% of households, the average reported inheritance ranged from around USD 30 000 to USD 526 000.

*The inheritances and gifts that the wealthiest households (top 20%) report receiving are close to 50 times higher than what the poorest households (bottom 20%) report receiving.*

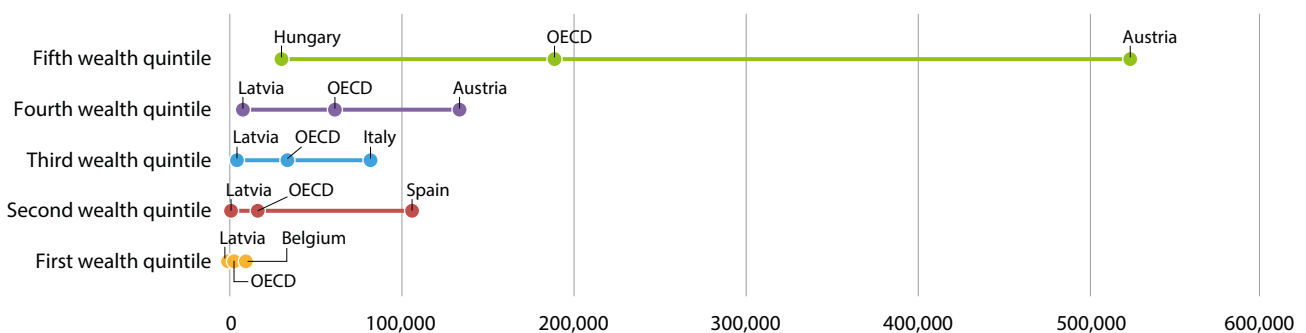
### TRENDS IN WEALTH TRANSFERS COULD REINFORCE WEALTH CONCENTRATION

The share of inherited wealth in total private wealth has increased in some countries in recent decades and, in the future, wealth transfers could further reinforce wealth inequalities. If recent trends in asset prices continue and as the baby-boom generation ages, wealth transfers may increase in value and in number. This may lead to an increase in intra-generational wealth inequality.

Moreover, as a result of longer life expectancies, wealth concentration among older cohorts is expected to rise. This may increase inter-generational wealth gaps between older asset-owning generations and younger generations.

Low fertility rates and smaller families may also mean that there are fewer close family members among whom wealth may be divided, increasing the likelihood that heirs receive a larger share of donors' estates.

Figure 4. Average value of inheritances received across the wealth distribution (USD)



Note: OECD refers to the average for Austria, Belgium, Canada, Estonia, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Luxembourg, Portugal, Slovak Republic, Slovenia and Spain. See *Inheritance Taxation in OECD Countries* for additional information on methodology.

Source: OECD Wealth Distribution Database, [oe.cd/wealth](https://oe.cd/wealth), (Balestra and Tonkin, 2018).



# Inheritance, estate, and gift taxes in OECD countries

## A MAJORITY OF COUNTRIES LEVY TAXES ON WEALTH TRANSFERS

Across the OECD, 24 countries tax end-of-life bequests. There are two different approaches to taxing bequests: countries can impose donor-based estate taxes, levied on the deceased donor's total net wealth, or recipient-based inheritance taxes, levied on the value of the assets that beneficiaries receive from the deceased donor. The latter is the most common approach, with 20 countries levying recipient-based inheritance taxes. Denmark, Korea, the United Kingdom and the United States, on the other hand, levy estate taxes. All the countries that levy inheritance or estate taxes also tax gifts, typically

*Across the OECD, 24 countries have an inheritance or an estate tax.*

through a beneficiary-based gift tax. Among the countries that do not levy inheritance or estate taxes, some have never levied such taxes (Estonia, Latvia), while others repealed them in recent decades.

## HOWEVER, TAX REVENUES HAVE TYPICALLY BEEN LOW

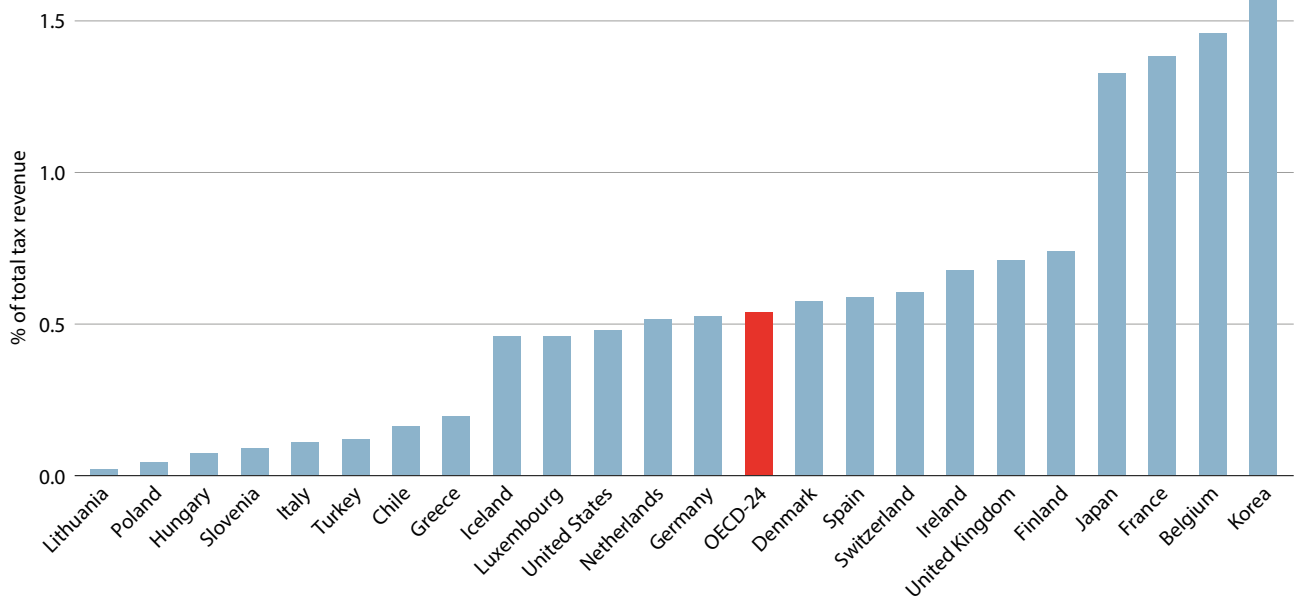
Revenues from inheritance, estate, and gift taxes form a very small portion of total tax revenues across OECD countries, representing only around 0.5% of total tax revenues on average in 2019 among countries that levy these taxes. Revenues from inheritance, estate, and gift taxes exceed 1% of total taxation in only four OECD countries (Belgium, France, Japan, and Korea), while revenues from these taxes raise less than a quarter of a percent of total taxation in nine countries. The share of total tax revenues collected from inheritance and estate

Table 1. **Wealth transfer taxes in OECD countries**

Type of tax	Country
<b>Inheritance tax and gift tax</b>	Belgium (Brussels-Capital Region), Chile, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Lithuania, Luxembourg, Netherlands, Poland, Portugal, Slovenia, Spain, Switzerland (Canton of Zurich), Turkey
<b>Estate tax and gift tax</b>	Denmark, Korea, United Kingdom, United States
<b>Gifts taxed under personal income tax</b>	Latvia, Lithuania (with a separate inheritance tax)
<b>Repealed inheritance or estate taxes (repeal year in brackets)</b>	Australia ('79), Austria ('08), Canada ('72), Czech Republic ('14), Israel ('80), Mexico ('61), New Zealand ('92), Norway ('14), Slovak Republic ('04), Sweden ('04)

1. While there are 24 OECD countries that tax inheritances, Inheritance Taxation in OECD countries provides a detailed description and assessment of inheritance, estate, and gift taxes in 22 OECD countries that replied to the OECD questionnaire on inheritance, estate and gift taxes.

Figure 5. Inheritance, estate, and gift tax revenues across countries, 2019 (% of total tax revenue)



**Note:** Data are for 2018 for Greece and Japan. Data for the OECD average refer to the 24 countries with these taxes. Portugal is not shown as inheritance tax revenues are not recorded in the tax revenue category that is the source for this figure.

**Source:** OECD (2020), *Revenue Statistics 2020*, OECD Publishing, Paris, <https://doi.org/10.1787/8625f8e5-en>.

taxes decreased sharply during the 1970s on average across OECD countries and has remained relatively stable since.

*On average, only around 0.5% of total tax revenue come from inheritance, estate, and gift taxes in the countries that levy such taxes.*

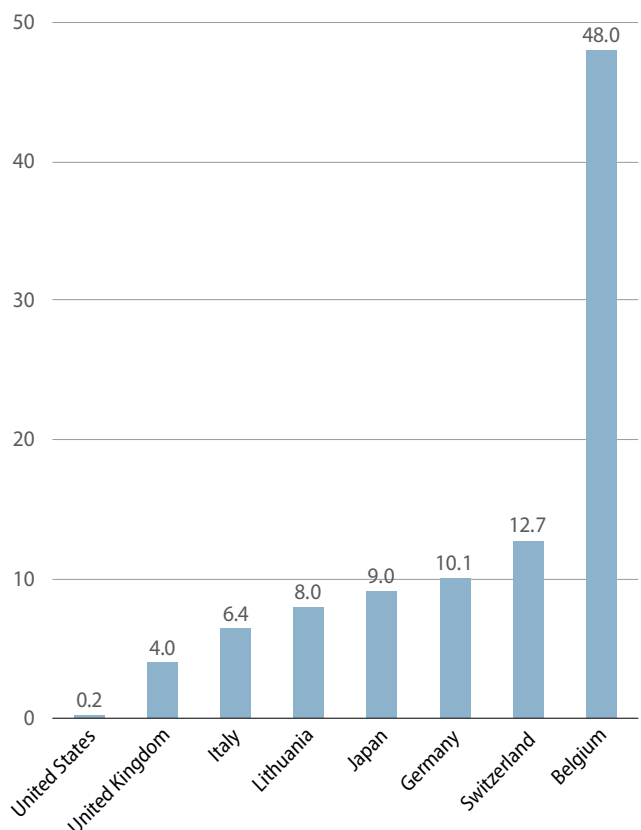
### LOW TAX REVENUES ARE PARTLY DUE TO NARROW TAX BASES

Narrow tax bases largely explain why the revenues collected from inheritance, estate, and gift taxes have typically been so low. Narrow tax bases are partly due to full or high tax exemptions for wealth transfers to close relatives, but also to the preferential tax treatment applying to certain assets.

This contributes to the low shares of taxable estates amongst total estates and transfers. In eight countries for which data were available, a minority of estates were subject to inheritance or estate taxes, ranging from 0.2% (United States) to 48% (Belgium, Brussels-Capital Region).

*In some countries, narrow tax bases mean only a minority of estates are taxed.*

Figure 6. Share of estates subject to inheritance or estate taxes, select countries (% of total estates)



**Note:** 2019 or latest available year. Belgium: refers to the Brussels-Capital Region. Switzerland: refers to the Canton of Zurich.

**Source:** OECD Questionnaire on Inheritance, Estate, and Gift Taxes (2020)



### TAX EXEMPTION THRESHOLDS ARE HIGHER FOR CLOSE FAMILY, BUT THEIR VALUE VARIES WIDELY

Almost all countries provide a tax exemption threshold, allowing a certain amount of wealth to be passed on to beneficiaries tax-free. Tax exemption thresholds tend to be higher for close relatives, particularly for the donor’s spouse and children. Spouses are fully exempt from inheritance or estate taxes in thirteen countries and donor’s children are exempt in six countries. Where they are not exempt, spouses and children benefit from the highest tax exemption thresholds.

However, the level of tax exemption thresholds varies widely across countries. For instance, tax exemption thresholds for bequests to children range from around USD 17 000 in Belgium (Brussels-Capital Region) to

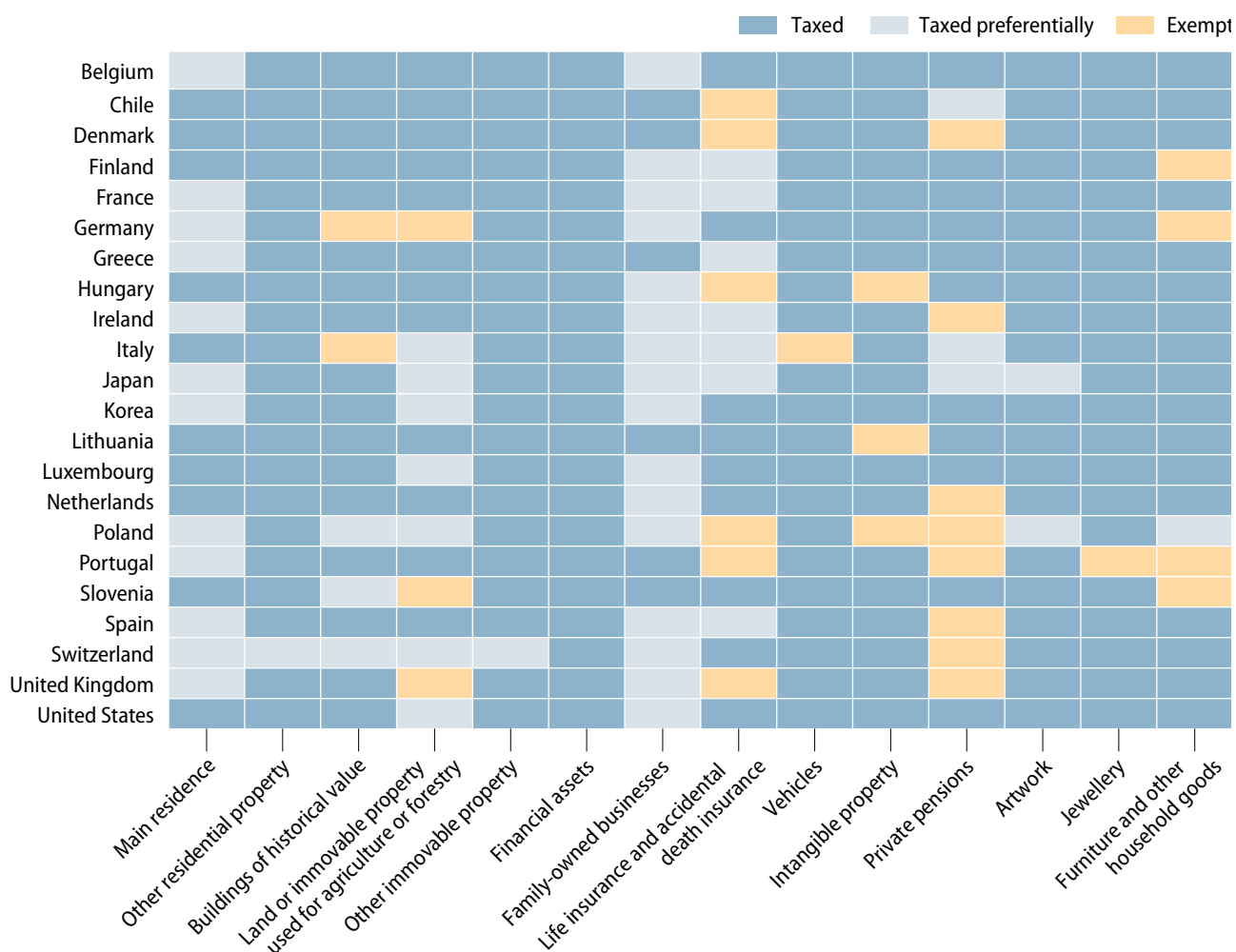
around USD 11.6 million in the United States.

Other family and non-related heirs usually have much less favourable tax treatment, although the gap between the tax treatment applying to closely related heirs and that of other heirs varies across countries.

### A NUMBER OF ASSETS TYPICALLY BENEFIT FROM A PREFERENTIAL TAX TREATMENT

Preferential tax treatment in the form of full or partial exemptions, additional tax exemption thresholds, below-market valuation, tax credits and lower tax rates, apply to specific assets in many countries. Assets that commonly benefit from preferential tax treatment include business and farm assets as well as donors’ main residences, while full exemptions apply most commonly to private pensions and life or accidental death insurance.

Figure 7. Tax treatment of different assets under inheritance and estate taxes



Note: 'Taxed' means assets are included in the tax base; 'Taxed Preferentially' means special treatment is available for some heirs under specified conditions, and 'Exempt' means assets are not included in the tax base.

Source: OECD Wealth Distribution Database, [oe.cd/wealth](https://oe.cd/wealth).

*Many countries apply preferential tax treatment to transfers of certain assets including businesses, main residences, private pensions, and life insurance.*

Some of these preferential tax rules may be justified. For example, preferential treatment for the main residence may protect spouses and dependents living in the donor's house at the time of or after the donor's death, while preferential treatment for business assets may support family business successions and allow businesses to survive after the death of their founders. Exemptions for charitable giving have been shown to increase donations and preferential tax treatment for publicly accessible buildings and artefacts with historic importance may help preserve national and regional heritage.

However, such tax exemptions and reliefs reduce the revenue potential of inheritance and estate taxes and introduce distortions across asset types. Preferential tax treatment can create lock-in effects, for example where the beneficiary would lose preferential treatment when moving to another house or selling an asset. Preferential tax treatment can also push up prices of certain assets by skewing investment decisions. In addition, some of these tax reliefs end up reducing the effective progressivity of inheritance and estate taxes, as they predominantly benefit the wealthiest households and create tax planning opportunities.

### OVER TWO-THIRDS OF COUNTRIES LEVY PROGRESSIVE TAX RATES

Fifteen countries levy inheritance taxes at progressive rates where the marginal tax rate rises with the value of the inheritance. Separate and typically higher progressive tax rates also apply to more distant family and non-relatives. On the other hand, seven countries apply flat inheritance or estate tax rates, of which five countries apply a single tax rate and two apply different flat tax rates depending on the relationship between the donor and the beneficiary.

Flat inheritance or estate tax rates range from 4% (Italy) to 40% (the United Kingdom, and the United States) and progressive rates range from 1% (Chile) to 80% (Belgium, Brussels-Capital Region) across different groups of heirs. Progressive tax rates for spouses and children are typically lower and vary less widely across

countries than the rates that apply to other family and non-related persons. For example, top marginal tax rates applying to children range from 10% (Greece) to 55% (Japan), while top marginal tax rates applying to wealth transfers to siblings range from 14% (Slovenia) to 65% (Belgium, Brussels-Capital Region).

### THE DESIGN OF INHERITANCE, ESTATE AND GIFT TAXES REDUCES EFFECTIVE TAX RATES, SOMETIMES EVEN MORE SO FOR THE LARGEST ESTATES

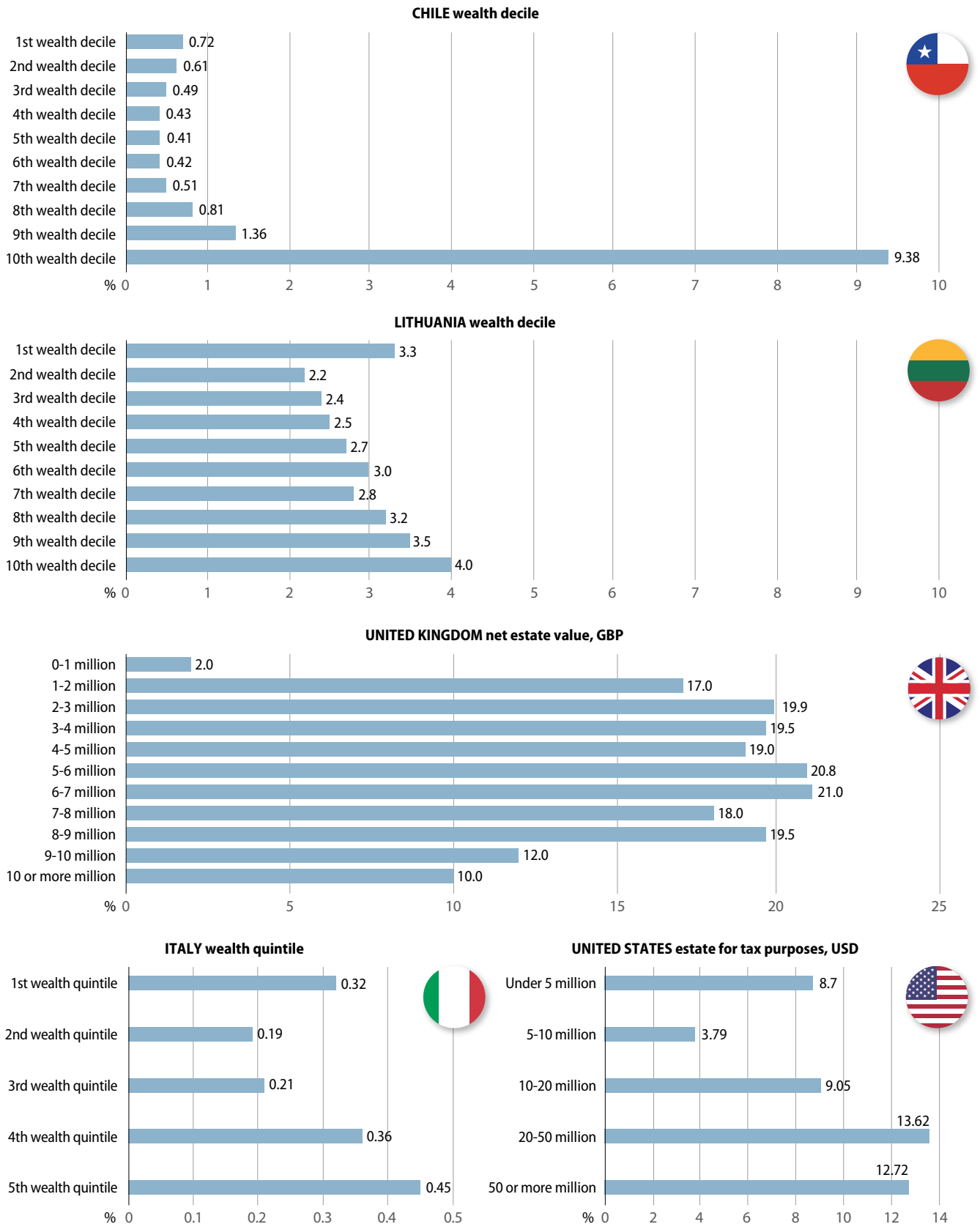
Effective tax rates<sup>2</sup> (ETRs), or tax rates actually paid by taxpayers, are significantly lower than statutory tax rates. ETRs capture the combined effect of tax design features, including exemptions, reliefs, and valuation rules, as well as tax avoidance and evasion. ETRs tend to be lower at the bottom end of the wealth distribution and higher at the upper end of the distribution, but they vary across countries. In Chile, the ETR at the top of the wealth distribution is far above the ETR for other households, but in the United Kingdom and the United States, ETRs decline for the largest estates. This is in part because larger estates tend to comprise more assets benefitting from tax relief.



*There is evidence that in some countries the wealthiest households are taxed at lower effective tax rates, in part because they tend to hold more assets benefitting from tax relief.*

2. Backward-looking effective tax rates measure actual taxes paid on inheritances. For example, if a taxpayer inherits USD 150 and benefits from a USD 50 tax exemption, a statutory rate of 10% would result in an effective tax rate of 6.7% =  $((150-50) \times 10\%) / 150$ .

FIGURE 8. Effective tax rates across wealth groups or estate values, select countries (%)



Note: See *Inheritance Taxation in OECD Countries* for additional information on source data.

Source: OECD Questionnaire on Inheritance, Estate, and Gift Taxes. Data for Italy are published in (Acciari and Morelli, 2020<sub>[137]</sub>)

### IN-LIFE GIVING IS TYPICALLY MORE FAVOURABLY TAXED THAN END-OF-LIFE GIVING

Gift taxes complement inheritance taxes, as they prevent taxpayers from avoiding inheritance taxes by transferring wealth during their life. However, the degree of alignment between gift taxes and inheritance or estate taxes varies. Gift taxes and inheritance or estate taxes may be very similar in some countries, with identical tax rate structures and asset treatment, while these operate as separate, but complementary, taxes in other countries.

Many countries offer renewable gift tax exemption thresholds, which allow donors to transfer a certain amount of wealth each year or every few years without incurring any tax. Taxpayers can take advantage of renewable tax exemption thresholds to significantly minimise their tax liability by regularly gifting wealth over long periods. Wealthy families who hold a greater portion of wealth in liquid assets and whose wealth exceeds their needs for retirement are the best placed to take advantage of these opportunities.

### THERE HAS ALSO BEEN EVIDENCE OF TAX PLANNING, AVOIDANCE AND EVASION

Tax avoidance and evasion opportunities can significantly reduce the revenue potential of taxes on wealth transfers, undermine their fairness by lowering the tax burden on those at the top of the distribution, and reduce efficiency by distorting taxpayers' savings behaviours.

The following opportunities for tax planning and tax avoidance may arise depending on the design of inheritance, estate, and gift taxes:

- Taking advantage of the regular renewal of gift tax exemptions by regularly gifting wealth under the exemption threshold, which may add up to significant tax-free wealth transfers over time;
- Transferring tax-favoured assets; for example, bequeathing assets such as a family business, that are tax exempt or taxed preferentially under inheritance and estate taxes;
- Bequeathing unrealised capital gains; for example, bequeathing assets that have appreciated in value, as the unrealised capital gains may be exempt upon the donor's death;

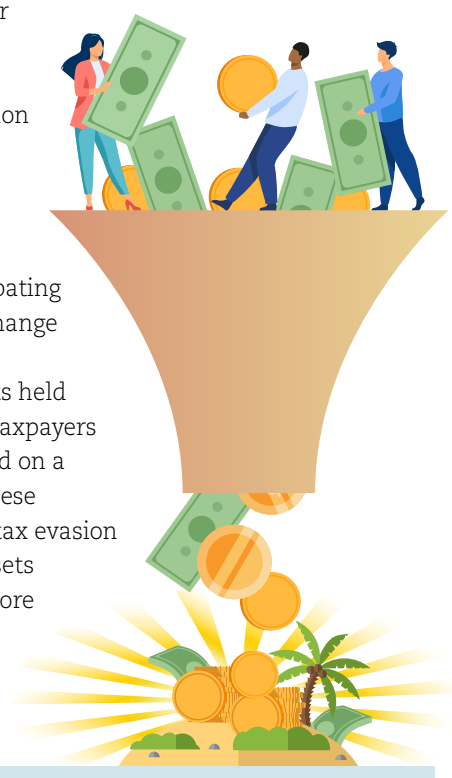
Using special structures, such as trusts;

- Taking advantage of preferential valuation rules; for example, by dividing the ownership of a business among family members, which may allow wealth transfers to qualify for minority shareholding discounts.

Tax evasion may range from simple cash transfers to the use of sophisticated offshore structures:

- Making undeclared transfers, particularly by gifting difficult-to-trace assets, such as cash;
- Abusing debt and deduction provisions; for example, inflating the value of deductible debts;
- Concealing assets offshore; for example, not declaring a bank account held in another country, particularly in jurisdictions with banking secrecy.

As discussed below, reforms to the design of inheritance, estate, and gift taxes can reduce opportunities for tax avoidance, while effective enforcement and tax transparency can address tax evasion. The exchange of information between tax authorities represents a significant step forward in tax transparency. Under the Exchange of Information on Request standard, tax authorities in one jurisdiction can request information about a particular taxpayer from tax authorities in another jurisdiction and under the Automatic Exchange of Information standard, participating jurisdictions exchange information on financial accounts held by non-resident taxpayers automatically and on a periodic basis. These standards make tax evasion by concealing assets offshore much more difficult.





## Policy recommendations

### **INHERITANCE, ESTATE, AND GIFT TAXES COULD PLAY A STRONGER ROLE IN OECD COUNTRIES**

There are strong equity arguments in favour of inheritance taxation, in particular of a recipient-based inheritance tax with an exemption for low-value inheritances. Evidence shows that inheritance taxes can improve equality of opportunity and reduce wealth inequality. The case for inheritance taxes might be strongest in countries where the effective taxation of personal capital income and wealth tends to be low.

There are also efficiency-related arguments in favour of inheritance taxation. While the number of studies is limited, the empirical literature generally suggests that inheritance taxes tend to have more limited effects on savings than other taxes levied on wealthy taxpayers, and confirms their positive effects on heirs' incentives to work and save, and on donors' charitable giving. In addition, while inheritance taxes might negatively affect family business successions (depending on tax design), they might at the same time reduce risks of misallocating capital to less skilled heirs.

*The report finds that taxing inheritances and gifts can play an important role to enhance equality of opportunity and reduce wealth gaps.*

Inheritance taxes also have a number of administrative advantages compared to other forms of wealth taxation. For example, inheritance taxes are less costly to administer and comply with than annual taxes on net

wealth, partly because they are only levied once. Recent progress on international tax transparency has also enhanced the ability of countries to combat tax evasion and tax capital more effectively.

### **INHERITANCE, ESTATE, AND GIFT TAXES NEED TO BE WELL-DESIGNED TO ACHIEVE THEIR OBJECTIVES**

The way inheritance, estate, and gift taxes are designed is critical to ensuring that they achieve their objectives. The report suggests a number of reform options that may be considered to enhance the revenue raising potential, efficiency and equity of inheritance, estate, and gift taxes. It is important to note, however, that the appropriate choice and design of tax instruments will depend on country-specific circumstances.

#### ***Inheritance or estate taxes***

There are good arguments for levying an inheritance tax on wealth received by heirs, rather than an estate tax on the total wealth transferred by donors. If the objective is to promote equality of opportunity, it is the amount of wealth received by each recipient and their personal financial circumstances that matters more than the overall amount of wealth left by the donor. This approach allows for progressive tax rates to be levied on the amount of wealth received by beneficiaries. Another advantage of a recipient-based inheritance tax is that it may encourage the division of estates and further reduce concentrations of wealth, as splitting bequests among multiple beneficiaries reduces inheritance tax liabilities. In contrast to inheritance taxes, estate taxes may be easier to collect given that they are levied on overall estates and involve a smaller number of taxing points.

*Inheritance and gift taxes should be well-designed, with a good case for a recipient-based inheritance tax with an exemption for low-value inheritances.*

### **Taxing wealth transfers on a lifetime basis**

A fair and efficient approach would consist of taxing beneficiaries on the gifts and bequests they receive over their life through a tax on lifetime wealth transfers. The tax liability for each wealth transfer would be determined by taking into account the amount of wealth previously received by the beneficiary. Such a tax could be levied above a lifetime tax exemption threshold, i.e. above an amount of wealth that beneficiaries would be entitled to receive tax-free during the course of their life (i.e. both in-life gifts and end-of-life inheritances). Taking into account previous wealth received by beneficiaries would ensure that individuals who receive more wealth over their lifetime pay more inheritance tax than individuals who receive less, particularly if tax rates are progressive. It would also ensure that beneficiaries receiving the same amounts of wealth, regardless of whether it is through multiple small transfers or one large transfer, face similar tax liabilities. A tax on lifetime wealth transfers would limit the importance of timing for gifts and inheritances, reducing avoidance opportunities.

However, a tax on lifetime wealth transfers may increase administrative and compliance costs. Where implementing a tax on lifetime wealth transfers may not be feasible, it could still serve as a useful guide for exploring other reform options. For instance, where such a reform may not be possible, countries could consider first better aligning the tax treatment of in-life gifts and end-of-life inheritances.

### **Tax exemption thresholds**

Tax exemption thresholds, whether they are lifetime-based or not, are designed to allow recipients to receive a small amount of wealth tax-free. There is some evidence that small inheritances have an equalising effect, i.e. they reduce relative inequality, which justifies exempting them from an equity perspective. There is also evidence showing that an inheritance tax with a higher tax exemption threshold would receive more popular support.

### **Tax rate schedules**

Progressive tax rates increase vertical equity by ensuring that those who receive more wealth are taxed more, and ultimately strengthen the redistributive function of inheritance, estate, and gift taxes.

While there is some justification for granting a more favourable tax treatment to transfers to closely related heirs, excessive gaps between the tax treatment of direct descendants and more distant heirs should be avoided. Applying higher tax rates to transfers to more distant family members provide even more incentives for donors to concentrate their wealth transfers among closer family members. Higher tax rates on wealth received from distantly related donors may also be questionable where recipients have not received much from their parents.

### **Tax treatment of gifts**

The provision of renewable gift tax exemptions should be carefully assessed and reviewed where they allow wealth transfers to largely go untaxed. One option, as mentioned above, would be to have a tax on lifetime wealth transfers, allowing a certain amount of wealth to be received free of tax during the recipient's lifetime regardless of whether the wealth was granted as an in-life or end-of-life gift. Another option would be, where the renewal of gift tax exemptions is to be implemented, to approximate as much as possible a reasonable lifetime exemption threshold. The shorter the periods between gift tax exemption renewals, the smaller the exempt amounts should be.

The treatment of gifts may also be designed to serve other policy objectives. For example, gifts to younger people could receive more favourable tax treatment to encourage earlier transfers of assets and reduce inter-generational inequality arising from the concentration of wealth among older households. However, this risks reducing equality of opportunity more broadly – given that wealthier households typically have a greater



capacity to effect such transfers – and increasing intra-generational wealth inequality as evidence shows that wealthy households receive larger wealth transfers.

Gifts made during the donor's life should be carefully monitored, given the greater risks of non-compliance. Compared to wealth transfers upon death, which are usually linked to probate or notarial acts, minimising non-tax compliance risks, gifts are much more prone to underreporting. Thus, tax authorities need to devote significant compliance efforts to monitoring gifts.

### **Exemptions and reliefs for specific assets**

Countries should consider scaling back tax exemptions and reliefs for which there is no strong rationale and which tend to be regressive. For instance, exemptions for private pension savings, which typically also benefit from preferential treatment under income tax systems, may allow donors to build wealth and pass it on to beneficiaries while incurring only minimal tax liabilities. Similarly, the justification for exempting life insurance payouts appears limited, as in many countries life insurance policies are effectively tax-efficient investment vehicles that contain the same investments and savings products as those that people can hold directly. These types of exemptions and reliefs also tend to be regressive, primarily benefitting wealthy households.

Where there may be more justification for maintaining relief, countries should apply strict criteria and carefully monitor eligibility. For example, measures should prevent taxpayers from transferring private wealth in the guise of business assets to benefit from preferential tax rules. Countries could also consider capping the value of tax relief (e.g. capping the value of assets that can benefit from relief). Alternatives to exemptions or significant tax relief may also be considered. In the case of business assets, where preferential tax treatment tends to benefit wealthier households, a relatively low-rate inheritance tax allowing tax payments in instalments (e.g. over ten years) would significantly reduce the need for and political pressure to exempt or provide significant relief for family businesses.

*Scaling back tax exemptions and reliefs is key to strengthening the revenue raising potential, efficiency and equity of inheritance, estate, and gift taxes.*



### **Cross-border inheritances and migration**

Taxing rights in respect of cross-border inheritances should be better aligned across countries and adequate double taxation relief should be provided. Given that double tax treaty networks to prevent double taxation under inheritance or estate taxes are very limited, there might be merit in preventing risks of non-taxation or double taxation by first improving and harmonising unilateral inheritance or estate tax relief related to cross-border inheritances.

Taxpayers should also continue to be liable for inheritance or estate taxes for a number of years after leaving the country. Such provisions limit the risk of inheritance or estate tax avoidance by emigrating shortly before the donor's death.

### **Tax avoidance and evasion**

Possibilities for tax planning through trusts or similar structures should be carefully examined and tax rules could be revised to prevent tax avoidance. Whether the assets settled on trust are included in the taxable estate of the settlor or the beneficiaries on the basis that trusts can be 'looked through', tax systems should not allow the use of trusts to significantly reduce the tax burden on wealth transfers.

Countries concerned with the distributional impact of the preferential tax treatment granted to charitable giving could revise deductions and limit opportunities for tax-free wealth transfers through charitable structures.

There is a need for continued progress on international tax transparency to prevent offshore tax evasion. It is important to ensure that jurisdictions continue to effectively participate in the Exchange of Information on Request and to assess the effectiveness of the implementation of the Automatic Exchange of Information.

### **Tax treatment of unrealised capital gains at death**

The step-up in basis, which a number of countries provide for, could be reconsidered, particularly where inheritance or estate taxes are not levied or where inheritance or estate tax exemption thresholds are very high. Under the step-up in basis, the capital gains earned by donors between the time they acquired the assets and their death are not taxed. The cost basis of the assets transferred at death is “stepped up” to their fair market value at the time of the bequest, so when the heirs sell the assets, capital gains taxes are only levied on the capital gains accrued since they received the inheritance. The step-up in basis allows taxpayers to reduce their total tax liability by passing on their wealth in the form of unrealised gains, and these gains will be fully untaxed where there is no inheritance or estate tax.

### **Preventing liquidity issues**

Short-term tax payment extensions, free of interest charges, and longer-term payment extensions, with appropriate interest charges, should be available where certain conditions are met, to help taxpayers overcome liquidity issues. Countries may also consider the impacts of requiring beneficiaries to pay inheritance or estate taxes before receiving ownership of the inherited assets. While this may decrease late or non-payment, it can also create hardship for taxpayers without sufficient funds, although much will depend on the rate at which inheritance taxes are levied.

### **Asset valuation**

Taxable values should to the extent possible be based on fair market value. For many assets, it is fairly straightforward to establish fair market value. However, in cases where this is more difficult, including for unlisted shares and closely-held businesses, the best valuation approach or combination of approaches will depend on the characteristics of the asset. In addition to valuation methods, there may be cases where valuation discounts, e.g. for minority shareholdings or lower marketability, may be overly generous and could be revised. From a compliance perspective, there should be frequent tax audits, as well as penalties in cases of clear undervaluation.

### **Reporting requirements and data collection**

Reporting requirements could be strengthened and tax administrations are encouraged to collect more data. For instance, countries may wish to introduce reporting obligations for wealth transfers above a certain low-value threshold, even if these are not subject to tax. Third-party reporting (e.g. from banks) could also allow tax administrations to partially pre-fill tax returns, and to form a more complete picture of taxpayers’ assets and wealth transfers. More generally, digitalisation represents a significant opportunity in terms of both collecting data and ensuring greater tax compliance.

### **Political economy**

Evidence has shown that providing information on inherited wealth and inequality can play an important role in making inheritance taxes more acceptable. Similarly, as people tend to overestimate the share of taxable wealth transfers and effective inheritance or estate tax rates, sometimes considerably so, providing information on the way inheritance and estate taxes work, and who they apply to, can significantly increase support for them.

Policy framing and the development of policy packages can also play an important role in improving the acceptability and feasibility of reforms. Reframing inheritance tax reforms around issues of fairness, equality of opportunity and reducing inequality may play an important role. Such reframing will be more effective if it goes hand-in-hand with changes to tax rules that address popular concerns, particularly in relation to tax avoidance.







# Inheritance taxes and capital taxation

Inheritance taxation needs to be viewed in the wider context of countries’ capital taxes. While there are good arguments for making greater use of inheritance taxation in OECD countries, the need for and the appropriate design of inheritance, estate, and gift taxes will depend on country-specific circumstances. Important considerations include countries’ levels of wealth inequality and administrative capacity, as well as the other taxes that are levied on capital, including taxes on personal capital income (interest, dividends, and capital gains) and personal assets.

Previous OECD research illustrates the valuable insights made possible by taking a comprehensive view of capital taxation. The *Taxation of Household Savings* report (OECD, 2018) calculates comprehensive measures of capital taxation – marginal effective tax rates (METRs) – which integrate a range of tax design features across types of taxes to measure the overall impact of tax systems on savings decisions. The report found that the overall taxation of savings was highly heterogeneous across asset types. It also found that the taxation of some assets was regressive and that tax systems across

FIGURE 9. Marginal effective tax rate, average, 2016



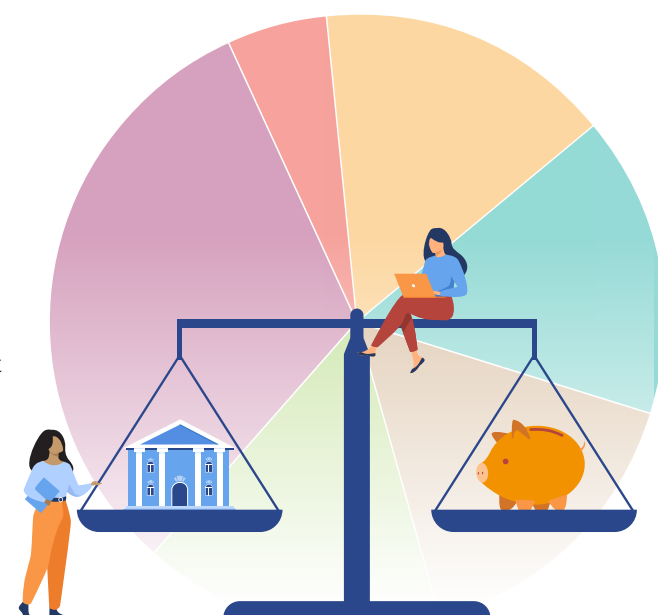
Source: OECD (2018), *Taxation of Household Savings*, OECD Tax Policy Studies, No. 25, OECD Publishing, Paris, <https://doi.org/10.1787/9789264289536-en>. (OECD 2018)

countries tended to tax more favourably the assets commonly held by richer households compared to those held by more modest households.

Similarly, previous OECD research examining wealth taxes highlighted the importance of looking at the broader capital tax system to assess the role of such taxes. In particular, the report on *The Role and Design of Net Wealth Taxes in the OECD* (OECD, 2018) found that there was less of a case for having a net wealth tax in addition to broad-based personal capital income taxes and well-designed inheritance and gift taxes, but that there were stronger arguments for a wealth tax in the absence of broad-based taxes on personal capital income and wealth transfers.

This comprehensive assessment of capital taxation highlights that in general, no single tax instrument will be sufficient on its own to raise enough revenues and address inequality. This is true of inheritance taxation. While inheritance taxation can play an important role, this report highlights that it is not a silver bullet, and that complementary reforms will be needed. In particular, simulations included in the report show that combining a progressive inheritance tax with (progressive) taxes on personal capital income can play an important role in reducing wealth inequality over time. Having well-designed taxes on personal capital income, including on capital gains, should therefore also be a priority.

The OECD will continue undertaking work in the area of personal capital taxation, with a focus on the taxation of personal capital income and the taxation of high earners. This work is intended to help countries identify reforms that could enhance the role of tax systems in reducing inequalities. This work will support the major opportunity that countries have to revisit person capital taxation, in light of the progress made on international tax transparency, in particular with the implementation of Automatic Exchange of Information.



OECD (2021), *Inheritance Taxation in OECD Countries*, OECD Tax Policy Studies, OECD Publishing, Paris, <https://doi.org/10.1787/e2879a7d-en>.



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This brochure presents the key findings of the report: *Inheritance Taxation in OECD Countries*. The report explores the role that inheritance taxation could play in raising revenues, addressing inequalities and improving efficiency in OECD countries. It provides background on the distribution and evolution of household wealth and inheritances, assesses the case for and against inheritance taxation drawing on existing theoretical and empirical literature, and examines the design of inheritance, estate and gift taxes in OECD countries. The report concludes with a number of reform options that governments could consider to improve the design and functioning of wealth transfer taxes.



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