Foreword

Wealth inequality has become an increasingly prominent topic in recent years. Wealth is highly concentrated at the top of the distribution, much more so than income, and income and wealth inequalities can be mutually reinforcing. Moreover, household wealth inequality has remained persistently high and has even increased over time in some OECD countries, largely as a consequence of increases in asset prices and savings rates. In some OECD countries, wealth inequality is higher than it has been for several decades.

Trends in wealth transfers are also likely to reinforce wealth concentration. The share of inherited wealth in total private wealth has increased in some countries in recent decades. Inheritances are also expected to increase in number, with the baby-boom generation getting older, and in value, if trends in asset prices continue. In addition, wealth is expected to remain concentrated among older cohorts for longer periods of time and the age at which people inherit will likely continue to rise due to longer life expectancies.

The COVID-19 crisis will likely place countries under greater pressure to raise more revenues and address inequalities. The outbreak of COVID-19 has resulted in a health crisis and a drop in economic activity that are without precedent in recent history, and there remains considerable uncertainty around how events will unfold. As public spending has heavily increased during the crisis, governments will start looking to restore public finances as countries exit the crisis and economic recovery is underway. However, the crisis has exacerbated existing inequalities and hit many vulnerable households harder, and traditional revenue-raising approaches, such as raising taxes on labour income and consumption as was done in the wake of the 2008 global financial crisis, may be less desirable from an equity and growth perspective. The crisis will likely prompt reflection on the need to turn to new or under-utilised sources of revenue, which may also be compatible with inequality reduction objectives.

The report explores the role that inheritance taxation could play in raising revenues, addressing inequalities and improving efficiency in the future. While taxes on wealth transfers – including inheritance, estate, and gift taxes – are levied in 24 of the 36 OECD countries covered in the report,[1] they have typically played a limited role in raising revenues. In 2018, only 0.5% of total tax revenues were sourced from these taxes on average across the countries that levied them. A key question that the report examines is whether there might be a case for a greater use of inheritance taxation in OECD countries on equity, efficiency and administrative grounds.

The report also provides a comparative overview and assessment of inheritance, estate, and gift tax design across OECD countries and identifies a number of options for tax reform. Experiences with inheritance taxation have differed across countries, with significant cross-country variation in the design and implementation of inheritance, estate, and gift taxes. The report helps provide an understanding of how the design and implementation of inheritance, estate, and gift taxes have impacted their effectiveness and fairness in practice. Based on this comparative assessment, as well as findings from the literature, the report identifies a number of reform options that governments could consider to improve the design and functioning of their taxes on wealth transfers.

This project is part of a broader work stream on capital taxation at the OECD. In 2018, the OECD released two reports on *The Taxation of Household Savings* and *The Role and Design of Net Wealth Taxes*. This new report on inheritance taxation is a significant additional contribution in the area of personal capital taxation. The various projects that the OECD has undertaken on the taxation of personal capital income, net wealth and inheritances should be viewed as complementary given that these different taxes closely interact with each other.

The report contains four chapters. Chapter 1 looks at the distribution and the evolution of household wealth and wealth transfers. Chapter 2 examines the arguments for and against inheritance taxation based on equity, efficiency and administrative considerations. Chapter 3 examines how OECD countries currently tax wealth transfers, by providing a comparative overview of inheritance, estate, and gifts taxes across countries, and assesses the impact of their design features. Chapter 4 summarises the key messages of the report and identifies a number of options and recommendations for tax reform.

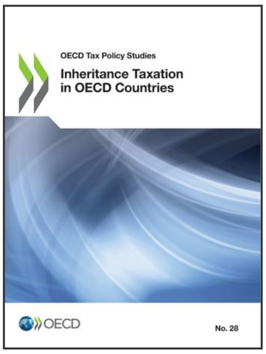
Acknowledgments

This study was produced by the Tax Policy and Statistics Division of the OECD Centre for Tax Policy and Administration, with the financial support of the Korea Institute of Public Finance (KIPF).

The report was led by Sarah Perret and written by Bethany Millar-Powell and Sarah Perret. The authors would like to thank Bert Brys and David Bradbury for their guidance and feedback throughout the project. The report also benefited from significant input from Michael Stemmer on the simulations included in Chapter 2 and from very helpful comments from Pierce O'Reilly and Alastair Thomas. The authors would also like to thank Carlotta Balestra for supplying the underlying data used in Chapter 1 based on the OECD Wealth Distribution Database and for providing feedback on Chapter 1, as well as Sebastian Königs for his review of Chapter 1. The authors are also very grateful to Carrie Tyler, Natalie Lagorce, Julien Dubuc, Hazel Healy and Karena Garnier for their support with communications and formatting, and to Violet Sochay for her assistance with administrative matters. In addition to OECD colleagues, the authors would like to acknowledge Emma Chamberlain (OBE CTA Barrister, Pump Court Tax Chambers) and Daniel Waldenström (Professor, Research Institute of Industrial Economics – IFN Stockholm) for their thorough review and comments on the first draft of the report. Ricardo Guerrero (PhD candidate, King's College London) provided some background research as input to Chapter 2.

The report would not have been possible without the significant involvement of the delegates of Working Party No.2 on Tax Policy Analysis and Tax Statistics (WP2) who replied to the "OECD Questionnaire on Inheritance, Estate, and Gift Taxes", upon which the analysis in the report is largely based, and provided feedback on the draft report at various stages.

This report was approved by WP2 delegates on 15 March 2021 and by the delegates of the Committee on Fiscal Affairs (CFA) on 14 April 2021. The report was prepared for publication by the OECD Secretariat.



From:

Inheritance Taxation in OECD Countries

Access the complete publication at:

https://doi.org/10.1787/e2879a7d-en

Please cite this chapter as:

OECD (2021), “Foreword”, in *Inheritance Taxation in OECD Countries*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/0d7cda1f-en