3 Inheritance, estate, and gift tax design in OECD countries

Chapter 3 describes and assesses the design of inheritance, estate, and gift taxes across OECD countries. Beginning with a discussion of tax revenues, the chapter provides a comparative examination of the main design features of OECD countries' inheritance, estate, and gift taxes.

This chapter describes and assesses the design and implementation of inheritance, estate, and gift taxes across OECD countries.[1] After a brief discussion of tax revenues across countries and over time, the chapter provides a comparative overview of the main design features of OECD countries' inheritance, estate, and gift taxes[2] including rules regarding taxable events, tax exemption thresholds, tax rate schedules, the treatment of various tax-preferred assets, tax filing and payment procedures, valuation rules, gift tax design and the interaction between the tax treatment of unrealised capital gains at death and inheritance and estate taxes. The final section of the chapter discusses tax planning and avoidance opportunities as well as tax evasion risks. The discussion in this chapter primarily draws upon responses to an OECD questionnaire on inheritance, estate, and gift taxes provided by country delegates to Working Party No. 2 on Tax Policy Analysis and Tax Statistics of the OECD's Committee on Fiscal Affairs.

There are many common design features of inheritance, estate, and gift taxes across OECD countries. The majority of countries levy recipient-based inheritance and gift taxes, but a minority levy donor-based estate taxes. Most countries favour spouses and direct descendants through higher tax exemption thresholds and lower tax rates. Countries also typically exempt charitable giving and apply preferential tax treatment to certain assets, which contributes to a narrowing of the tax base. The most commonly tax-favoured assets include the main residence, business assets, pension assets, and life insurance policies. In a number of countries, the tax treatment of inter vivos (between living people) gifts as well as other tax design features have created opportunities for tax planning and avoidance. Overall, this chapter emphasises the importance of tax design to ensure that inheritance, estate, and gift taxes achieve their objectives.

3.1. Use of inheritance, estate, and gift taxes across OECD countries

3.1.1. The majority of OECD countries tax inheritances

24 of 36 OECD countries levy wealth transfer taxes. Of these, 20 levy inheritance taxes on the beneficiaries of wealth transfers. Only four countries (Denmark, Korea, the United Kingdom, and the United States) levy estate taxes on deceased donors. Most countries that levy inheritance or estate taxes also levy a gift tax on inter vivos transfers, typically on the beneficiary. One country – Ireland – levies a combined inheritance and gift tax (a tax on lifetime wealth transfers), which considers all wealth transfers received by beneficiaries over their lifetime. Latvia and Lithuania tax inter vivos gifts through the personal income tax (PIT), but Latvia does not tax inheritances while Lithuania levies a separate inheritance tax.

A minority of OECD countries tax inheritances or estates at the sub-central level. Central governments may retain partial authority over the design of inheritance taxes, but in some countries sub-central governments have substantial autonomy. The regions in Belgium and the cantons in Switzerland have full autonomy over the imposition and design of inheritance, estate, and gift taxes. The local municipalities in Lithuania and the regions in Spain instead levy inheritance taxes in concert with the central government, which sets the main design features from which sub-central governments can deviate. The United States levies an estate tax at the federal level and some states additionally levy inheritance taxes. The report examines the taxes levied by the central/federal government in Lithuania, Spain, and the United States, and examines the taxes levied at the local/regional level in Belgium (Brussels-Capital Region) and Switzerland (Canton of Zurich).

Ten OECD countries have abolished their estate or inheritance taxes and two countries have never taxed wealth transfers (Table 3.1). Austria, Czech Republic, Norway, Slovak Republic, and Sweden have abolished their inheritance or estate taxes since 2000. Israel and New Zealand abolished these taxes between 1980 and 2000, Australia, Canada, and Mexico abolished these taxes before 1980, and Estonia and Latvia have never levied inheritance or estate taxes. In response to the OECD questionnaire, countries reported their motives for repealing or not imposing inheritance, estate, and gift taxes. Lack of political support for inheritance and estate taxes was a key driver of the repeal or non-imposition of inheritance and estate taxes. This is consistent with evidence that inheritance and estate taxes tend to be unpopular (Section 3.14). Unpopularity may have also stemmed in some cases from tax design. For instance, before repealing its inheritance tax, Sweden had very low tax exemption thresholds (around USD 31 000 for spouses and USD 8 000 for children). Tax minimisation opportunities that primarily benefited wealthier taxpayers also eroded the legitimacy of inheritance, estate, and gift taxes, generating support for their removal (Henrekson and Waldenström, 2016[1]). Some countries reported high administrative burdens compared to relatively meagre revenues, in part due to the preferential treatment granted for certain assets.

Table 3.1. Current and historical inheritance and estate taxes in OECD countries

Country	Tax name (national language)	Tax name (English)	Tax first introduced	Current tax introduced	Year of repeal	Government level[1]
		Current inheritance and estate taxes				
Belgium	Droit de succession	Inheritance Duty	1795	1936	..	Regional / State[2]
Chile	Impuesto a las Herencias y Donaciones	Inheritance and Gift Taxes	1915	1915	..	National
Denmark	Boafgiftsloven	Inheritance Estate and Gift Taxes	1792	1995	..	National
Finland	Perintövero	Inheritance Tax	1940	1940	..	National
France	Droits de mutations titre gratuit	Tax on Free Transfers	1791	1791	..	National
Germany	Erbschaftsteuer und Schenkungsteuer	Inheritance Tax and Gift Tax	1906	1974	..	National
Greece	Φόρος Κληρονομιάς	Inheritance Tax	1836	2001	..	National
Hungary	öröklési illeték	Inheritance Duty	1918	1918	..	National
Iceland	Erfðafjárskattur	Inheritance Tax	1792	2004	..	National
Ireland	Capital Acquisitions Tax	Capital Acquisitions Tax	1894	1976	..	National
Italy	Imposta sulle successioni e donazioni	Inheritance and Gift Tax	1862	2006	..	National
Japan	相続税	Inheritance Tax	1950	1950	..	National
Korea	상속세및증여세법	The Inheritance Tax and Gift Tax	1950	1950	..	National
Lithuania	Paveldimo turto mokesčio įstatymas	Law on Inheritance Tax	1990[3]	2003	..	National / Local
Luxembourg	Droits de succession	Inheritance Tax	1817	1817	..	National
Netherlands	Erfbelasting en schenkbelasting	Inheritance and Gift Tax	1859	1956	..	National
Poland	Podatek od spadków i darowizn	Tax on Inheritance and Donation	1920	1983	..	National
Portugal	Imposto do selo sobre transmissões gratuitas	Stamp Duty on Inheritance and Gifts	1959	2004	..	National
Slovenia	Davek na dediščine in darila	Inheritance and Gift Tax	1988	2006	..	National
Spain	Impuesto sobre Sucesiones y Donaciones	Inheritance and Gift Tax	1798	1988	..	National / Regional[4]
Switzerland	Erbschafts- und Schenkungssteuer	Inheritance and Gift tax	1870	1986	..	Regional / State[5]
Turkey	Veraset ve İntikal Vergisi	Inheritance and Gift Tax	1959	1959	..	National
United Kingdom	Inheritance Tax	Inheritance Tax	1894	1986	..	National
United States	Estate and Gift Tax	Estate and Gift Tax	1916	1916	..	National[6]
		Past inheritance and estate taxes				
Australia	Estate Tax	Estate Tax	1851	1914	1979	National / State
Austria	Erbschaftssteuer	Inheritance Tax	1759	1955	2008	National
Canada	Estate Tax	Estate Tax	1941	1958	1972	National
Czech Republic	Zákon o dani dědické, darovací a dani z převodu nemovitostí	Act on Inheritance Tax, Gift Tax and Real Estate Transfer Tax	1993	1993	2014	National
Estonia	..	..	..	..	..	..
Israel	חוק מס עזבון	Inheritance Tax Law	1949	1949	1980	National
Latvia	..	..	..	..	..	..
Mexico	Impuesto sobre Herencias y Legados	Inheritance and Bequest Tax	1926[7]	1926	1961	National / State
New Zealand	Estate duty	Estate Duty	1866	1866	1992	National

Norway	Avgift på arv og gave	Inheritance and Gift Tax	1792	1792	2014	National
Slovak Republic	Daň z dedičstva	Inheritance tax	1993	1993	2004	National
Sweden	Arvskatt	Inheritance Tax	1884	1884	2004	National

1. This refers to the government level that has primary responsibility for legislating the tax, including the right to introduce or to abolish a tax, set tax rates, define the tax base, or grant tax allowances or reliefs. In some countries, one level of government has legislative authority but revenues accrue to another level of government. A cell with ".." indicates that the country has not abolished their inheritance, estate, and gifts taxes or that they have never levied inheritance, estate, and gift taxes. Belgium: refers to the Brussels-Capital Region. Switzerland: refers to the canton of Zurich.
2. Information on Belgium refers to the Brussels-Capital Region.
3. Due to tax relief inheritances were effectively untaxed between 1990 and 1998.
4. The central government administers the Inheritance and Gift Tax, however, regional governments may regulate tax base allowances, tax rates, tax deductions, and certain administrative procedures.
5. Information on Switzerland refers to the Canton of Zurich.
6. State-level inheritance taxes are not presented in this report, though some states levy an inheritance tax in addition to the federal Estate Tax.
7. This refers to taxes at the federal level. Prior to 1926, some local municipalities levied taxes on inheritances and gifts.

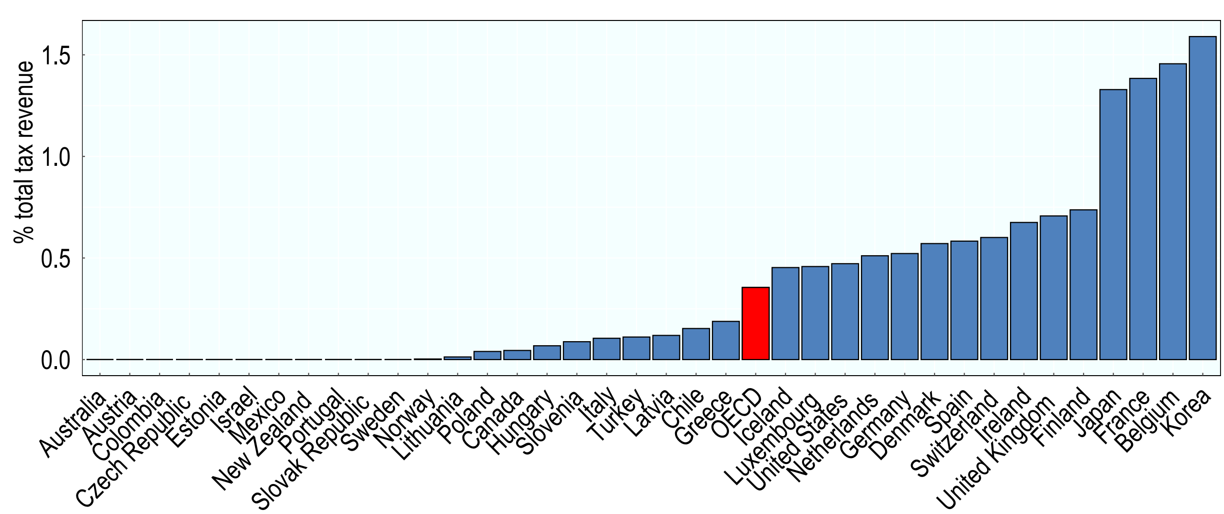
Source: OECD Questionnaire on Inheritance, Estate, and Gift Taxes (2020).

3.2. Tax revenues and shares of taxable estates

3.2.1. Revenues from inheritance and estate taxes are typically low, as a majority of estates go untaxed in a number of countries

Revenues from inheritance, estate, and gift taxes form a very small portion of total tax revenues across OECD countries (Figure 3.1). On average (unweighted) across the OECD, 0.36% of total tax revenues are sourced from these taxes and, among countries that levy these taxes, 0.51% of total tax revenues on average are sourced from these taxes. Revenues from inheritance, estate, and gift taxes exceed 1% of total taxation in only four OECD countries (Belgium, France, Japan, and Korea). As discussed further, this largely reflects broader tax bases and higher tax rates, particularly for heirs that are not close family, in these countries. The inheritance tax in Korea is examined in greater detail in Box 3.1. Twenty countries raise less than a quarter of a percent in total taxation from inheritance, estate, and gift taxes, and revenue is zero in eight countries (Australia, Estonia, Israel, Mexico, New Zealand, Portugal, Slovak Republic, and Sweden). Of these countries, all except Portugal[3] do not levy taxes on inheritances, estates, and gifts.

Figure 3.1. Inheritance, estate, and gift tax revenues, 2019, all OECD countries



Note: Data are for 2018 for Australia, Greece, Japan, Mexico, and the OECD average.
Source: OECD Revenue Statistics.

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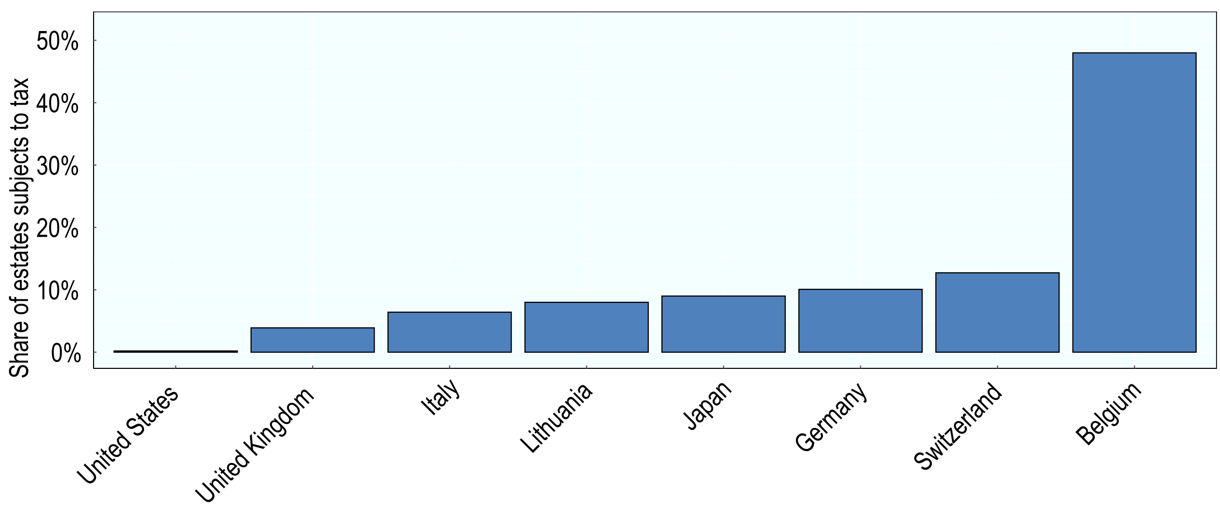
Low inheritance and estate tax revenues are in part due to the low shares of taxable estates amongst total estates and transfers. Figure 3.2 shows the share of estates that were subject to inheritance or estate taxes in eight countries for which data were available. Most estates are not subject to inheritance or estate taxes and, in seven countries, less than 13% of estates were taxed. The shares of estates that were subject to inheritance or estate taxes ranges from 0.2% (United States) to 48% (Belgium, Brussels).

Figure 3.2. Share of estates subject to inheritance or estate taxes, select countries

2019 or latest available year



Note: Results presented for countries for which data were available. Belgium: refers to the Brussels-Capital Region. Switzerland: refers to the canton of Zurich.
Source: OECD Questionnaire on Inheritance, Estate, and Gift Taxes (2020).

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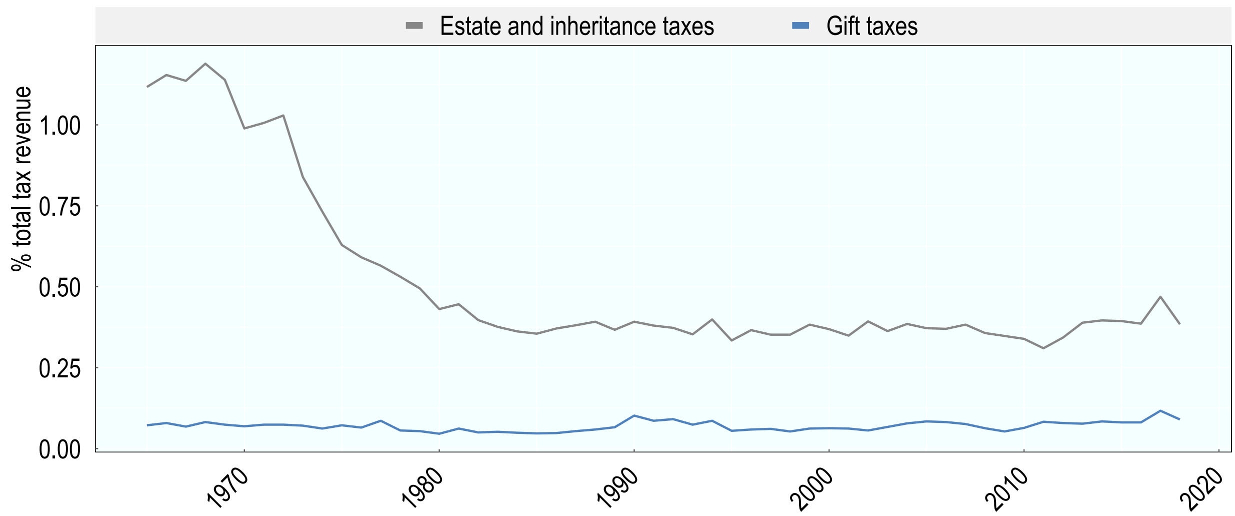
3.2.2. Tax revenues dropped sharply in the 1970s and have remained relatively stable since

The share of total tax revenues collected from inheritance and estate taxes decreased sharply during the 1970s on average across OECD countries and has remained stable since (Figure 3.3).[4] The ratio of inheritance and estate tax revenues to GDP experienced a sharp drop on average (unweighted) across OECD countries during the 1970s. This was primarily driven by developments in Australia, Canada, Ireland, New Zealand, Portugal, and the United Kingdom. Several of these countries either abolished or curtailed their inheritance or estate taxes during this time and/or saw tax revenues eroded by increasingly sophisticated tax planning. Inheritance and estate tax revenues were relatively stable between the mid-1980s and 2018. In contrast, revenues from gift taxes have been stable across the whole period in Figure 3.3, though they are substantially lower than revenues from inheritance and estate taxes.

Figure 3.3. Inheritance, estate, and gift tax revenues, 1965-2019, OECD average



Note: Figure shows unweighted average across all OECD countries.
Source: OECD Revenue Statistics.

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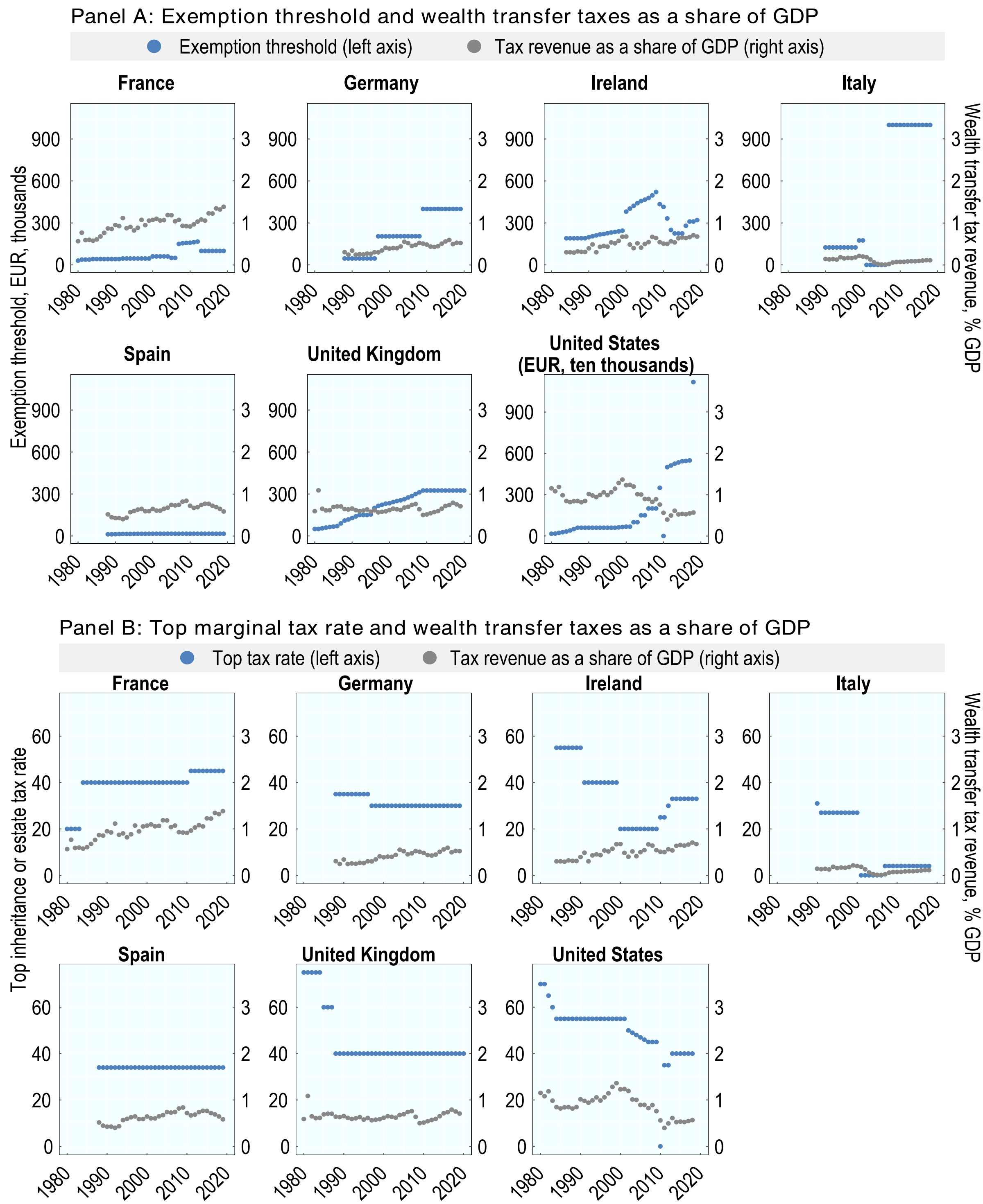
Inheritance and estate tax exemption thresholds have increased since the 1980s in several countries. Panel A of Figure 3.4 compares the exemption threshold for the donor's children (left axis) and inheritance and estate tax revenues as a share of GDP (right axis), between 1980 and 2020 (tax exemption data drawn from (Nolan et al., 2020[2]). Tax exemption thresholds for children have increased in all countries, either through periodic changes (e.g. Germany, Italy) or through yearly adjustments (e.g. United Kingdom). All else being equal, higher exemption thresholds would be expected to lead to lower revenue, but there is little evidence of this in Figure 3.4. Despite higher exemption thresholds, revenues from inheritance taxes have risen in France and Germany and remained largely stable in the United Kingdom. However, a decline in revenue was discernible in Italy and the United States at the time of substantial increases to tax exemption thresholds.

In parallel to narrower tax bases, there was a trend towards lowering top tax rates in most countries. Panel B of Figure 3.4 compares the top marginal estate or inheritance tax rate for the donor's children (left axis) and inheritance and estate tax revenue as a share of GDP (right axis), between 1980 and 2020 (tax rates data drawn from (Nolan et al., 2020[2]) A steady decrease in top marginal tax rates in the United States was accompanied by steadily declining tax revenues, while revenues in Italy decreased slightly around the time of a major drop in the top tax rate. The significant drop in top marginal tax rates in the United Kingdom, from 75% to 40% between 1980 and 1988, had no discernible impact on revenues, which remained largely stable throughout the period. Significant variation in top marginal rates in Ireland, dropping from 55% in 1984 to 20% in 2000 before rising to 33% in 2013, do not appear to affect tax revenue trends, which have shown a steady increase throughout the period. In contrast to other countries in Figure 3.4, France raised its top marginal tax rate between 1980 and 2020, and saw an increase in inheritance tax revenues over the period.

Figure 3.4. Inheritance and estate tax exemption thresholds and top marginal tax rates compared to inheritance, estate, and gift tax revenues as a share of GDP, 1980-2020, select countries



Note: Tax exemption thresholds and top marginal tax rates are shown for the donor's children. United States: The left axis of Panel A represents ten thousands, not thousands as for other countries, as the exemption threshold for children was around USD 11.6 million in 2020.
Source: OECD Revenue Statistics (2020) and Nolan, B., J. Palomino, P. Van Kerm and S. Morelli (2020), 'The Wealth of Families: The Intergenerational Transmission of Wealth in Britain in Comparative Perspective', Nuffield Foundation, Oxford.

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The stability or slight increase in inheritance, estate, and gift tax revenues in most countries in Figure 3.4, despite increases in tax exemption thresholds and decreases in top marginal rates, may reflect different factors. The fact that tax revenues have held up is likely due in part to the rise in the importance of inherited wealth (Figure 1.15). In some countries, it may also reflect tax reforms involving an increase in effective tax burdens, such as compensating base broadening measures. Countries may have also offset the lower tax burden on the donor's children, observed in some countries in Figure 3.4, with lower tax exemptions and higher tax rates for other heirs. Revenue trends may also possibly reflect greater tax compliance and more effective tax administration.

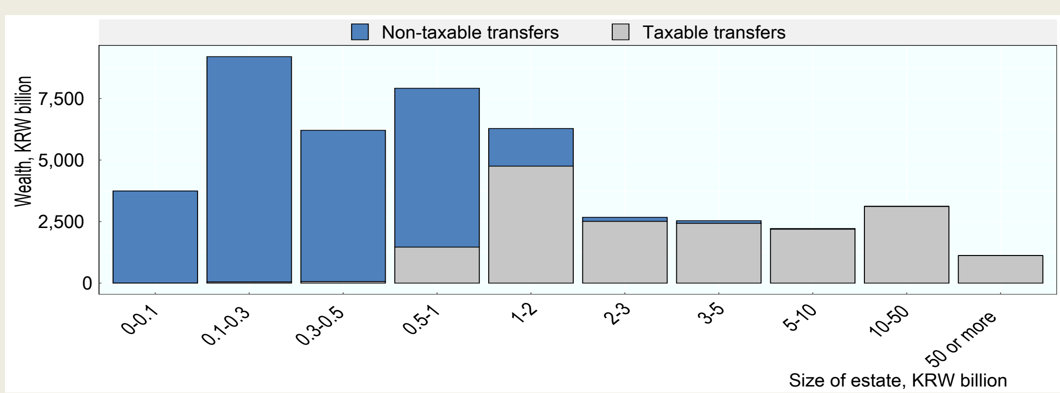
While inheritance, estate, and gift taxes are generally a minor source of revenue, they can support important objectives beyond raising revenue. In response to the OECD questionnaire, the most common rationale cited by countries for levying an inheritance or estate tax was to redistribute wealth, increase equality of opportunity or tax unearned windfalls. Chapter 2 outlines and assesses the various equity arguments in favour of inheritance taxation, underlining that it can enhance equality of opportunity as well as horizontal and vertical equity, and reduce wealth inequality over time.

Box 3.1. The distribution of wealth transfers and inheritance taxation in Korea

Drawing on data provided by the Korea Institute for Public Finance (KIPF), which provided financial support for this project, this box examines Korea's estate tax. Korea's estate tax, in place since 1950, shares many features of inheritance and estate taxes in other OECD countries. It applies to resident donors' worldwide assets and to non-resident donors' local assets (Table 3.2), spouses benefit from the most generous tax treatment (Figure 3.8), and estates are taxed at progressive rates (Figure 3.11). Korea, like nearly all countries that levy an inheritance or estate tax, also levies a gift tax on inter vivos transfers (Table 3.9). Unlike most OECD countries, only different-sex married couples benefit from spousal treatment (Table 3.5) and only one set of rates applies across different groups of heirs (Figure 3.12).

Korea's estate tax is levied mostly on wealthier taxpayers. While only 2.2% of successions give rise to estate taxes (Figure 3.2), taxable wealth transfers amount to 39.3% of total transferred wealth. Donors whose wealth transfers are subject to the estate tax made taxable transfers of KRW 18 278 billion (USD 15.5 billion) in 2018, compared to KRW 28 344 billion (USD 24.0 billion) by the remaining 97.8% of donors whose wealth transfers were not subject to estate taxes (Figure 3.5). This is partly due to the standard deduction of KRW 500 million (around USD 420 000), plus the spousal deduction of KRW 3 billion (USD 2.5 million).

Figure 3.5. Total wealth transferred by size of the donor's estate, 2018



Source: Korea Institute for Public Finance, unpublished.

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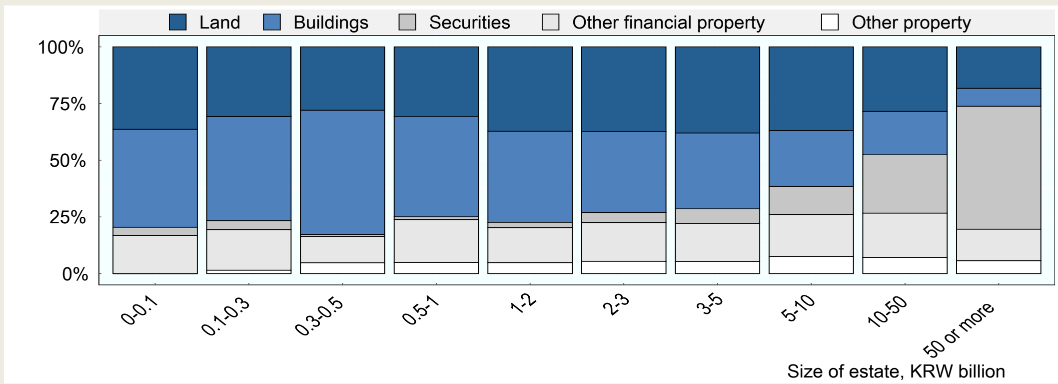
Figure 3.6 illustrates the asset composition of taxable estates by the size of the donor's estate. The main component of taxable estates up to KRW 2 billion (USD 1.7 million) is buildings, while the main component of taxable estates between KRW 2 and 50 billion (USD 1.7 million to 42.4 million) is land. Securities comprise 54% of the estates over KRW 50 billion (USD 42.4 million), compared to 26% and 12% of donors' assets for estates worth KRW 10 to 50 billion (USD 8.5 million to 42.4 million) and estates worth KRW 5 to 10 billion (USD 4.2 million to USD 8.5 million), respectively.

Figure 3.6. Asset composition of taxable estates by size of the donor's estate, 2018



Source: Korea Institute for Public Finance, unpublished.

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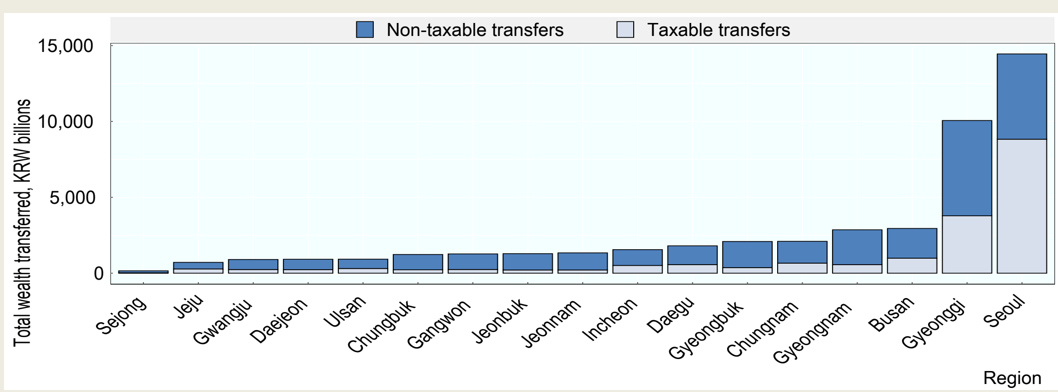
Wealth transfers are highly concentrated among donors in the capital, Seoul, and the region surrounding the capital, Gyeonggi Province (Figure 3.7). Taxable transfers in Seoul amount to KRW 8 833 billion (USD 7.5 billion), followed by KRW 3 782 billion in Gyeonggi (USD 3.2 billion), with the smallest taxable transfers taking place in Sejong (KRW 25.5 billion or USD 22 million). In total, 72% of taxable transfers and 46% of non-taxable transfers are made by donors in the Seoul Capital Area (Seoul, Gyeonggi, and Incheon).

Figure 3.7. Total wealth transferred by tax administration area, 2018



Source: Korea Institute for Public Finance, unpublished.

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Estate taxes have received much attention in recent years, particularly as ownership of several chaebol – large industrial groups run by founders and their families – will shift to the next generation in the coming years. As in other countries, business assets are subject to the estate tax and benefit from some preferential treatment (see section 3.8.3), but the question of business succession has generated substantial commentary.

3.3. The different types of wealth transfer taxes

3.3.1. Most OECD countries levy inheritance taxes on the recipients of wealth transfers

Wealth transfer taxes can take different forms. For end-of-life bequests, countries may 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. For inter vivos transfers made during the donor's life, countries can apply gift taxes, which are levied on the beneficiary in most countries.

The most common approach across OECD countries is to tax wealth transfers received by beneficiaries through an inheritance tax. Out of the 24 countries that tax bequests, 20 OECD countries apply recipient-based inheritance taxes. These countries typically apply different treatment – including different tax exemption thresholds and tax rates – to different heirs depending on their relationship with the donor. Four countries levy an estate tax (Denmark, Korea, the United Kingdom, and the United States), but some additional criteria such as the beneficiaries' relationship to the donor may be taken into consideration to determine the tax liability. All these countries levy accompanying gift taxes (except Lithuania, which taxes gifts through the PIT).

Most countries treat each inheritance as a separate event. This approach implies that, for example, in a country applying a EUR 300 000 tax exemption threshold, a beneficiary receiving two inheritances of EUR 200 000 each would not be liable for inheritance taxes, whereas a beneficiary receiving one inheritance of EUR 400 000 would be liable. An alternative approach would consider all wealth received by beneficiaries over their lifetime through a tax on lifetime wealth transfers, which is the case in Ireland. In the above scenario, the two beneficiaries would face the same tax liability as they have received the same amount of wealth.

Inheritance or estate taxes are typically levied on net asset values, but some countries apply conditions on debt deductibility. In 12 countries, all the donor's debts are deductible for tax purposes (Belgium, Denmark, Finland, Hungary, Ireland, Korea, Luxembourg, Netherlands, Poland, Slovenia, Switzerland, and the United States). In some countries, debts that were contracted to purchase exempt assets are not deductible (Chile, France, Germany, Italy, Japan, and the United Kingdom) and in others, loans from heirs or close family to the donor are not deductible (Spain). A minority of countries allow debts to be deducted on the condition that they were contracted in normal circumstances or that they were not contracted with the intention to reduce the taxable base (France, Greece, and Japan). Debts are not deductible in Lithuania.

3.3.2. The type of tax chosen involves trade-offs

Inheritance taxes have a number of advantages compared to estate taxes. As discussed in Chapter 2, if promoting equality of opportunity is a major objective of inheritance taxation, there is a strong case for a recipient-based inheritance tax rather than an estate tax levied on donors. It is the amount of wealth received by each recipient that should matter for equality of opportunity rather than the overall amount bequeathed by the donor. In addition, because the tax liability will depend on the wealth received by each individual, donors that spread a bequest among more recipients may reduce the total tax liability. This may incentivise the division of estates and reduce concentrations of wealth. Inheritance taxes also allow countries to focus more on beneficiaries' personal situations, such as age, disability, and previous wealth received. The double taxation argument against wealth transfer taxes is also weaker in the case of inheritance taxes that are levied on recipients as there is no double taxation of the donor themselves and the inherited wealth is also only taxed once in the hands of the recipient. On the other hand, estate taxes may be easier to collect than inheritance taxes, as they are levied on the overall estate.

A tax on lifetime wealth transfers has a number of advantages over inheritance and estate taxes, but may be more difficult to administer. A tax on lifetime wealth transfers is levied on the gifts and bequests that beneficiaries receive over their lifetime. For each new wealth transfer, the tax liability is determined by taking into account the amount of wealth previously received by the beneficiary. Such a tax may be levied above a lifetime tax exemption threshold, i.e. above an amount of wealth that beneficiaries are entitled to receive tax-free during the course of their life. Such a tax improves horizontal equity, by ensuring that individuals who receive the same amount of wealth pay the same amount of tax, regardless of whether they receive one large transfer or several smaller transfers. A tax on lifetime wealth transfers also improves vertical equity, particularly if tax rates are progressive, ensuring those who receive more wealth over their lifetime pay more tax than individuals who only receive a small amount. A tax on lifetime wealth transfers may also incentivise donors to spread their wealth among several beneficiaries, including those that have received less wealth over their life. In its purest form, a lifetime wealth transfers tax would not consider who the beneficiary received the wealth from, however, in the case of the Capital Acquisitions Tax in Ireland – the only lifetime wealth transfers tax in an OECD country – different tax exemptions apply to three groups of donors (parents, other close family, other donors). Taxing lifetime wealth transfers also limits the importance of timing for gifts and inheritances, reducing avoidance opportunities. A tax levied on lifetime transfers increases the administrative complexity of the tax, but countries may choose between tracking taxpayers' history of wealth transfers and relying on self-reporting (as is the case in Ireland). Some tax administrations may need to invest in establishing or updating comprehensive records, which may be easier thanks to increasing digitalisation.

Gift taxes can be integrated with inheritance and estate taxes to ensure neutrality between inter vivos and end-of-life transfers and act as a backstop to prevent avoidance of inheritance and estate taxes. A gift tax levied on inter vivos transfers is an important complement to inheritance and estate taxes. Aligning the design of gift taxes and inheritance and estate taxes improves neutrality between transferring wealth during life or at death and ensures that the timing of the wealth transfer will be less central to the tax treatment.

A question that may arise is whether wealth transfers should be taxed through the personal income tax when they are received by beneficiaries. For instance, Latvia and Lithuania tax gifts through the personal income tax (PIT). Batchelder (2020[3]) recently proposed such an integrated approach for the United States, where inheritances would be taxed under income and payroll taxes above a large lifetime exemption. Such an approach would level the playing field between earned labour and/ or capital income and inheritances, but could create some difficulties. In particular, it would be necessary to apply income averaging to address the lumpiness of inheritances. Depending on tax design, taxing inheritances under the PIT could also lead to very high marginal effective tax rates for recipients who earn labour income and receive inheritances, which could have strong disincentive effects on labour supply. If inheritances were taxed jointly with capital income under a dual income tax, they would not introduce such labour supply distortions, but would still require income averaging for individuals who receive large amounts of capital income. In contrast, taxpayers who have greater control over the timing of their income may be able to minimise personal income in the year they receive an inheritance. If inheritances were redefined as personal income, there would also be important implications regarding the allocation of taxing rights between countries in the case of cross-border inheritances. Such effects can be avoided by having a separate tax on bequests. More generally, as discussed in Chapter 2, the distributional and behavioural effects of income and inheritance, estate, and gift taxes are likely to be different and may also justify a separate tax treatment.

3.4. Rules determining tax liability

3.4.1. Rules governing liability for inheritance and estate taxes vary substantially across countries

Liability for inheritance or estate taxes most commonly depends on the nationality or tax residence of the donor or the physical location of assets (Table 3.2). The most common approach across OECD countries is to levy inheritance or estate taxes on total worldwide assets of tax-resident donors and on total or immovable assets located within the jurisdiction for non-resident taxpayers. Three countries tax citizen donors, regardless of whether they are tax residents. One country – the United Kingdom – levies estate taxes on domiciled taxpayers, whose strongest ties are in the country, but not on tax residents, who may be domiciled abroad.[5] A minority of countries do not tax nationals' or residents' foreign immovable property; only moveable property located abroad and assets located within the jurisdiction. Some countries apply different taxes or thresholds to non-residents. For example, Belgium and Luxembourg apply a special transfer tax to non-residents, rather than the usual inheritance tax that would apply to residents, and the United States applies a significantly lower tax-free threshold to non-residents. The regional or local tax residency of the donor or the location of the assets are determining factors for the countries that levy inheritance taxes at the regional or local level.

Table 3.2. Taxable persons and assets

Taxable persons	Taxable assets	Countries
Donor is a tax resident or tax domicile	Worldwide assets	Belgium, Denmark, Finland, France, Germany[1], Ireland, Italy, Japan, Korea, Netherlands[2], Slovenia, Switzerland, United Kingdom[3], United States
	All assets within the jurisdiction and moveable property outside the jurisdiction	Greece[4], Hungary[5], Luxembourg
Donor is a national	Worldwide assets	Chile, United States
	All assets within the jurisdiction and moveable property outside the jurisdiction	Hungary
Beneficiary is a tax resident or tax domicile	Worldwide assets	Finland, France, Germany, Ireland, Japan[6], Lithuania, Poland, Spain
Beneficiary is a national	Worldwide assets	Hungary, Poland
Taxable person is not a tax resident, tax domicile or national	Immovable and moveable property within jurisdiction	Chile[7], France, Germany, Greece, Hungary, Ireland, Italy, Japan, Korea, Lithuania, Portugal[8], Spain, United Kingdom, United States
	Immoveable property within jurisdiction	Belgium[9], Denmark, Finland[10], Luxembourg[11], Poland, Slovenia, Switzerland

1. A German national is considered a taxable person if the donor has been non-resident for tax purposes for less than five years.
2. A Dutch national is considered a taxable person if the donor has been non-resident for tax purposes for less than ten years.
3. This includes taxpayers who were actually tax-domiciled in the United Kingdom in the preceding three years, even if were tax residents abroad, and taxpayers who were tax resident in the United Kingdom for 15 of the past 20 years, even if they were domiciled abroad. Some assets are exempt from inheritance taxation; non-domiciled taxpayers are exempt on certain types of collective investment funds (open-ended investment company and authorised unit trust) and non-resident taxpayers are exempt on government bonds.
4. A Greek national is considered a taxable person if the donor has been non-resident for tax purposes for less than ten years preceding the inheritance.
5. This applies if the donor is not a Hungarian citizen and no inheritance tax has been imposed on assets outside Hungary.
6. A Japanese national is considered a taxable person if both the beneficiary and the donor left have been non-resident for tax purposes for less than ten years. Non-citizen, tax resident beneficiaries are taxed on assets situated within Japan.
7. It includes property located outside the jurisdiction that was acquired using Chilean resources.
8. If the inheritance consists of listed shares, the beneficiary must be a tax resident.
9. Immovable property is subject to a transfer tax, if the donor is not a tax resident.
10. Includes shares or other rights in a corporate body where more than 50% of total gross assets consist of real property situated in Finland.
11. Immovable property is subject to a transfer tax, if the donor is not a tax resident.
Note: Belgium: refers to the Brussels-Capital Region. Switzerland: refers to the canton of Zurich.
Source: OECD Questionnaire on Inheritance, Estate, and Gift Taxes (2020)

Nine countries levy inheritance or estate taxes depending on the situation of the beneficiary (Table 3.2). Beneficiaries are typically liable if they were tax residents at the time that they received the inheritance. Hungary and Poland, on the other hand, tax citizen beneficiaries. Lithuania, Poland, and Spain are the only countries to exclusively consider beneficiaries; the remaining countries consider the residency or nationality of both beneficiaries and donors.

There are various administrative reasons why the donor's tax residence or citizenship is the most common connecting factor to determine where transferred assets are taxable. From an administrative perspective, it may be easier to identify the taxable event, as the distribution of a person's wealth following their death is tied to additional procedures like probate and there will likely already be people administering the donor's affairs. It is unclear whether the incentive for avoidance-related migration is stronger for beneficiaries or donors, however, as the donor is already linked to their wealth, and beneficiaries are only linked to wealth after they receive it, it may be easier to apply tail provisions, discussed in the following sub-section, to donors than to beneficiaries.

3.4.2. The risks of tax-related emigration, double non-taxation and double taxation can be minimised through tax design

Several jurisdictions apply "tail provisions", where taxpayers continue to be liable for inheritance or estate taxes for a number of years after leaving the country. In some countries, citizens and/or former tax residents are treated as tax residents for inheritance tax purposes if the donor passes away soon after the donor or beneficiary has left their home country.[6] Such tail provisions limit the risk of inheritance or estate tax avoidance by emigrating shortly before the donor's death. These provisions may also mitigate the need for provisions such as exit taxes, where citizens and former tax residents renounce their status. To distinguish avoidance-related emigration from genuine emigration, tail provisions may expire after a set number of years, so genuine emigrants cease to be liable for inheritance or estate taxes in their home country.

Provisions to relieve double taxation vary across countries. Given the differences across countries in rules determining liability for inheritance or estate taxation, double (or multiple) taxation may arise in cross-border wealth transfers. Double taxation relief is available under double tax treaties in some cases, although treaty networks to prevent inheritance or estate double taxation are very limited. A majority of countries levying inheritance or estate taxes provide unilateral relief. Under domestic legislation, relief is typically provided for inheritance and gift tax paid abroad in respect of assets located abroad (e.g. a tax credit or an exemption). In some cases, however, unilateral relief may be incomplete. For instance, relief may only be granted for taxes paid on certain types of foreign property. There may also be mismatches between inheritance tax rules regarding what is considered a local compared to a foreign asset and between valuation methods for the same property (European Commission, 2011[4]). In some countries, there is no relief provided for gifts, either through unilateral or double tax treaty relief.

Reforms could be considered to avoid risks of double taxation and double non-taxation by better aligning taxing rights across countries. Given the limited number of double tax treaties, there might be merit in focusing first on improving and harmonising domestic rules for inheritance or estate tax relief (European Commission, 2011[4]). As part of these efforts, the order of priority of taxing rights could also be clarified. Countries may coordinate on certain rules; for example, assigning the primary right to apply inheritance or estate taxes to the country where the taxpayer has the closest link; providing tax relief in the country where the beneficiary has personal links for the tax paid on the inheritance in the country where the donor had personal links; and establishing mutual agreement procedures for situations where a beneficiary or a donor had personal links to more than one country (e.g. resident in one country and domiciled in or a national of another). Consistent application of such rules across countries could reduce risks of double taxation and double non-taxation in cross-border inheritances.

3.5. Tax exemption thresholds

3.5.1. Close family members often benefit from more generous tax exemption thresholds

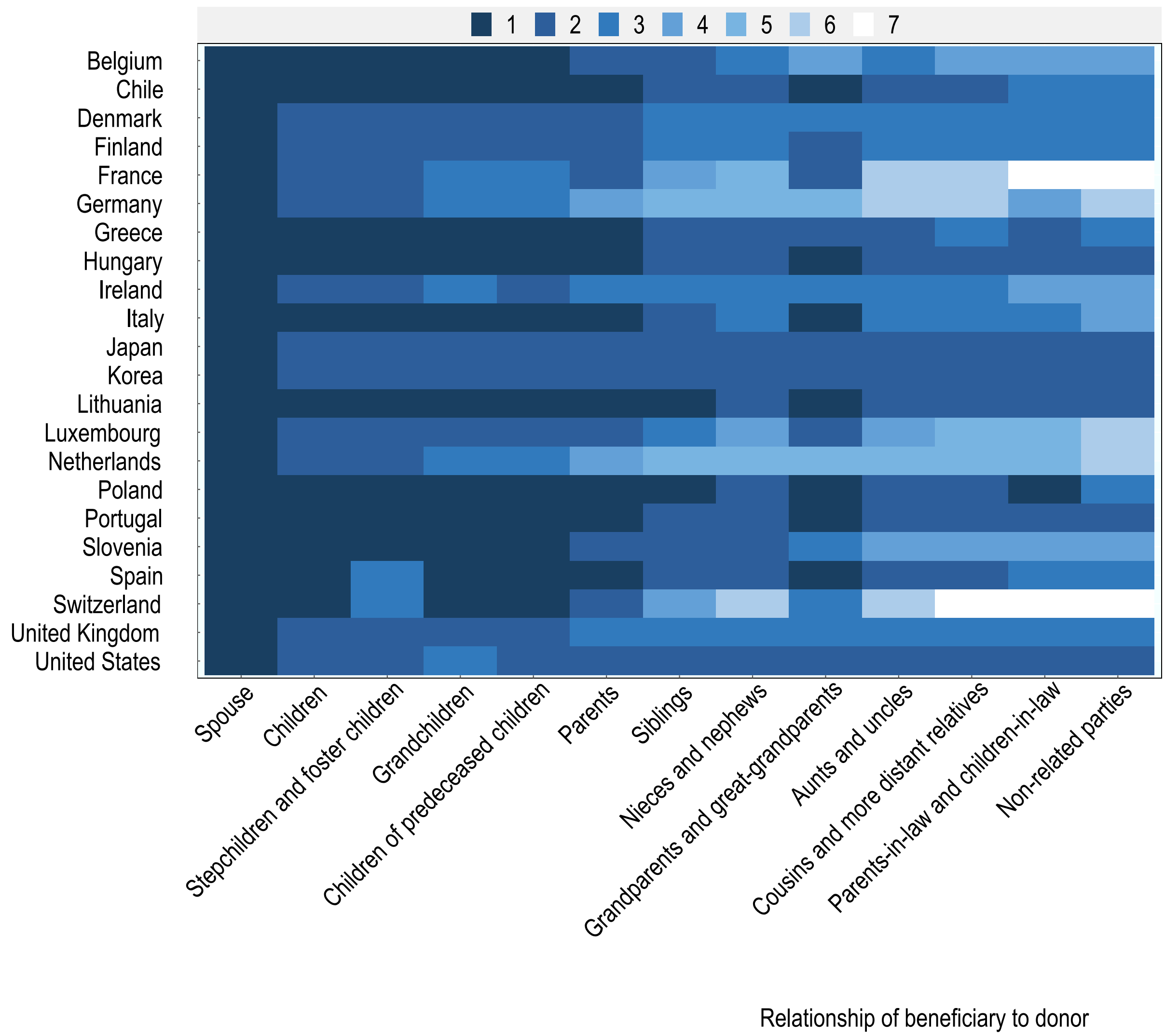
Inheritance and estate tax exemption thresholds typically depend on the relationship between the donor and the heir, with more favourable exemption thresholds applying to closer family members. Figure 3.8 shows family members arranged according to proximity to the donor, with darker shading indicating more favourable inheritance or estate tax treatment and lighter shading indicating less favourable tax treatment. Across countries, the donor's spouse and children are either exempt or benefit from the highest exemption thresholds. It is worth mentioning that these heirs are typically entitled to a share of the donor's estate under forced heirship rules (see Box 3.2). Some countries apply the same tax treatment to the immediate family and beyond (e.g. Poland), but in others, the most favourable treatment is restricted to the closest family members (e.g. Ireland). The tax treatment of parents and grandparents is generally among the more generous, while cousins receive the same tax treatment as aunts and uncles in most countries. Where more distant relatives receive the same treatment, it is usually because countries group together relatives that are not close family. As shown in Tables 3.3, some countries in practice have only two or three groups of beneficiaries, while countries such as France and Switzerland have as many as seven groups.

Table 3.3. Number of beneficiary groups, according to applicable tax rates and exemption thresholds, per country

Number of beneficiary groups	Countries
2	Hungary, Japan, Korea, Lithuania, Portugal
3	Chile, Denmark, Greece, Finland, Spain, United Kingdom, United States
4	Belgium, Ireland, Italy, Poland, Slovenia
6	Germany, Luxembourg, Netherlands
7	France, Switzerland

Note: This table considers the tax rate schedule and the tax exemption threshold that apply to heirs. Countries may have fewer beneficiary groups when considering only one of these dimensions or under relevant legislation. Belgium: refers to the Brussels-Capital Region. Korea: assumes that the standard deduction applies. Poland: the Tax on Inheritance and Donation Act specifies three beneficiary groups, but was amended in 2006 to exempt a subset of Group I beneficiaries. Switzerland: refers to the Canton of Zurich.
Source: OECD Questionnaire on Inheritance, Estate, and Gift Taxes 2020.

Figure 3.8. Tax exemption thresholds according to relationship with the donor, most to least favourable



Note: The category "siblings" includes step-siblings. Beneficiaries are ordered first with respect to the applicable rates schedule and then to the tax-free threshold. This figure assumes that beneficiaries are adults and do not have a disability. Belgium: refers to the Brussels-Capital Region. Korea: assumes that the standard deduction applies. Lithuania: Step-siblings are not exempt. Netherlands: foster children are treated as children if they have been supported by the deceased for at least 5 years before their 21st birthday; otherwise they are treated as other family. Poland: Siblings receive the most favourable treatment and step-siblings receive the 4th most favourable treatment. Spain: children and grandchildren aged under 21 receive the most favourable tax treatment. Switzerland: refers to the Canton of Zurich, foster children receive the 6th most favourable tax exemption. United States: The Generation Skipping Tax (GST) applies to asset transfers to recipients, usually grandchildren, who are two or more generations younger than the donor. As the GST applies at the same rate and above the same exemption threshold as estate taxes, the effective taxation of wealth transfers is the same whether donors transfer directly to their grandchildren, or whether they transfer to their children, who then transfer the wealth to their children (the original donor's grandchildren).

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

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Box 3.2. Forced heirship rules

Forced heirship rules limit the freedom of donors to decide how their assets are distributed upon death. Countries may consider that spouses and parents have a responsibility to provide for their close family and so regulate the transfer of assets to them. Such rules may also limit unfair behaviour, preventing donors from favouring one child above another or from causing financial hardship to their spouse, while retaining some flexibility for donors to bequest a portion of their assets as they wish.

Most countries have some form of forced heirship (Table 3.4). Of the 24 OECD countries that levy inheritance or estate taxes, only three countries allow full testamentary freedom, where donors can dispose of their assets as they wish. Nineteen countries allow partial testamentary freedom but require donors to leave a fixed share of their wealth to specified persons. In the majority of countries that apply these rules, spouses and children are entitled to a share of the estate. Where spouses are the only forced heirs, children are entitled to some form of financial support. In other countries, a broader (parents, spouses, and children) or narrower (only children) category of beneficiaries are considered forced heirs. More distant relatives, such as grandchildren, can be considered forced heirs in 12 countries when the donor does not have closer relatives (Belgium, Chile, Germany, Italy, Japan, Korea, Lithuania, Netherlands, Portugal, Slovenia, Spain, and Switzerland).

Table 3.4. Forced heirship rules

Designated heirs	Countries
Parents, spouses, and children	Hungary, Poland, Switzerland
Spouses and children	Belgium, Chile, Denmark, Germany, Greece, Italy, Japan, Korea, Lithuania, Portugal, Slovenia, Spain
Spouses (some provision for children)	Ireland[1]
Children	Finland, France, Luxembourg, Netherlands
No forced heirs	Latvia, United Kingdom, United States

1. Children can apply for a provision of maintenance if the donor failed for provide for them in the will.
Note: The information in this table considers that donors have a spouse, children, and parents. Different rules may apply where this is not the case; in some countries, more distant family members are forced heirs where the donor does not have closer relatives. Belgium: refers to the Brussels-Capital Region. Switzerland: refers to the Canton of Zurich.
Source: OECD Questionnaire on Inheritance, Estate, and Gift Taxes (2020).

While forced heirship rules may help protect heirs, they may also prevent donors from sharing their wealth more widely or donating it to charitable causes. Forced heirship rules may also counter efforts to reduce wealth inequality by mandating that a minimum share of the donor's wealth pass to their closest heirs. Inheritance and estate tax revenue may also be limited if countries mandate that donors pass a significant share of their wealth to heirs that benefit from higher tax exemptions and lower tax rates.

3.5.2. Spouses are exempt or benefit from the highest tax exemption threshold

In all countries that levy inheritance and estate taxes, spouses benefit from the most generous tax exemption thresholds (Figure 3.8, Table 3.5). The surviving spouse is fully exempt from inheritance or estate taxes in most countries (Denmark, France, Hungary, Ireland, Japan, Lithuania, Luxembourg, Poland, Portugal, Slovenia, Switzerland, the United Kingdom,[7] and the United States). In other countries, spouses benefit from the highest tax-free threshold, applying only to spouses (Finland, Germany, Korea, and the Netherlands) or the highest tax-free threshold that also applies to other close family members

(Belgium, Chile, Greece, and Italy). In the United Kingdom, the unused fraction of the donor's tax-free threshold can pass to the surviving spouse. If, for example, the donor uses half of their exemption threshold bequeathing wealth to a taxable heir (i.e. any heir but their spouse), the surviving spouse would combine their own tax-free threshold with the remaining unused half of their deceased spouse's tax exemption threshold, allowing spouses to use the full value of their tax exemptions between them.

Table 3.5. Tax treatment for the donor's spouse and children

Country	Spousal treatment for married (MA), civil union (CU), and cohabiting couples (CH)	Tax exemption threshold spouse	Tax exemption threshold children
Belgium	MA, CU	USD 17 133	USD 17 133
Chile	MA, CU	USD 36 952	USD 36 952
Denmark	MA, CU	Exempt	USD 46 147
Finland	MA, CU	USD 102 798	USD 22 844
France	MA, CU[1]	Exempt	USD 114 220
Germany	MA, CU	USD 571 098[2]	USD 456 879
Greece	MA, CU	USD 171 329	USD 171 329
Hungary		Exempt	Exempt
Ireland	MA, CU	Exempt	USD 382 636
Italy	MA, CU	USD 1 142 197	USD 1 142 197
Japan	MA	Exempt	USD 337 159[3]
Korea	MA	USD 2 541 778	USD 423 630[4]
Lithuania	MA	Exempt	Exempt
Luxembourg	MA, CU	Exempt	Depends on value of estate[5]
Netherlands	MA, CU, CH[6]	USD 755 367[7]	USD 23 924
Poland	MA	Exempt	Exempt
Portugal	MA, CU	Exempt	Exempt
Slovenia	MA, CU, CH	Exempt	Exempt
Spain	MA, CU	USD 18 226	USD 18 226[8]
Switzerland	MA[9]	Exempt	Exempt
United Kingdom	MA, CU	Exempt	USD 641 026
United States	MA	Exempt	USD 11 580 000

1. Civil partners must have a valid will naming their partner as one of the beneficiaries. In case of intestate succession, the partner does not benefit from spousal treatment.
2. In case of acquisitions *mortis causa*, the threshold may increase by up to EUR 256 000 for spouses and by up to EUR 52 000 for children (depending on age). However, this additional exemption is reduced by the net present value of survivor pensions.
3. It assumes that the child is the only heir. The tax-free threshold is equal to 30 million yen + (6 million yen * number of statutory heirs).
4. It assumes that the child is the only heir and receives the full standard deduction of KRW 500 million. The alternate itemised deduction consists of a basic allowance of KRW 200 million and additional allowances for direct descendants, elderly and minor heirs and heirs with a disability, and a housing allowance.
5. Children are exempt on the inheritance that they would be attributed under intestate laws, defined as a share of the estate, and are taxed above this amount.
6. Co-habiting partners must have lived together for at least five years (six months if they have signed a notarial cohabitation agreement) and must have a valid will naming their partner as one of the beneficiaries. In case of intestate succession, the partner does not benefit from spousal treatment.
7. Inherited pension wealth counts towards the spouse's tax exemption threshold.
8. As many regions apply additional tax-exemption thresholds to donor's children, the tax exemption provided by the central government should be viewed as a lower bound.
9. Civil partners benefit from a small additional tax-free threshold, but this is less favourable than the full exemption available to married couples.
Note: Exemption thresholds are reported in USD 2020. This table assumes that beneficiaries are adult6s and do not have a disability. Data on tax treatment for civil union and cohabitating couples was not available for Hungary. Belgium: refers to the Brussels-Capital Region. Switzerland: refers to the canton of Zurich.
Source: OECD Questionnaire on Inheritance, Estate, and Gift Taxes

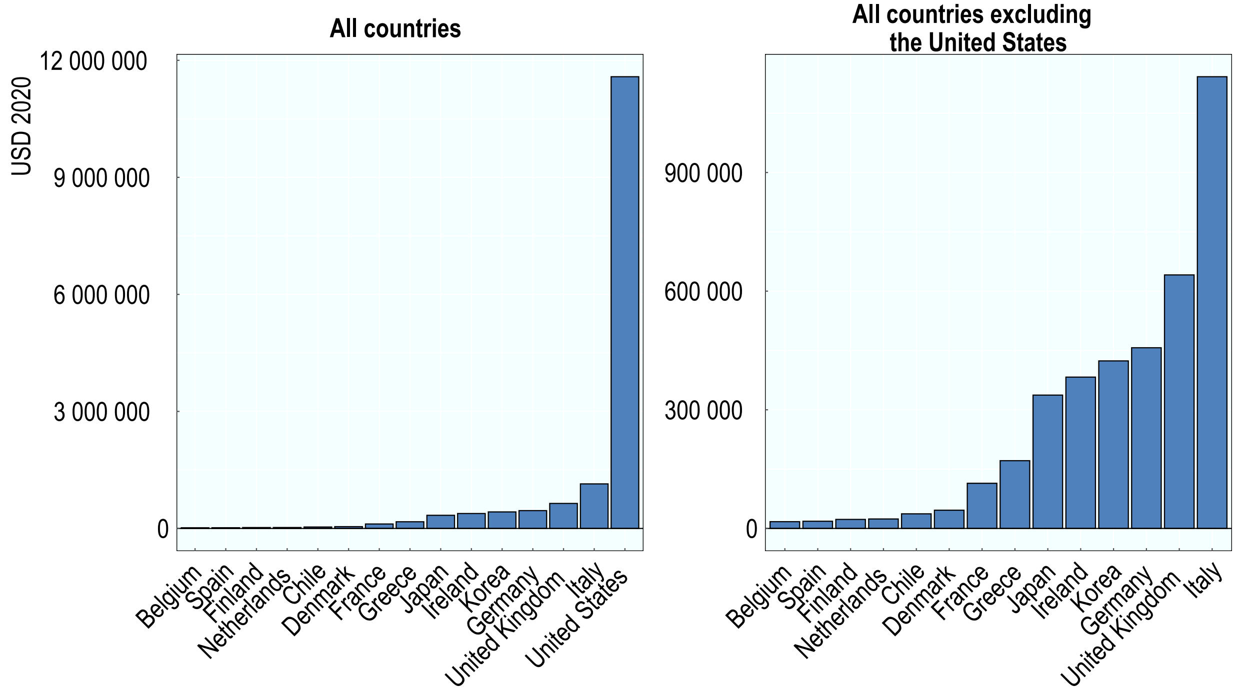
The tax treatment of spouses and partners may depend on the type of union (Table 3.5). In most OECD countries, couples are able to choose between marriage, a civil union, and cohabitation, which can determine the applicable inheritance or estate tax treatment. Two countries apply the same tax treatment to all married, civil union, and co-habiting partners, while 13 apply the same tax treatment to married partners and civil partners. Additional criteria may apply to non-married partners; for example, the Netherlands requires co-habiting partners to have lived together for at least five years[8] and France requires civil partners to have a valid will. Six countries only grant special treatment to married couples. Couples under the same type of union benefit from the same tax treatment regardless of sexual orientation, but some countries restrict certain unions to different- or same-sex couples.[9]

The tax exemption thresholds for children are typically among the highest, but the level varies across countries

The tax treatment of direct descendants is among the most favourable; the same as or second only to the spouse in nearly all countries (Figure 3.8, Table 3.5). The donors' children are fully exempt from inheritance taxes in Hungary, Lithuania, Poland, Portugal, Slovenia, and Switzerland (Canton of Zurich) and benefit from the highest tax-free threshold in Belgium, Chile, Greece, Italy, and Spain. In these 11 countries, children receive the same treatment as the donor's spouse. Children benefit from the second highest tax-free thresholds (after the spouse) in Finland, France, Germany, Ireland, Japan, Luxembourg,[10] and the United Kingdom.[11] In Luxembourg the tax-free threshold for children is a share of the donor's estate, so the threshold rises with the donor's wealth. There is an additional threshold for children in Korea[12] and an additional threshold for lineal descendants in the United Kingdom when donors bequeath their residence. The donor's children receive the same exemption as all heirs other than the spouse in Denmark (although children are taxed at lower rates than other heirs) and Japan. Stepchildren are nearly always treated as children for tax purposes. Figure 3.8 shows that, with the exception of Spain and Switzerland, stepchildren receive the same tax treatment as the donor's children in all countries.

Tax exemption thresholds for transfers to children vary widely (Figure 3.9, Figure 3.10). Several countries provide relatively low tax-exemption thresholds for the donor's children, including four countries with thresholds under USD 25 000 (Belgium, Finland, Netherlands, and Spain). At the upper end, however, there are large differences between countries, as tax-free thresholds range from around USD 640 000 (the United Kingdom) to around USD 1.1 million (Italy) and around USD 11.6 million (the United States). Figure 3.10 compares applicable inheritance or estate tax exemption thresholds for children in different countries with the average value of inheritances received across the wealth distribution. The tax-free thresholds in Germany, Greece, Ireland, and Italy are above the average value of inheritances received by heirs across the wealth distribution, while the threshold is above all but the highest quintile of inheritances in France. The relatively low tax-free thresholds in Belgium and Spain are still above the value of the average inheritance for the lowest quintile. These comparisons should be interpreted with caution, however, as the value of inheritances varies within quintiles and factors such as the asset type affect the tax liability. In addition, survey data may underestimate wealth at the top of the wealth distribution (see Chapter 1).

Figure 3.9. Tax exemption thresholds for donor's children, USD



Note: Tax exemption thresholds are reported in USD 2020. Children of the donor are exempt in Hungary, Lithuania, Poland, Portugal, Slovenia, and Switzerland. This figure assumes that beneficiaries are adults and do not have a disability. Belgium: refers to the Brussels-Capital Region. Luxembourg: exemption thresholds depend on the value of the estate; children are exempt on the inheritance that they would be attributed under intestate laws, defined as a share of the estate, and are taxed above this amount. Switzerland: refers to the Canton of Zurich. United Kingdom: assumes that the donor uses the residence nil-rate band, but not the transferable nil-rate band (which applies if the donor's spouse had already passed away and did not made full use of the tax-exemption threshold).
Source: OECD Questionnaire on Inheritance, Estate, and Gift Taxes

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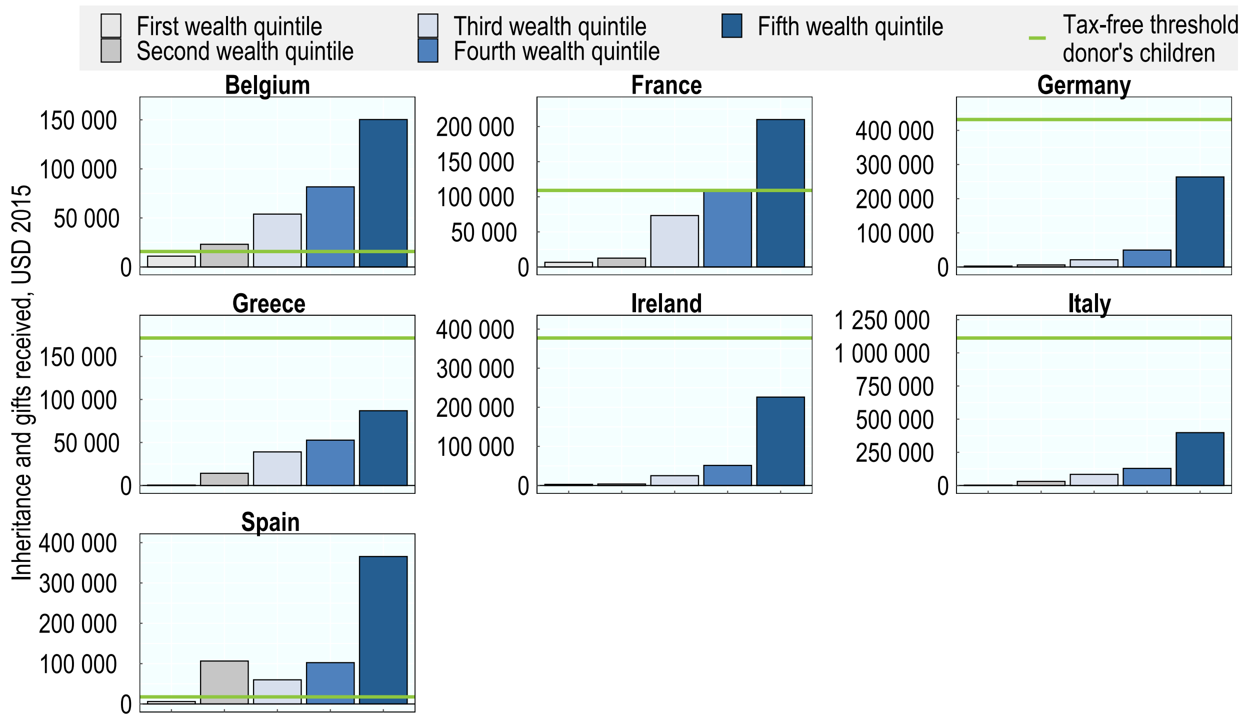
Figure 3.10. Tax exemption threshold for donors' children compared to the average value of inheritances received by all heirs in each quintile, select countries

2015 or latest available year



Note: Tax exemption thresholds and inheritances are reported in USD 2015. Children of the donor are exempt in Hungary, Lithuania, Poland, Portugal, Slovenia and Switzerland. Data from the Wealth Distribution Database were not available for Finland and the Netherlands and the remaining countries that levy inheritance or estate taxes were not included in the Wealth Distribution Database. This figure assumes beneficiaries are adults (over 21 years old) and do not have a disability. Belgium: refers to the Brussels-Capital Region. Switzerland: refers to the Canton of Zurich.
Source: OECD Wealth Distribution Database, oe.cd/wealth.

StatLink https://stat.link/p0gstl

3.5.3. Special tax exemption thresholds apply to minor heirs and heirs with a disability in a few countries

Few countries provide special treatment for minor heirs. In Ireland, where a donor's child passes away before the donor but has children themselves, the grandchildren under 21 years of age will receive the same treatment as the donor's children; otherwise, they are treated as grandchildren. In Korea, minors receive an additional deduction per year until they reach 20 years of age, but estates must choose itemised deductions, rather than the standard deduction, to obtain this relief. In Spain, children and grandchildren receive a more favourable tax treatment if they are under 21 years of age. Property left in trust for orphaned minor children in the United Kingdom can qualify for treatment that is slightly more favourable than the standard tax treatment for trusts.

Some countries apply special treatment to heirs who have a disability. In Ireland, gifts and inheritances received by heirs who have a disability are exempt if used for qualifying expenses, which include costs for medical treatment and associated maintenance. In five countries, heirs who have a disability benefit from an additional tax-free threshold (Italy, Korea, Netherlands, Switzerland, and Spain) or a reduction of the tax liability (Greece). The additional allowance in Korea is only available where estates opt for itemised deductions. Above the additional tax-free allowance, beneficiaries with a disability are taxed at usual rates in all countries. One country (Spain) conditions the additional thresholds on the degree of disability.

3.5.4. Tax exemption thresholds should balance the notion of care, with efficiency and equity objectives

Overall, there is a strong case for exempting small inheritances. Tax-free thresholds that effectively exempt small inheritances can reduce the administrative burden, both for taxpayers and tax administrations, and may be equitable given the equalising effect of small inheritances on the distribution of wealth (see Chapters 1 and 2). As discussed in Section 3.14, tax exemption thresholds may also increase the political acceptability of inheritance and estate taxes (Bastani and Waldenström, 2021[5]). In some countries, tax exemption thresholds increase annually. Indexing thresholds to inflation ensures that tax exemption thresholds retain their real value and may lessen political pressure to make large periodic adjustments.

There are several justifications for applying exemptions or higher tax-free thresholds to spouses. Full exemptions or higher exemption thresholds for spouses reflect couples' pooled resources and shared ownership of assets. This may prevent the surviving spouse experiencing hardship upon their spouse's death. Exemptions may also address gender imbalances in asset ownership, particularly in cases where one partner performs non-market work to support their partner's ability to engage in paid work and accumulate wealth and pension rights. Finally, taxing wealth when it transfers from one spouse to another and then to the couple's children may amount to double-taxation (Boadway, Chamberlain and Emmerson, 2010[6]). The risk of inheritance tax avoidance is generally limited when transferring wealth between spouses, as the wealth will eventually pass to the next generation, where it may be subject to taxation (Boadway, Chamberlain and Emmerson, 2010[6]).[13] Couples have a tax incentive to enter a civil union or to marry when more favourable tax treatment applies to these unions than to cohabitation or civil union, respectively. In cases where countries restrict access to civil unions and marriage based on the partners' sexual orientation, this may have significant implications for inheritance and estate tax treatment.

Higher tax-free thresholds for donors' children may be justified, but depending on their level, they might significantly reduce the tax base. A common justification for providing a more generous tax treatment of gifts and bequests to donors' children is based on the notion care, which may be particularly important when children are young, as the inheritance may contribute to living and education expenses. It also makes the tax more acceptable given that taxpayers place great value on passing on wealth to their children. Economically, it may be argued that wealth transfers to children may be less elastic than transfers to more distantly related heirs and could therefore be taxed at higher effective tax rates. However, it is likely that the negative behavioural response of donors in the form of reduced incentives to work and accumulate wealth might be more significant in response to high tax levels on transfers to children than in response to high tax levels on transfers to more distantly related heirs (see Chapter 2). In addition, parents may respond by changing the form of their transfers, for example by increasing in-kind giving. Thus, there might be some justification for higher tax exemption thresholds for transfers to direct descendants. However, if tax exemption thresholds for wealth transfers to children are very high, they may significantly reduce the revenue raising capacity of inheritance and estate taxes and may mean that a significant share of wealth transfers fully escape inheritance or estate taxation (Figure 3.2).

Narrowing tax exemption differentials between close and distant heirs where these differentials are significant may raise efficiency and reduce avoidance. In some cases, lower tax exemption thresholds (often combined with higher tax rates) on transfers to more distant relatives and non-family members may be questionable. These differentials raise a horizontal equity issue, where two individuals receive the same wealth but benefit from vastly different tax exemption thresholds depending on who they receive the wealth from. Applying higher tax rates to more distant family members also distorts donors' choices about how to distribute their wealth, incentivising them to concentrate their wealth transfers among closer family members. Reducing the difference in the tax treatment between closely related and distantly related heirs may encourage donors to spread their wealth among more heirs and thereby reduce concentrations of wealth, as well as improve horizontal equity.

3.6. Statutory tax rates

3.6.1. Tax rates typically depend on the amount of the wealth transfer and the relationship between the donor and the beneficiary

Inheritance and estate tax rates vary substantially across countries, as do the wealth levels to which they apply. Seven countries apply flat inheritance or estate tax rates, while 15 apply progressive rates. Of these 15 countries, all but one apply multiple progressive rate schedules, where, first, the marginal rate rises with the value of the inheritance and second, separate and typically higher tax rate schedules apply to more distant family and non-relatives (Belgium, Chile, Finland, France, Germany, Greece, Japan, Lithuania, Luxembourg, Netherlands, Poland, Slovenia, Spain, and Switzerland). Korea applies one progressive rate schedule to all heirs.

Flat inheritance or estate tax rates range from 4% to 40% (Figure 3.11). The same flat rates apply to all heirs in Ireland (tax rate of 33%), Hungary (18%), Portugal (10%), the United Kingdom (40%), and the United States (40%). Italy and Denmark apply a flat tax rate that depends on the relationship between the donor and the beneficiary: ranging from 4% for the closest family members to 8% for other beneficiaries in Italy, and from 15% to 36.25% in Denmark.

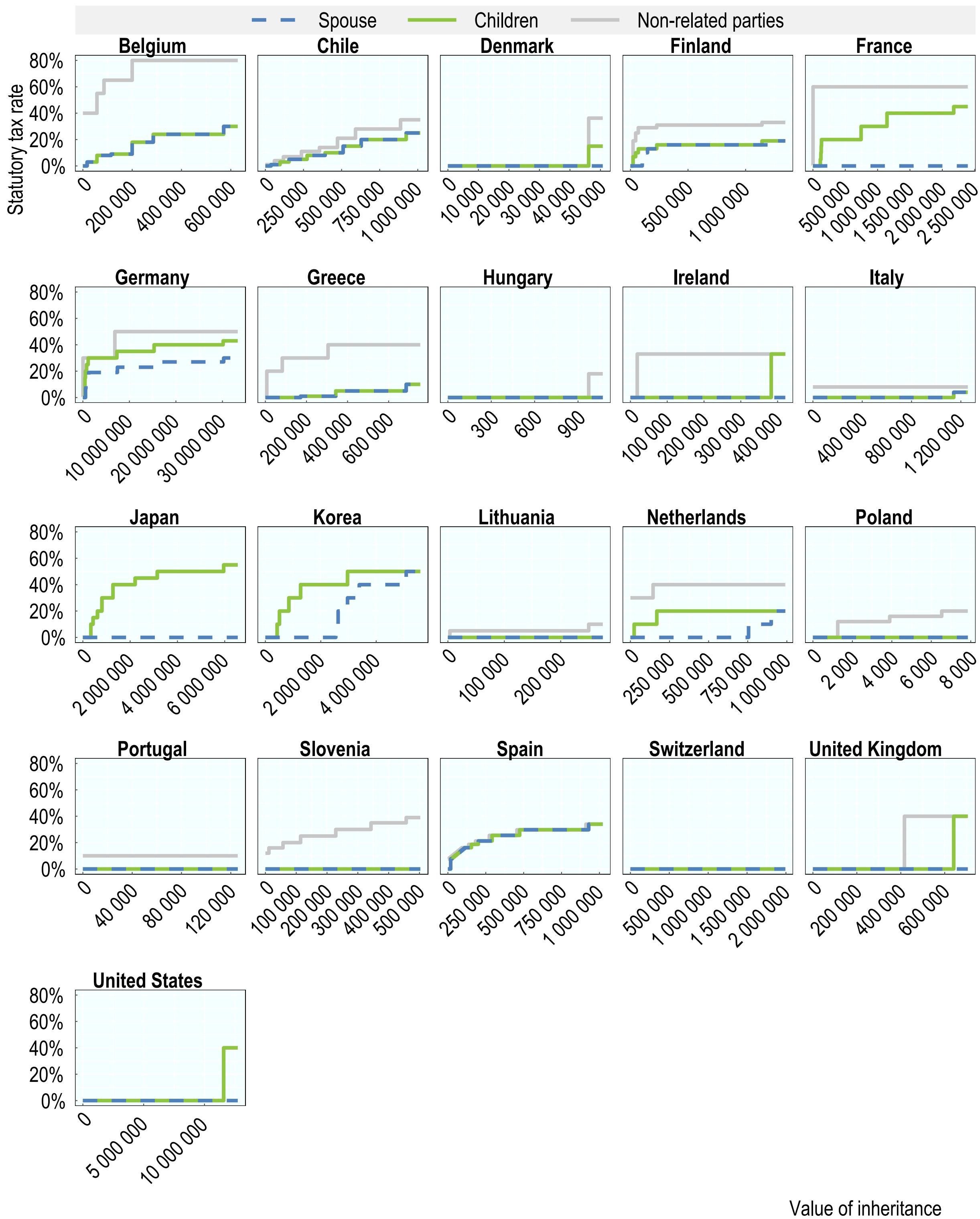
Progressive rates range from 1% (Chile) to 80% (Belgium) (Figure 3.11, Figure 3.12). Nearly all countries with progressive tax rates apply several schedules, depending on the proximity between the donor and the beneficiary. Progressive rates for spouses and children are typically lower and vary less widely across countries than the rates that apply to other family and non-related persons. For example, the minimum rate that applies to children ranges from 1% (Chile and Greece) to 10% (Japan, Korea, and the Netherlands) but the minimum rate that applies to siblings ranges from 1.2% (Chile)[14] to 35% (France). Top marginal rates applying to children range from 10% (Greece) to 55% (Japan), while top marginal rates applying to wealth transfers to siblings range from 14% (Slovenia) to 65% (Belgium).

Within some countries, tax rate schedules vary widely depending on the relationship between donors and beneficiaries. Among countries that apply multiple tax schedules that depend on proximity between the donor and the beneficiary, some exhibit only small differences between the tax rate schedules that apply to groups of beneficiaries (e.g. Chile, Poland, and Slovenia). However, in other countries, tax rates are much higher for wealth transfers beyond close family. In Belgium and Germany, for example, the donor's children benefit from rates as low as 3% (Belgium) and 7% (Germany), but the lowest rate for aunts and uncles is 30% (Germany) and 35% (Belgium).

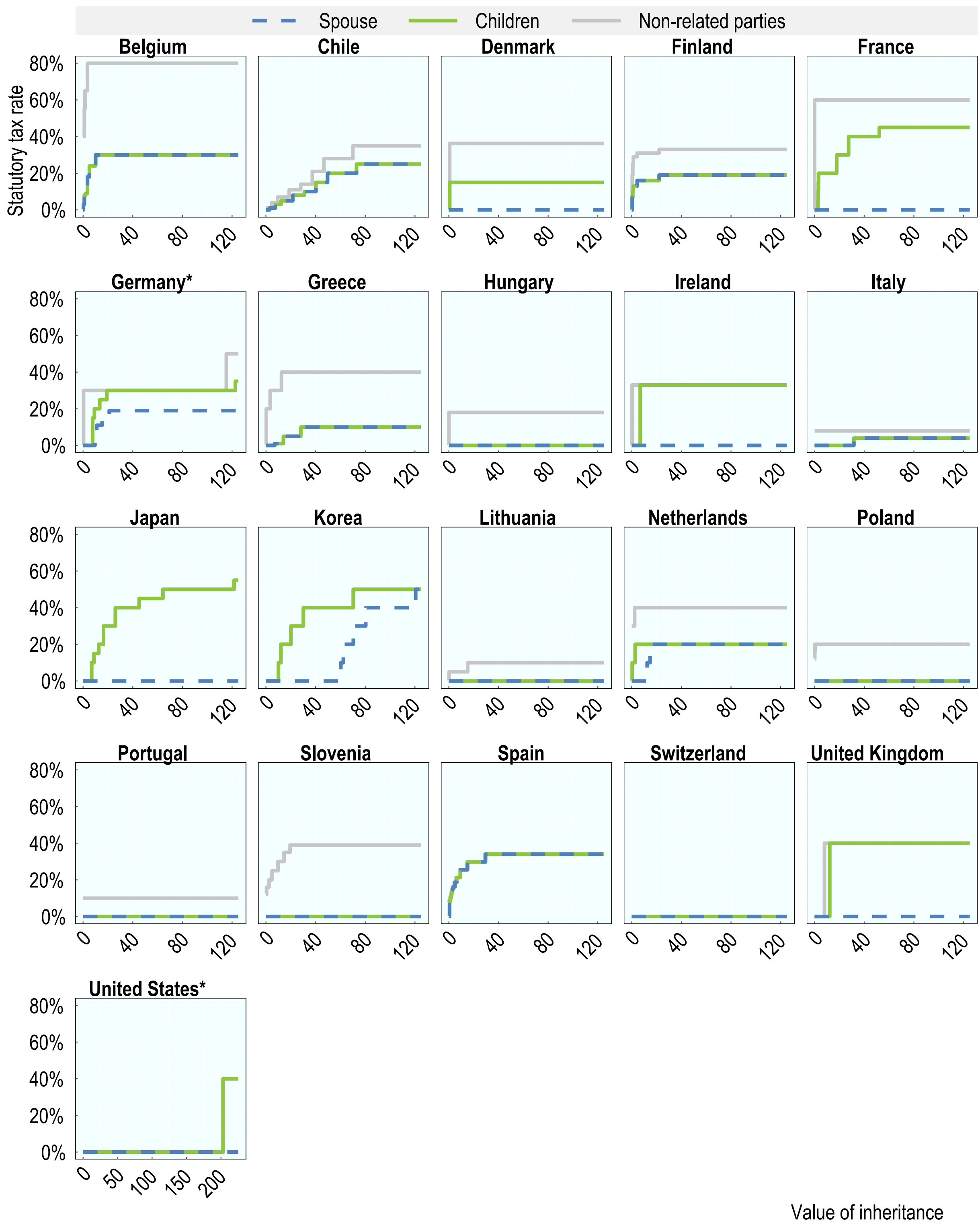
Top marginal tax rates kick in at relatively low levels of transferred wealth in several countries with progressive tax rates. For instance, Belgium applies six marginal rates to the donor's children, with rates increasing for inheritances up to roughly USD 570 000. Beyond that threshold, inheritances are taxed at the top marginal rate. In contrast, the top marginal rate in Germany applies at around USD 33.3 million for the donor's children. Panel B of Figure 3.11, which shows tax thresholds as a multiple of countries' annual average wage, shows that for children, the threshold for the top marginal rate was lowest in the Netherlands (2.8 times annual average wage), Belgium (10.1), and Finland (22.1). For non-related heirs, the threshold for the top marginal rate was lowest in France (0.04 times annual average wage), Hungary (0.07), and Poland (0.3).

Figure 3.11. Statutory inheritance and estate tax rate schedules for spouse, children, and non-related parties

Panel A: value of inheritances in USD



Panel B: value of inheritances as a multiple of the average annual wage



Note: *Germany applies additional rates that are not included in this graph. Spouse: 23% from 129-264 times average wage, 27% from 264-513 times average wage, and 30% above 513 times average wage. Children: 40% from 257-506 times average wage and 43% above 506 times average wage).

* United States: x-axis shows 0-200 times average wage; all other charts show 0-125 times average wage on x-axis.

Tax exemption thresholds are reported in USD 2020. This figure assumes that beneficiaries are adults (over 21 years old) and do not have a disability. Belgium: refers to the Brussels-Capital Region. Chile: a surcharge of 20% on the tax liability applies to 2nd rank relatives (siblings, nieces, nephews, aunts, uncles, cousins, great-aunts, great-uncles) and a surcharge of 40% applies to other beneficiaries. Japan: Assumes that there is only one heir, so the tax-free threshold is USD 337 159 [36 million yen = 30 million yen + (6 million yen * number of statutory heirs)]. Poland: Siblings receive the most favourable treatment and step-siblings receive the 4th most favourable treatment. Switzerland: refers to the canton of Zurich. United Kingdom: Assumes that the taxpayer applies the residence nil-rate band.
Source: OECD Questionnaire on Inheritance, Estate, and Gift Taxes

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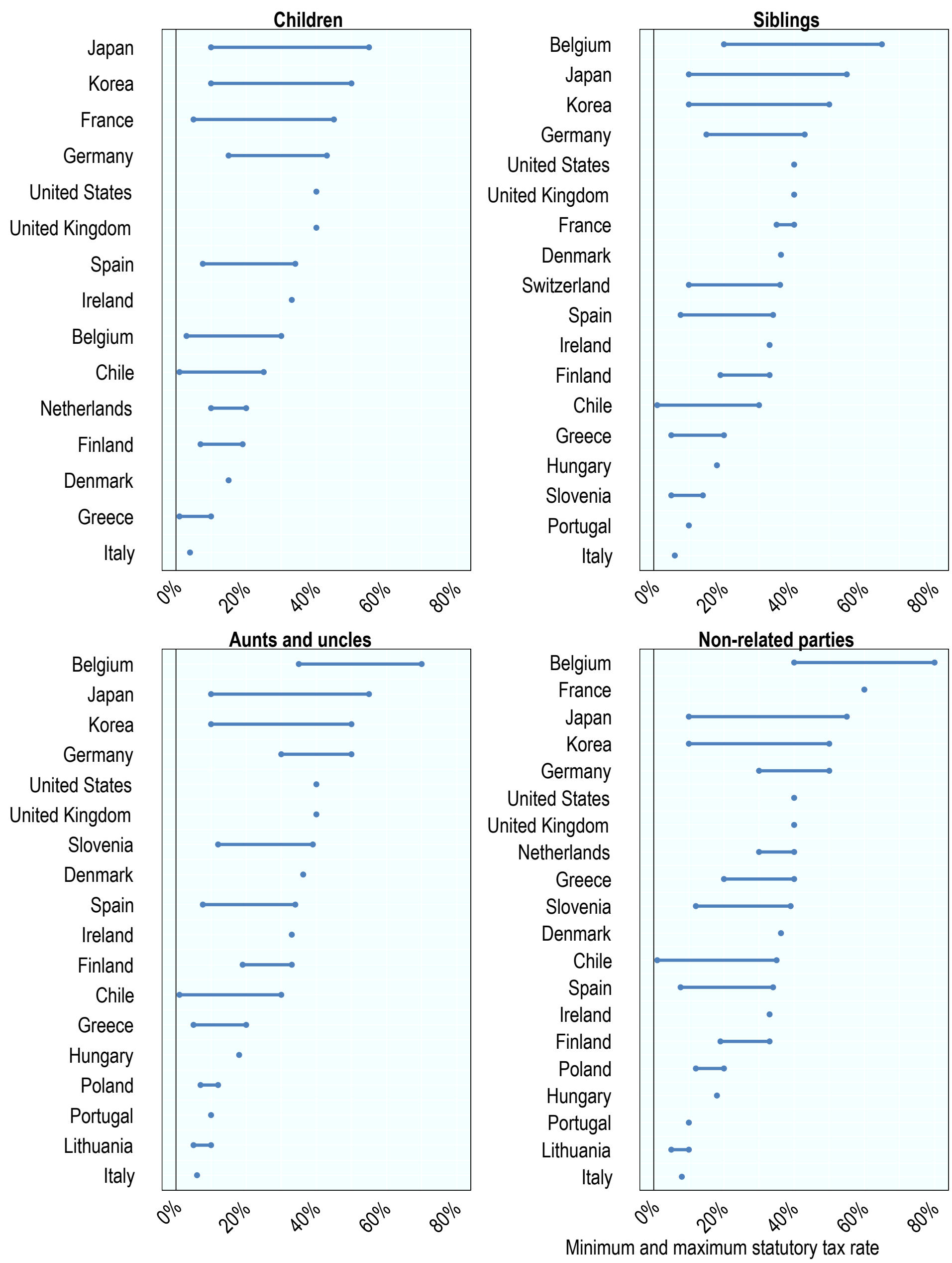
Figure 3.12. Minimum and maximum statutory inheritance and estate tax rates, four groups of beneficiaries



Note: Children are exempt in Hungary, Lithuania, Poland, Portugal, Slovenia, and Switzerland. Siblings are exempt in Lithuania, Poland. Belgium: refers to the Brussels-Capital Region. Lithuania: step-siblings are not exempt from inheritance taxes. Poland: Siblings receive the most favourable treatment and step-siblings receive the 4th most favourable treatment. Switzerland: refers to the Canton of Zurich.
Source: OECD Questionnaire on Inheritance, Estate, and Gift Taxes

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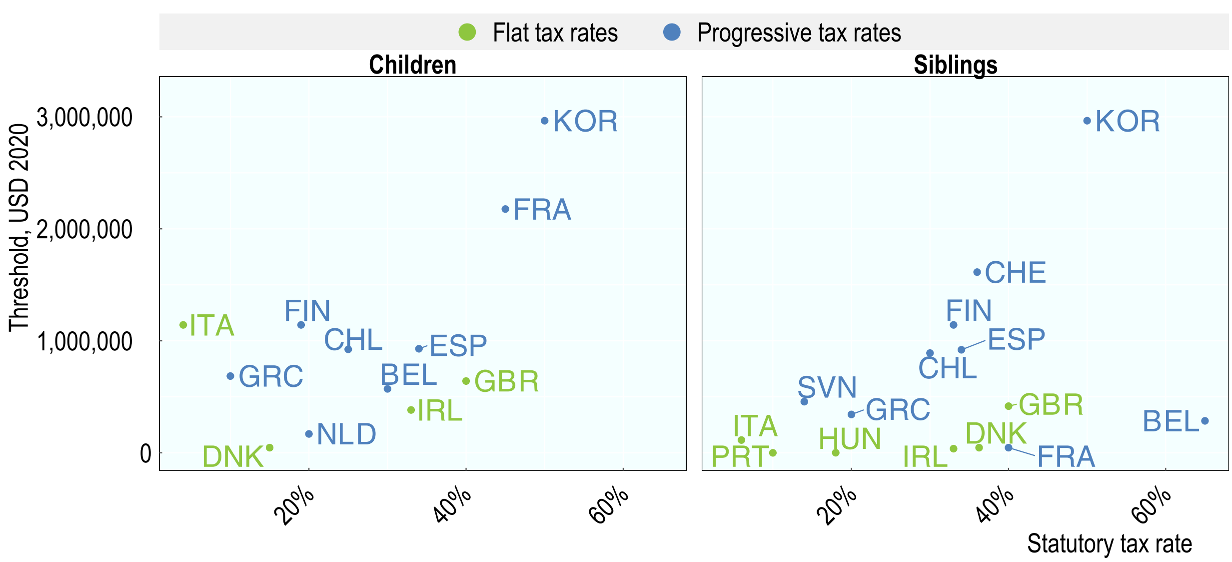
Figure 3.13 shows countries with higher top marginal tax rates levy those on higher-value inheritances, while countries with lower top marginal tax rates apply these at lower thresholds. In addition to the tax rate schedules, the thresholds at which tax rates apply is a key determinant of heirs' tax liability and the overall progressivity of the inheritance or estate tax. Figure 3.13 shows that countries with relatively high top marginal tax rates apply these at relatively high levels, while the reverse tends to be true for countries with low top marginal tax rates. For example, for the donor's children, Korea applies a top marginal tax rate of 50% once the inheritance exceeds around USD 3 million, while the Netherlands applies a top marginal tax rate of 20% once the inheritance exceeds around USD 170 000. The relationship between top marginal tax rates and applicable thresholds is particularly strong for the donor's children, but is also visible for the donor's siblings. Among countries that levy flat rates, there is no clear connection between the level of the rate and the level of the threshold; relatively similar tax rates apply in Denmark (36.25%) and the United States (40%), but at very different thresholds (around USD 11.6 million in the United States, compared to around USD 46 000 in Denmark).

Figure 3.13. Maximum statutory inheritance and estate tax rates and applicable threshold (USD), donor's children and siblings



Note: Tax exemption thresholds are reported in USD 2020. The category "siblings" includes step-siblings. Three points have been removed for readability: Germany (43% applying at USD 30 153 991 [children] or USD 29 719 956 [siblings]), Japan (55% applying at USD 5 956 474 [children and siblings]), and the United States (40% applying at USD 11 580 000 [children and siblings]). Children are exempt in Hungary, Lithuania, Poland, Portugal, Slovenia, and Switzerland. Siblings are exempt in Lithuania, Poland. Belgium: refers to the Brussels-Capital Region. Lithuania: step-siblings are not exempt from inheritance taxes. Poland: Siblings receive the most favourable treatment and step-siblings receive the 4th most favourable treatment. Switzerland: refers to the canton of Zurich.
Source: OECD Questionnaire on Inheritance, Estate, and Gift Taxes

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3.6.2. Progressive tax rates have several advantages compared to flat tax rates

Progressive inheritance or estate tax rates enhance vertical equity effects. Progressive rates increase vertical equity by ensuring that those who receive more wealth pay more tax. Illustrative simulations in Chapter 2 showed that where countries have a preference to prevent the build-up of excessive wealth over generations, progressive inheritance taxes and taxes on personal capital income can be powerful tools. Moreover, unlike flat rates, progressive rates can encourage donors to distribute their wealth among more heirs in order to avoid top marginal rates. As discussed, top marginal tax rates kick in at relatively low levels of transferred wealth in several countries with progressive rates. Where this is the case, applying higher tax rates to very high-value inheritances could improve the progressivity of inheritance and estate taxes. This requires finding a balance so that tax rate levels are not excessively high, as high tax rates strengthen the case for tax reliefs and may induce greater avoidance and evasion behaviours.

Progressive tax rate schedules may help avoid significant increases in marginal effective tax rates. If tax rates increase gradually with the value of the inheritance received, progressive rate schedules may avoid large increases in marginal tax rates. As flat inheritance and estate tax rates are typically high in OECD countries, they often result in high marginal tax rates above tax-free thresholds (Figure 3.11). For example, while Italy levies flat rates that vary between 4% and 8% (depending on the beneficiary), Denmark (depending on the beneficiary), Ireland, the United Kingdom and the United States all levy flat rates above 30%.

It is unclear whether progressive tax rates are more complex to administer. Progressive tax rates may be more complex to administer than flat rates, as taxpayers need to be attentive to multiple rates and thresholds. In addition, taxpayers may engage in greater avoidance behaviour to avoid higher marginal rates. Valuation may also be more contentious under progressive tax schedules, as small changes in value could push taxpayers into a higher marginal tax bracket. However, complexity generally stems more from tax base issues, as discussed later in the chapter, and countries did not report rates schedules to be a source of complexity or a factor in the decision to abolish inheritance or estate taxes.

3.7. Effective tax rates

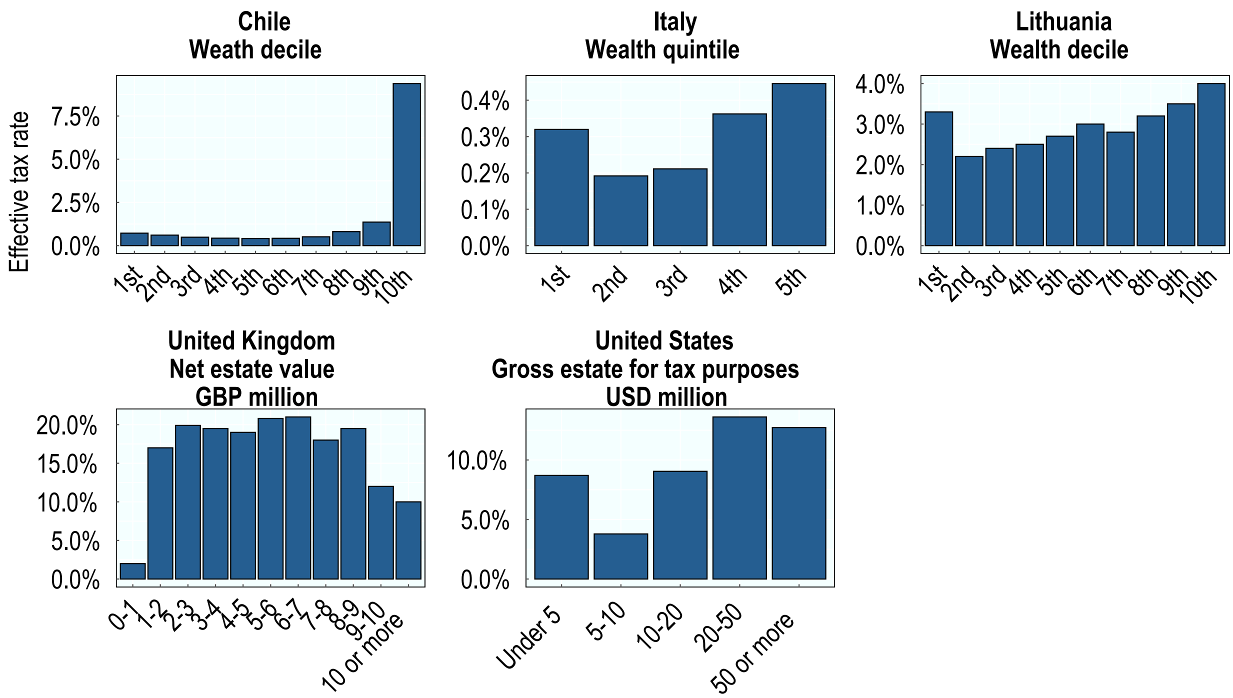
3.7.1. Effective tax rates are significantly lower than statutory tax rates and in some cases decline for the largest estates

Effective tax rates (ETRs) are significantly lower than statutory tax rates and decline for the largest estates in some countries (Figure 3.14). Backward-looking effective tax rates illustrate the combined effect of tax design measures – including rates, exemptions, and the special treatment for certain assets – on taxpayers' effective tax burdens.[15] Figure 3.14 shows ETRs for five countries for which data were available. Care should be taken when comparing between countries, as these indicators were provided by participating countries and partly reflect differences in methodology. Several broad insights arise from these indicators. The tax burden tends to be lower at the bottom end of the wealth distribution and higher at the upper end of the distribution. However, in some countries, for donors in the lowest wealth grouping, the ETR is higher than the ETR for donors in the lower middle or middle of the wealth distribution. This may in part reflect the fact that poorer households tend to hold assets that do not benefit from special treatment. The figures also show that the tax rates faced by the wealthiest donors exhibit different patterns across countries. In Chile, the ETR at the top of the wealth distribution is far above even the ETR of the ninth wealth decile. In contrast, the ETRs of the wealthiest donors in the United Kingdom and the United States are below those of other wealthy donors. For example, the ETR on an estate owning GBP 8-9 million was twice as high as the ETR for estates owning GBP 10 million or more (19.5% versus 10.0%).

This is in part due to a greater share of their estate being covered by a tax relief such as agricultural or business property relief (Office of Tax Simplification, 2018[7]).

Figure 3.14. Effective tax rates across wealth groups or estate values, select countries

2019 or most recent year



Note: United States: data are based on 2018 federal estate tax returns, which in most cases were filed for deaths occurring in 2017, as tax returned are submitted the year after the donor's death. In 2017, the filing threshold was USD 5.49 million of gross estate and from 2018, the filing threshold was USD 11.18 million.
Source: OECD Questionnaire on Inheritance, Estate, and Gift Taxes. Data for Italy are published in (Acciari and Morelli, 2020[8]).

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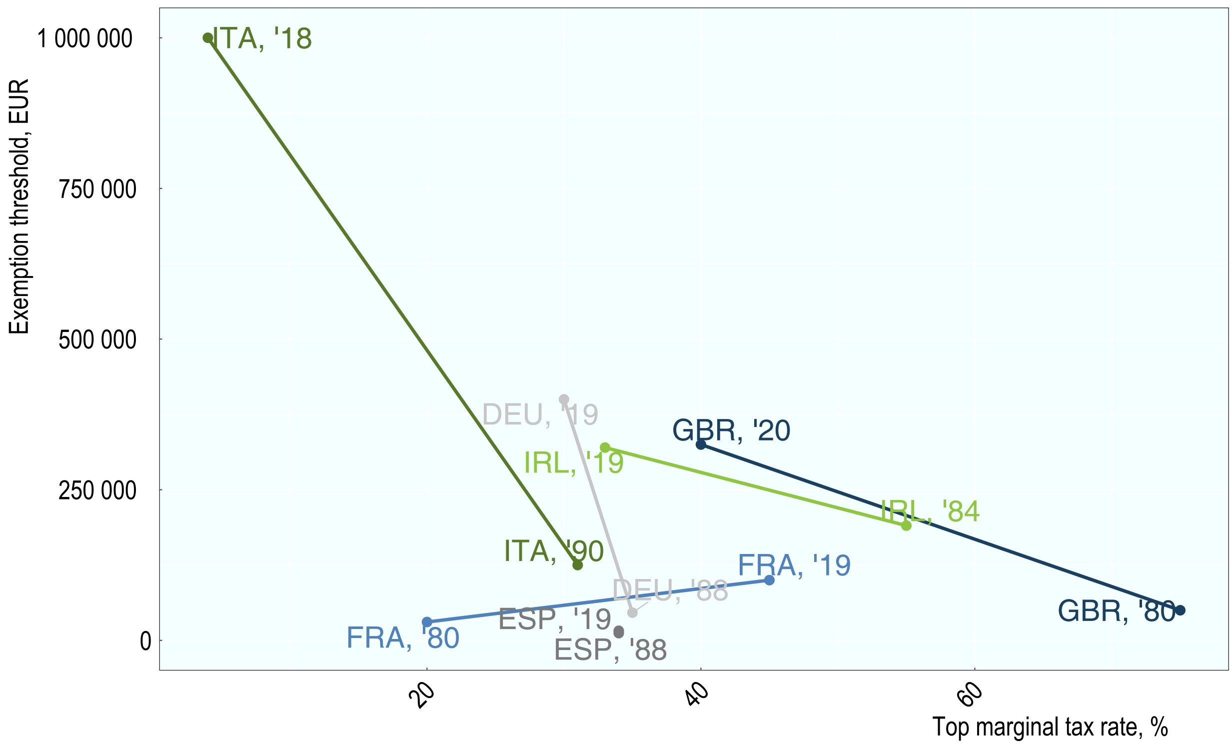
Reforms to inheritance and estate taxes in recent decades suggest that ETRs may have declined over time, but further research is needed to explore long-term trends. Figure 3.15 shows the exemption threshold and the top marginal tax rate for children in six countries in two periods: 1980 and 2020 (or closest available year) (data drawn from (Nolan et al., 2020[2]) Four of the six countries shown in Figure 3.15 lowered their top marginal tax rates and increased their tax exemption thresholds over the last 30-40 years (Germany, Ireland, Italy, and the United Kingdom). Unlike other countries, France increased both the exemption threshold and the top marginal tax rate, while there was little change in Spain over the period. However, there have been many changes at the regional level in Spain, as regional governments have substantial autonomy over inheritance tax design. Information provided by countries in response to the questionnaire also confirms the trend in recent years to raise tax exemption thresholds. For example, in 2007, Poland introduced full exemptions for immediate family members and in 2018, the United States doubled the estate tax exemption threshold. These trends are suggestive of a decline in ETRs on wealth transfers over time. This may explain in part why inheritance, estate, and gift tax revenues have largely remained stable despite increases in the volume of wealth transfers in some countries (see Section 1.5). However, ETRs may not have declined if other measures were taken to compensate for the changes, including base broadening measures. Further research would be needed to understand how ETRs have evolved over time.

Figure 3.15. Changes in top marginal tax rates and tax exemption thresholds, donor's children, 1980-2020, select countries

Earliest year to latest year of data availability



Source: OECD Revenue Statistics (2020), Nolan, B., J. Palomino, P. Van Kerm and S. Morelli (2020), 'The Wealth of Families: The Intergenerational Transmission of Wealth in Britain in Comparative Perspective', Nuffield Foundation, Oxford.

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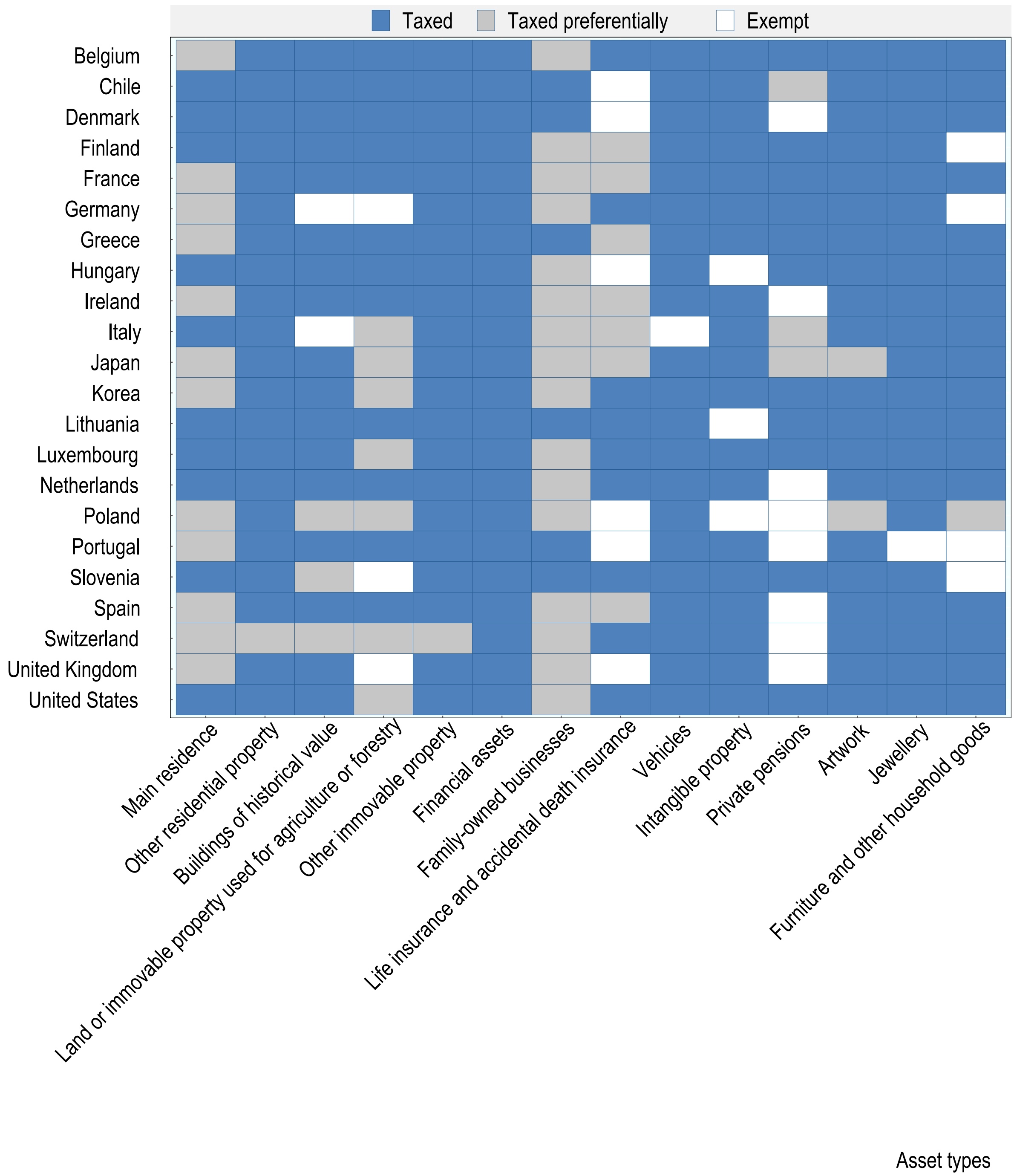
3.8. Tax treatment of specific assets

3.8.1. A number of assets benefit from preferential tax treatment

Some asset classes benefit from exemptions or tax treatment that is more preferential than standard treatment under inheritance or estate taxes. Figure 3.16 sets out whether countries include asset classes in the tax base and whether preferential taxation is conditionally available for some heirs. In all countries, financial assets such as bank deposits, equities, and bonds are included in the inheritance or estate tax base and are subject to standard tax treatment. Standard tax treatment also applies in most countries to vehicles (all countries except Italy), jewellery (all countries except Portugal), and some types of residential property (all countries except Switzerland). Some assets benefit from preferential treatment in several countries, including family-owned businesses (16 countries) and main residences (12 countries). Full exemptions apply most commonly to private pensions (eight countries) and life or accidental death insurance (six countries). Land or immovable property used for agriculture or forestry is exempt or taxed preferentially in ten countries. Of the 14 asset classes in Figure 3.16, tax-exempt assets are most numerous in Portugal (four asset classes) and in Germany, Poland, and the United Kingdom (three asset classes each). Preferentially taxed assets are most numerous in Japan, Poland, and Switzerland (six asset classes each). In contrast, the broadest tax bases are found in Lithuania (13 asset classes are taxed) and in Belgium, Chile, Denmark, Greece, Luxembourg, the Netherlands, and the United States (12 asset classes).

Figure 3.16. Tax base for estate and inheritance 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 includes conditional exemptions, and 'Exempt' means assets are not included in the tax base.
Source: OECD Wealth Distribution Database, oe.cd/wealth.

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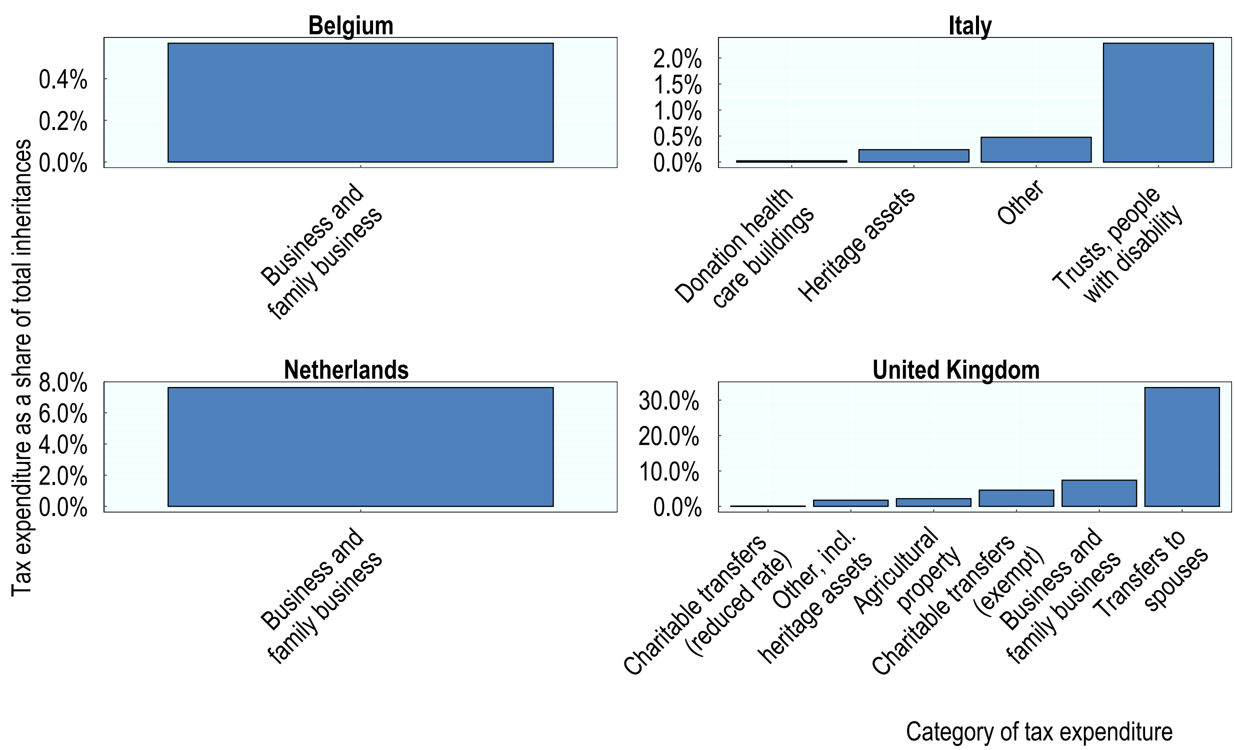
While preferential tax treatment for some asset classes may be justified for equity or efficiency reasons, as discussed below, they substantially narrow the tax base and reduce potential revenues. Figure 3.17 illustrates the fiscal cost of certain tax reliefs in select countries, according to data availability. Care should be taken when comparing between countries, as these indicators were provided by participating countries and partially reflect differences in methodology and benchmark for what constitutes a tax expenditure. Tax reliefs do not substantially erode revenues in Belgium and Italy, though for Italy this is because estimates exclude major categories of tax relief. In the Netherlands, tax relief for family businesses has a moderate base narrowing effect and in the United Kingdom close to half of taxable inheritances benefit from preferential treatment.

Figure 3.17. Tax revenue foregone as a share of total inheritance transfers, select countries

2019 or latest available year



Note: Belgium: refers to the Brussels-Capital Region. Italy: no revenue foregone estimations are available for important exemptions (considered as part of the benchmark), such as the exemption for assets such as family businesses and control shares (if the business is carried on by the heirs), national and extra national government bonds, private pensions and life insurance plans, cars and other registered vehicles. For certain items, foregone revenue also refers to other taxes like stamp duties, registration tax or cadastral tax. United Kingdom: the denominator is the total value of inheritance transfers for estates above the nil-rate band.
Source: OECD Questionnaire on Inheritance, Estate, and Gift Taxes, 2020.

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3.8.2. Donors' main residence may benefit from special tax treatment

The main residence benefits from preferential treatment in twelve countries, but most apply conditions (Table 3.6). The main residence is fully or partially exempt in 11 countries and is valued at below-market values in one country. Two countries also apply lower than standard rates to housing; in

Belgium this is for specified heirs other than the spouse and in Portugal this is above the partial exemption. Most countries apply conditions, which include requiring the beneficiary to have lived with the donor prior to, at the time of, or following the donor's death. A minority of countries require that beneficiaries did not own other housing. Exemptions are only available for close family in most countries. Some countries relax conditions for beneficiaries aged over 65; Spain does not require older beneficiaries to be close relatives and Ireland does not require older beneficiaries to remain in the house following the donor's death. The value of preferential treatment for the main residence is uncapped in nine countries and is capped by size or by value in three countries. Countries may implicitly apply preferential tax treatment to housing if valuation methods generate below-market value estimates. This is discussed in section 3.10.

Table 3.6. Conditions for preferential treatment of the main residence

Countries	Preferential treatment	Beneficiary lives in the house before / after donor's death	Not own other housing	Beneficiaries
Belgium	Exempt	At time of death	..	Spouse
	Lower tax rates	..	..	Co-owners that are lineal heirs or cohabitants
France	Partial exemption (20%)	At time of death		Spouse, children
Germany	Full exemption	10 years after		Spouse, children
Greece	Additional tax-free threshold	..	Yes	Spouse, children
Ireland	Full exemption	3 years before & 6 years after	Yes	All beneficiaries
Japan	Partial exemption (80%)	..	..	All beneficiaries
Korea	Full exemption, capped at KRW 600 million	10 years before	Yes	Children, lineal descendants
Poland[1]	Full exemption, capped at 110 m^2	5 years after	Yes	Extended family, carers[2]
Portugal	Partial exemption, then lower tax rates	..	..	All beneficiaries
Spain	Partial exemption (95%), capped at EUR 122 606	10 years after	..	Spouse, ascendants, descendants
Switzerland	Valued slightly below market value	..	..	All beneficiaries
United Kingdom	Partial exemption	..	..	Lineal descendants

1. Refers to all residential property, not just the donor's main residence.
2. Non-related persons who have taken care of the donor for at least two years, where a written and signed agreement has been attested by a notary, receive an exemption on inherited residential property.
Source: OECD Questionnaire on Inheritance, Estate, and Gift Taxes, 2020

Special treatment for beneficiaries that continue to live in the main residence may reduce distortions and hardship but could create lock-in effects. Beneficiaries may face liquidity problems when the main residence is subject to inheritance or estate taxes and may be forced to sell the residence if they have not inherited other assets that they could use to pay the tax. Forced sale could result in hardship, as housing provides an essential service to households, and may require heirs to incur other costs, such as transaction taxes to purchase another residence. However, lock-in effects may arise where the favourable treatment is conditional on continuing to live in the residence. This creates problems when heirs could relocate to access family support, more appropriate housing or better labour market opportunities.

Countries may consider alternate preferential treatment for the main residence, which may address liquidity issues while reducing tax avoidance. Wealth held in housing is illiquid, raising the possibility that it would need to be sold to pay inheritance or estate taxes. Wealth held in real estate is more equally distributed among the population than other assets (Chapter 1), so levying inheritance and estate taxes on the main residence may be less effective for breaking up wealth concentrations. Favourable treatment of the main residence may create avoidance opportunities, where households maximise the wealth they hold in the main residence or, depending on the rules regarding debt deductibility, borrow against assets that are subject to inheritance and estate taxes in order to invest in the tax-exempt main residence. Countries may reduce avoidance by capping the value of preferential treatment for the main residence and restricting the deductibility of debt for tax-exempt assets. As an alternative, countries may consider applying a standard deferral period for tax on the main residence, followed by payment of inheritance or estate taxes by instalments over a number of years. This would minimise avoidance opportunities, while addressing liquidity issues and allowing taxpayers the flexibility to sell the residence if they need to relocate.

3.8.3. Family businesses benefit from generous concessions

Most countries apply preferential treatment to business assets to support family business successions and allow businesses to survive after the death of their founders (Table 3.7). The preferential tax treatment of business assets may include exemptions or reductions in the taxable value of transferred assets, as well as special valuation rules and lower tax rates. As discussed below, countries may apply conditions, including to ownership share, the location of business assets within the country or economic zone, or the continuation of the business by heirs. Countries may explicitly target preferential treatment of business assets to family businesses or implicitly target family businesses through, for example, requirements for the heirs to continue management of the business. Countries may instead apply special treatment to a broad range of businesses, including all small and medium enterprises (SMEs).

Full or partial exemption of business assets are the most common type of preferential treatment, while lower tax rates, preferential valuation rules and deferrals may also apply (Table 3.7). In the ten countries that provide an exemption for business assets, these may be fully exempt in five countries and partially exempt in seven. One country (Germany) allows businesses to choose between a full or partial exemption, with more conditions applying to businesses claiming a full exemption. One country (the Netherlands) provides an additional tax-free threshold for business assets, in addition to a partial exemption. Businesses in several countries are valued at below-market levels for tax purposes and in one country (Belgium) are taxed at lower rates. A few countries may grant extensions for the tax payment or the option to pay by instalments, and interest may or may not apply. One country (Germany) allows heirs receiving privileged business assets apply for tax abatement if they are not capable of paying the inheritance and gift tax. Tax relief for businesses is typically uncapped.

To be eligible for preferential treatment, countries typically set a range of conditions, including a minimum duration and share of ownership of the business (Table 3.7). In order to ensure that preferential treatment of businesses genuinely supports business continuity, some countries require donors to have owned the business for a minimum period and/or to have owned a minimum share of the business. As with other assets, close family members may benefit from the most favourable treatment.

Heirs may be required to maintain ownership for a specified time (Table 3.7). Following the donor’s death, beneficiaries are required to maintain ownership of the business or shares in the business for a defined number of years. Some countries apply further conditions on beneficiaries to receive preferential treatment. In addition to maintaining ownership, businesses must also maintain a share of the wage bill, the number of employees, and/or the assets invested in the company. Several countries require beneficiaries to run the business, which may constitute carrying out paid work and/or being a member of the managerial team.

Some countries require the business or management to be located in the country or, for European countries, in the European Economic Area (Table 3.7). Businesses must be located or headquartered in the country or – in some European countries – located or headquartered in the European Union or the European Economic Area.

Certain types of businesses are excluded from preferential treatment and some countries restrict eligibility for preferential treatment to Small and Medium Enterprises (SMEs) (Table 3.7). Only small businesses or SMEs are eligible for preferential treatment in a few countries, while one country (United Kingdom) applies different treatment to unlisted companies than to listed companies. Businesses must carry out approved activities, including real economic activity, to qualify for preferential treatment in most countries with preferential treatment of business assets.

Some countries apply preferential treatment to agricultural and forestry property, in addition to preferential tax treatment for businesses. Preferential tax treatment for businesses explicitly excludes agriculture in Switzerland and forestry in Finland. However, privately-owned agricultural land and farms may be fully (Germany, Italy, Poland, and the United Kingdom[16]) or partially (France and Ireland) exempt from inheritance and estate taxes. In Luxembourg, agricultural land benefits from generous valuation rules and in Japan, tax deferrals are available for agricultural and forestry properties. Countries impose conditions on this tax treatment, restricting the exemption to professional farmers (Ireland), young farmers that are close relatives of the donor (Italy), or to farms of a specific size (Poland), and specifying minimum holding periods after inheriting the farm (Italy). Forestry is also exempt from inheritance and estate taxes when inherited by close relatives (Italy). In the United States, privately held land that is protected by a qualified conservation easement, which restricts the use of the land for reasons such as protecting wildlife and forestry, is partly exempt up to a cap.

Clawback provisions may apply where taxpayers do not respect the conditions, but most countries do not apply penalties. If certain conditions are not met, preferential treatment is reduced or withdrawn in Belgium, Finland, Germany, Ireland, Italy, Japan, Korea, the Netherlands, Poland, Spain, Switzerland, and the United States. Interest is charged on the tax in Italy and Spain. Italy and Finland are the only countries to apply penalties when the conditions for preferential treatment for businesses are not met.

Table 3.7. Non-exhaustive summary of inheritance or estate tax preferential treatment of business assets and applicable conditions

	Preferential treatment type		Conditions			
	Exemption or tax-free threshold	Other	Minimum time of ownership	Businesses types excluded	Heir involved in business	Other
Belgium		Reduced tax rates[1]	3 years (heir)	Investment		Local management; maintain capital; rate depends on beneficiary type
Finland		Preferential valuation (40% of tax value); 10-year interest-free deferral	5 years (heir)	Forestry, real estate	Management	Minimum ownership 10%
France	75%		4 years (heir)	All firms except industrial, commercial, craft, agricultural or liberal activity	Management	Signed commitment to conserve shares[2]
Germany	85% or 100%[3]	Abatement assets over EUR 26 million	5 to 7 years (heir)			Local management; maintain wage bill[4], minimum ownership 25%
Hungary	25% capped at HUF 2.5 million					Small business only

Ireland	90%		2 years (donor)[5] 6 years (heir)[6]	Finance, real estate, investments		Minimum ownership 25%[7]
Italy	100%		5 years (heir)			Specified heirs[8]
Japan		Payment deferral	5 years (heir)[9]	Asset holding or management	Management, receive salary, majority vote[10]	Local management; maintain employees; SMEs only
Korea	100%, capped at KRW 20 to 50 billion[11]	Taxable value capped at KRW 1.5 billion (agriculture)[12]	10 years (donor) 5 to 7 years (heir)[13]	Finance, insurance, real estate (excl. housing rental management)	Employed	Maintain 80% ownership; maintain employees and wage bill; resident taxpayers only; SMEs only
Luxembourg		Preferential valuation		Non-agriculture		
Netherlands	Partial exemption (83%) above additional tax-free threshold (EUR 1 million)		1 year (donor) 5 years (heir)	Investments		
Poland	100%		2 to 5 years (heir)[14]	All firms except unincorporated businesses and agricultural activity		Between 11 and 300 hectares for agricultural land
Spain	95%		10 years (heir)		Management, receive salary	Carry out economic activity; exempt from wealth tax; minimum ownership share 5% individually or 20% family
Switzerland		Preferential valuation, 80% reduction of tax liability	10 years (heir)	Agriculture	Management, self-employed	Local management, minimum ownership 51%
United Kingdom	50% or 100%	Pay by instalments over 10 years interest-free	2 years (donor)	Investments, real estate, securities		Exemption for listed company (50%) or for privately-held or unlisted company (100%)
United States		Preferential valuation, capped at USD1.18 million	5 years (donor) 10 years (heir)			Business is minimum share of donor's estate; specified heirs

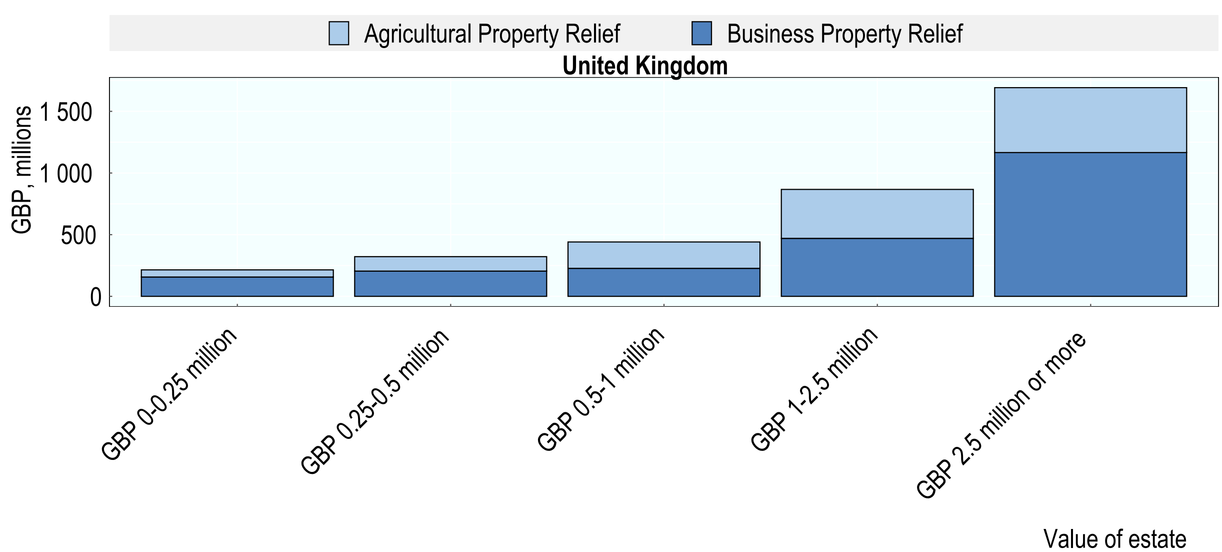
1. One set of preferential rates apply to the spouse and lineal descendants and another, higher set of preferential rates apply to other heirs.
2. A collective commitment to conservation has to be signed on at least 10% of the shares for a listed company and 17% of the shares for a non-listed company. One of the heirs or associates of the collective commitment to conservation is required to assume management of the firm for at least three years.
3. Taxpayers may choose between the two exemptions. Heir should maintain the business for 5 years for 85% exemption and for 7 years for the 100% exemption. If the heir chooses the 85% exemption and the remaining tax base does not exceed EUR 150 000, it is also tax exempt. This tax-exempt amount is reduced by half of the amount that exceeds it. That is, starting with an asset value of EUR 450 000 the exemption is reduced to zero.
4. The share of the wage bill to maintain depends on the number of employees and whether the heirs opt for the 85% or 100% exemption.
5. This condition may be partially met if the property was owned by either the spouse or civil partner or a trustee.
6. If the property is sold within six years and replaced within one year, relief may not be withdrawn.
7. This applies to unquoted shares only and may be reduced to 10% if the heir has worked for the company full-time for 5 years preceding the inheritance.
8. Spouse and direct descendants.
9. After 5 years, heirs must continue holding the shares and receiving an income.
10. Heirs and related persons in the family must take the majority of the voting rights of the company and the heir must have the largest number of voting rights among the family.

11. The tax exemption depends on the time the donor has operated the business; KRW 20 billion for 10-20 years, KRW 30 billion for 20-30 years, and KRW 50 billion for 30+ years.
12. Agriculture businesses may either benefit from exemption or capped value. Only the ongoing ownership (5 years) condition applies to agricultural businesses.
13. Heirs must maintain agricultural activities for 5 years or other business activities for 7 years.
14. Heirs must maintain business activities for 2 years or agricultural activities for 5 years.
Note: Countries may apply different treatment to different taxpayers depending on their characteristics. As such, not all preferential treatment will apply to all business assets; similarly, not all conditions will apply to all taxpayers.
Source: OECD Questionnaire on Inheritance, Estate, and Gift Taxes 2020

While providing some relief for business assets may be justified, such provisions pose a number of issues. In addition to reducing revenue, concessionary treatment for businesses may be regressive, as ownership of business assets is concentrated among the wealthiest households. Recent studies in Germany and the United Kingdom show that relief for business and agricultural assets predominantly benefit the wealthiest households, significantly reducing the effective tax burden on some of the largest estates (Office of Tax Simplification, 2018[7]; Dao, 2019[9]). Figure 3.18 shows that in the United Kingdom the amount of revenue forgone from business asset relief can be substantial and that the majority of the benefit accrues to the wealthiest estates. Without adequate eligibility requirements, preferential treatment for business assets may also create significant avoidance opportunities, where taxpayers may use business structures to obtain preferential treatment. Finally, the macroeconomic benefit of relief for family-business assets is unclear. Liquidity risks tend to be confined to a small number of businesses, and evidence shows that heirs who inherit a business tend to perform less well than their parents (see Chapter 2).

Figure 3.18. Value of preferential tax treatment in the United Kingdom

2019 or latest available year



Source: OECD Questionnaire on Inheritance, Estate, and Gift Taxes

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Overall, exemptions or reliefs for business assets should be carefully designed and alternative policy options could be considered. At a minimum, if exemptions or reliefs are provided for business assets, there should be strict eligibility requirements (e.g. minimum ownership, real economic activity requirements) and relief clawback if conditions are not met. Countries could also consider restricting eligibility to businesses below a certain size, capping the amount of available relief (e.g. capping the value of business assets that can benefit from inheritance or estate tax relief) or introducing some form of means-testing (e.g. based on profitability). There may also be cases where alternative reforms could be considered. For instance, a low rate inheritance tax allowing tax payments in instalments (e.g. over ten years) would significantly reduce the need to exempt or provide significant relief for business assets. For agricultural property, reliefs should also be conditional to ensure that agricultural land does not become an attractive investment for tax purposes, potentially raising the cost of agricultural land for farmers.

3.8.4. Private pension savings can pass tax-free to beneficiaries in some countries

Private pension savings are typically an optional pillar of pension systems in OECD countries and may benefit from preferential inheritance or estate tax treatment. Unlike occupational pensions and universal minimum pensions, which typically provide income to the donor or their spouse only, private pension savings are owned by or held in trust for the taxpayers, who can bequest the balance of their individual account upon death. Several countries exclude private pensions from their inheritance and estate taxes.

Private pensions benefit from preferential inheritance and estate tax treatment in around one third of countries. In nine countries, private pensions are fully exempt (Ireland, Italy, the Netherlands, Poland, Portugal, Switzerland, and the United Kingdom) or benefit from an additional tax-free threshold (Chile and Japan). In Spain and Denmark, private pension savings are subject to personal income tax but exempt from inheritance taxes. In the Netherlands, inherited pension wealth is not taxed but counts towards the spouse's tax-free thresholds. Preferential treatment typically applies to all beneficiaries, but in Italy, only applies when the pension savings are inherited by the donor's nominated beneficiary. In the United Kingdom, private pensions are subject to estate taxes if the pension reverts to the donor's estate but are exempt if the pension fund trustees retain discretion as to who to pay the pension or death benefits to (the donor may indicate their wishes but this is not binding).

Favourable tax treatment for the accumulation and transfer of private pensions may lead to very low taxation of pension wealth, but such treatment may be justified for the spouse. As private pension savings are taxed at lower rates than other asset types (OECD, 2018[10]), exempting them from inheritance and estate taxes may allow donors to build wealth and pass it to beneficiaries while incurring minimal tax liabilities. While this may create tax planning opportunities when all beneficiaries receive such favourable treatment, the risk may be lower where the exemption only applies to the donor's spouse. Preferential treatment for the donor's spouse may prevent inheritance and estate taxes from influencing decisions about lifecycle savings, as partners may plan for retirement together and organise time in formal employment around the expectation of a shared retirement. On the other hand, exemptions for beneficiaries other than the spouse may not be necessary to encourage retirement savings.

3.8.5. Life insurance and accidental death insurance may act as additional savings vehicles not subject to inheritance and estate taxes

A minority of countries provide concessionary treatment for payments received from life insurance and accidental death insurance. Life insurance and accidental death insurance pay a sum of money to beneficiaries when the policyholder passes away. Some forms of life insurance also have an investment component, allowing policyholders to increase the savings that they can access themselves or pass to heirs. The majority of countries include life and accidental death insurance in the inheritance or estate tax base, but insurance benefits are fully exempt in Chile, Greece, Hungary, Ireland, Italy, and Poland,[17] Portugal, Spain, and the United Kingdom and benefit from an additional tax-free threshold in Japan. In France, instead of being subject to inheritance taxes, life insurance benefits are taxed under a separate and more generous tax with higher exemption thresholds and lower marginal rates (depending on the age at which contributions were made and the date the account was opened). The exemption is capped in Spain. Countries may apply conditions, including that the beneficiary be a close relative or direct descendant of the donor (Italy and Spain), that beneficiaries be nominated by the donor in the life insurance contract (Greece and Italy), that the insurance be intended to pay the tax liability (Ireland; minimum holding period applies), or that insurance be held through a trust (the United Kingdom; a relatively simple opt-in process offered by insurers). In Denmark and Finland, beneficiaries are liable under personal income tax for insurance benefits received, but are exempt from inheritance taxes.

Exempting life insurance pay-outs creates tax planning opportunities. Preferential treatment for life and accidental death insurance policies, particularly where policies serve as “wrapper products” that contain the same savings products as those that individuals can hold directly, create opportunities to minimise inheritance and estate tax liabilities. This allows donors to ensure a tax-exempt or tax-favoured payment is made to family members who would otherwise face a higher tax liability.

3.8.6. Charitable giving is almost always exempt from inheritance and estate taxes

Across the OECD, bequests to institutions that act in the public good are typically tax exempt. In most countries, transfers to certified organisations that undertake educational, scientific, religious, or other charitable activities are exempt from inheritance and estate taxes (Chile, Denmark, Finland, France, Germany, Hungary, Ireland, Italy, Japan, Korea, Lithuania, the Netherlands, Portugal, Slovenia, Spain, Switzerland, the United Kingdom, and the United States). Organisations that pursue other activities may be taxed as corporations or as other beneficiaries; for example, associations in France that do not fulfil the criteria for a full exemption may receive the same tax treatment that is provided for inheritances between the donor’s siblings or (if they fulfil none of the criteria) are subject to a flat 60% rate. Some countries instead tax charitable bequests at a lower rate than transfers to natural persons (Belgium), allowing taxpayers to reduce but not eliminate the inheritance tax liability by donating to philanthropic organisations. In some countries, transfers to governments are also tax-free.

Belgium and the United Kingdom offer additional special treatment for wealth passed to non-charity beneficiaries where donors make donations of a particular type or size. Taxpayers in Belgium may leave a “legs en duo”, where the donor leaves their wealth to a charitable institution (taxed at low rates) which then pays a sum to the donor’s heir, remits the total inheritance tax due, and keeps the remainder.[18] This is a particularly attractive strategy if the donor wishes to leave their wealth to an heir that is taxed at high rates. The United Kingdom, in addition to exempting charitable bequests from inheritance taxation, reduces the inheritance tax rate on the donor’s remaining wealth from 40% to 36% if 10% or more of their estate is donated.

Empirical evidence suggests that exemptions for charitable donations increase giving, but care should be taken to minimise avoidance opportunities and revenue losses. Wealth given to charitable institutions reduces the wealth that passes to heirs and may thereby reduce wealth concentration. While tax reductions for charitable giving present a cost for government budgets, charitable activities are expected to benefit the public through their educational, social, and scientific works. Where philanthropic entities are required to obtain certification in order to benefit from the tax exemption, the risks for abuse of such exemptions are reduced. However, there might be cases where special structures with some charitable or philanthropic component may be set up primarily to minimise the inheritance or estate tax burdens faced by non-charity heirs. This may require stricter eligibility rules in order to benefit from exemptions or relief for charitable giving or in some cases revisions in valuation rules (see Section 3.10).

3.8.7. Favourable tax treatment applies to items of historical or cultural value in some countries, on the condition of being accessible to the broader public

Buildings or objects such as manuscripts, artworks, or scientific collections that are part of the national or regional heritage are granted preferential treatment in a minority of countries. A partial exemption applies in Spain and a full exemption applies in Germany, Ireland, France, Poland, Slovenia, Switzerland, and the United Kingdom. Conditions may apply to ensure that the broader society can benefit from the preservation of these buildings and objects and to prevent that such exemptions allow families to pass down wealth in the form of historical and cultural artefacts. The exemptions are conditional on the objects or buildings being accessible to the public (France, Ireland, Slovenia, and the United Kingdom), used for the exercise of cultural activities (Slovenia), registered and maintained in line with government regulations (Poland), or held by the State (Ireland). Tax relief may be clawed back where these conditions are not met.

Conditional tax relief can help pursue cultural objectives and preserve historical heritage for the benefit of society. Exemptions for objects and buildings of historic or cultural value may allow households to preserve the heritage of their country or region across generations, but requiring that they be accessible to the public and monitoring this access is key to fulfilling this goal and limiting avoidance opportunities.

3.9. Tax filing and payment

3.9.1. Tax filing and payment procedures vary, but many countries allow tax payment in instalments and conditional tax deferrals

Taxpayers are typically required to file declarations with the tax authority (Table 3.8). Among the documents required, countries may request an inventory of the donor's assets, an inheritance or estate tax return, a declaration of acceptance or refusal of the inheritance by beneficiaries, and a declaration of transfer of assets to beneficiaries. These requirements may depend on whether the country operates a system of universal succession, where the full estate passes immediately to heirs upon the donor's death, or a system of probate, where the executor (the donor's appointed legal representative) applies for probate in order to recognise the validity of the will and proceed to settle the donor's estate.

Table 3.8. Taxpayer declarations to submit during a succession

Documents	Countries
Inventory of the donor's assets	Belgium, Chile, Denmark, Finland, France, Hungary, Ireland, Italy, Japan, Korea, Luxembourg, Portugal, Spain, Switzerland, United States
Inheritance or estate tax return	Belgium, Denmark, Spain, Finland, Greece, Ireland, Italy, Japan, Korea, Luxembourg, Netherlands, Poland, Portugal, United Kingdom, United States
Declaration of acceptance or refusal of the inheritance	Belgium, Denmark, France[1], Greece, Ireland, Italy, Korea, Lithuania, Poland, Spain, Switzerland
Declaration of transfer of assets to beneficiaries	Denmark, France, Italy, Korea, Spain, Switzerland, United States

1. The declaration of acceptance of the succession may be implicit, expressed by taking actions that reveal the intention to accept the succession.
Source: OECD Questionnaire on Inheritance, Estate, and Gift Taxes.

The deadline for paying inheritance and estate taxes ranges from a few months to several years, but some countries require heirs to pay the tax before receiving the assets. Countries require beneficiaries or estates to pay the required tax within a specified time following the donor's death (6 to 48 months) or shortly after receiving the tax assessment (up to two months). In countries that apply universal succession, heirs are collectively responsible for paying taxes and debts, while responsibility falls to the executor in countries that operate a system of probate. Some countries do not allow heirs to receive ownership of inherited assets until they have paid inheritance or estate taxes (e.g. the United Kingdom). While this may reduce non-payment or late payment, it may also create significant difficulties for taxpayers who do not have immediate access to the liquidity necessary to pay the tax. Where inheritance and estate taxes are not paid on time, most countries apply a penalty. This can range from as little as EUR 25 per month late in Belgium to a maximum of 200% of the tax owed in Portugal.

Around half of the countries require inheritance or estate taxes be paid in a lump sum, while the remainder allow taxpayers to pay in instalments. Unless the assets benefit from extensions or instalment plans, as outlined in Section 3.8, inheritance and estate taxes must be paid in a single payment in Chile, Denmark, Hungary, Ireland, Japan, Lithuania, Luxembourg, Poland, and the United Kingdom. Thirteen countries instead allow the taxes to be paid in instalments (Belgium, Finland, France, Germany, Greece, Italy, Korea, Netherlands, Portugal, Slovenia, Spain, Switzerland, and the United States); in some cases without conditions (Finland, Greece, Korea, Netherlands, Slovenia, and Spain). Countries may instead require that taxpayers do not have other tax liabilities or other repayment plans (Belgium), that they undergo an income and expenditure review (Belgium, if other criteria are not fulfilled), or that they agree to a repayment plan (Switzerland). Two countries allow payment in instalments only where the taxpayer is inheriting a family-owned business (Germany and the United States). France requires taxpayers to offer a guarantee and Italy requires taxpayers to pay a portion of the tax by the original due date, in order to benefit from payment by instalments. Interest on payment by instalment applies in Italy, the Netherlands, Spain, and the United States.

Most countries allow conditional inheritance or estate tax payment deferral. Countries may allow taxpayers to apply for a deferral of the tax payment under certain conditions, such as proving that paying the tax would cause financial distress or where it cannot be paid as a lump sum (Ireland, Japan, Slovenia, Switzerland, the United Kingdom, and the United States). Deferral may also be available upon application by the taxpayer and subject to the tax office's approval (Belgium, Finland, Korea, and Poland). Extensions may instead depend on the type of assets inherited, such as immovable property (Germany, Ireland, the Netherlands, and the United Kingdom), agricultural property (Ireland), and business assets (Denmark, France, Germany, Ireland, the Netherlands, and the United Kingdom), and be limited to the share of the tax that is due on these assets. Deferral may be conditional on not disposing of the asset (the Netherlands and the United Kingdom), on having no outstanding tax liabilities (the Netherlands) or on offering a guarantee (France). The tax authority may impose additional criteria on taxpayers requesting an extension, such as an income and expenditure review (Belgium), and extensions may only be available for tax liabilities that exceed a threshold (Japan and Korea). Interest charges typically apply when taxpayers are granted longer extensions (Belgium, Finland, Ireland, Japan, the Netherlands, Poland, Slovenia, United Kingdom, and the United States).

3.9.2. Flexible payment options and taxpayer-friendly administration can improve compliance and efficiency

Allowing payment in instalments and payment deferrals where demonstrably necessary may help ease liquidity issues. Flexible payment options, including payment in instalments and extensions of the payment deadline can help taxpayers fulfil their tax obligations while avoiding hardship or inefficient forced asset sales. Countries may wish to offer a range of flexible options, including short extensions or payment plans on request – requiring minimal assessment by the tax administration – and extensions or longer extensions for larger tax liabilities – where the tax administration may need to review requests.

Digitalisation, third party reporting, and information exchange between government agencies represent significant opportunities to enhance tax compliance and administration. Exchanging information between government agencies, cooperating with foreign tax administrations on cross-border inheritances, and third-party reporting (e.g. from banks) could allow tax administrations to partially pre-fill tax returns, and to form a more complete picture of taxpayers' assets and wealth transfers. Digitalisation also presents an opportunity for tax administrations to facilitate tax compliance and ensure that reporting is efficient and taxpayer-friendly. Digitalisation may also allow tax authorities to strengthen reporting requirements, particularly for low-value transfers that are not taxable and not currently reported. For example, countries could introduce reporting obligations for transfers above a certain low-value threshold, even if these are not subject to tax, and make such reporting simple and available online. In addition to strengthening tax authorities' efforts to monitor tax compliance and detect high-risk taxpayers, additional and higher quality data on wealth transfers and wealth transfer tax payments could strengthen countries' capacities to measure wealth inequality, and to assess the distributional impacts of inheritance, estate, and gift taxes and potential reforms.

Tax administrations could allow donors to pre-lodge inheritance tax returns, to strengthen the culture of compliance and reduce the administrative burden on their family. Donors could elect to pre-lodge inheritance tax returns, which would be updated by executors or heirs upon the donor's death. Allowing donors to choose to pre-lodge would bring tax compliance into the scope of their estate preparation. Pre-lodging could reduce the impact of the administrative process on the family and lower the overall administrative burden by allowing donors, who are familiar with the detail of their estate, to choose to pre-lodge.

3.10. Valuation methods

3.10.1. The most common valuation method is fair market value, but this may be complex to apply to some asset types

Across countries, fair market value (FMV) is the most common valuation method (Table 3.9). Most OECD countries specify which method should be used to value different assets, although taxpayers may be able to choose between valuation methods for some asset classes. The FMV approach measures the price a willing buyer would pay a willing seller in a transaction on the open market,[19] assuming neither is under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts. Listed equities are a notable exception to this rule, as they are usually valued according to the market price at the date of valuation (MP). Immovable property is typically valued according to the value established by the tax authority for the purposes of taxes (e.g. property taxes) other than inheritance or estate taxes (VTP). Rarer methods include the value established by a government authority for non-tax purposes (VNTP), sometimes used to value immovable property, and capitalised earnings or profits (CEP), sometimes used to value family-owned businesses. Hard-to-value goods, such as artwork and jewellery, and low-value consumer goods, such as furniture and other household goods, are typically valued at FMV or as a specified portion of the value of the estate or the residential property (PO).

There might be challenges associated with estimating fair market value for some assets, particularly for unlisted shares and closely held businesses. Fair market value can be determined based on different approaches: an income-based approach (i.e. the value of the business is equal to the present value of the net income expected to be generated), an asset-based approach (i.e. the valuation of the business is based on the fair market value of its total assets after deducting liabilities) and a market-based or comparability approach (i.e. the value is established based on sales of comparable businesses or business interests). It may be easier to use a market-based approach in the case of large private businesses, which have the advantage of centrally-registered stock transactions and are typically valued on secondary markets (Saez and Zucman, 2019[11]). For smaller private businesses, valuation may be significantly more difficult, particularly in the case of a start-up with large growth potential that does not yet generate significant income. Issues also arise with respect to valuing particular business assets, including intellectual property (Daly and Loutzenhiser, 2020[12]). This reveals that, even if asset valuation is typically undertaken by qualified appraisers, there may be some scope for discretion when it comes to determining asset values. Recent research in the United States points to the fact that the gaps between the wealth values reported for estate tax purposes and those estimated by Forbes are highest when portfolios mainly consist of assets for which valuation is difficult to observe or involves some subjectivity and when individuals hold relatively more debt (see Chapter 2 for a discussion of Raub, Johnson and Newcomb, 2010[120]). Issues may also arise with valuation discounts, which may apply to account for lack of control (i.e. when heirs inherit a minority stake in a business) or lack of marketability.

Asset valuations are also often viewed as difficult for artwork and high-value jewellery, although the issue may be overstated. For artwork or high-value jewellery, it has sometimes been recommended to use insurance values, on the basis that establishing market values for infrequently traded assets is difficult. Insurance values would be readily available and are independently verified by third parties, namely insurance firms (Daly and Loutzenhiser, 2020[12]). However, insurance values may be significantly higher than actual values, particularly where valuations take into account the costs associated with replacing the original item. As there is a fairly transparent market for artwork and high-value jewellery and information about auctions is widely reported, establishing appropriate market values may be less difficult than commonly assumed (Daly and Loutzenhiser, 2020[12]).

Table 3.9. Principal valuation method for selected asset classes

	Main residence	Other residential property	Buildings of historical value	Land and immovable property used for agriculture or forestry	Other immovable property, including commercial property and vacant land	Bank deposits in national currency	Bank deposits in foreign currency	Government or corporate bonds	Listed equities	Unlisted equities, excluding shared held in family-owned businesses	Family-owned businesses, including shares held in family-owned businesses	Artwork	Jewellery	Vehicles	Furniture and other household goods	Intangible property, including goodwill and patents
Belgium	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	BV	FMV	FMV	FMV	FMV	FMV
Chile	VTP	VTP	VTP	VTP	VTP	FMV	FMV	MP	MP	FMV	BV	FMV	FMV	VTP	PO	FMV
Denmark	FMV	FMV	NA	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV
Finland	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV
France	FMV	FMV	FMV	FMV	FMV	FMV	FMV	MP	MP	FMV	FMV	FMV	FMV	FMV	FMV	FMV
Germany	FMV	FMV	VA	CEP	VNTP	FMV	FMV	FMV	FMV	FMV	CEP	FMV	FMV	FMV	FMV	FMV
Greece	VTP	VTP	VTP	VTP	VTP	VA	VA	Oth	Oth	Oth	Oth	FMV	FMV	FMV	PO	FMV
Hungary	Oth	Oth	Oth	Oth	Oth	Oth	Oth	Oth	Oth	Oth	Oth	Oth	Oth	Oth	Oth	NA
Ireland	MP	MP	MP	MP	MP	VA	VA	MP	MP	MP	MP	MP	MP	MP	MP	MP
Italy	VTP	VTP	NA	FMV	VTP	MP	MP	VCA	MP	BV	BV	PO	PO	VCA	PO	FMV
Japan	FMV	FMV	FMV	Oth	Oth	MP	MP	Oth	MP	BV	BV	FMV	FMV	FMV	FMV	CEP
Korea	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	MP	FMV	FMV	FMV	FMV	FMV	FMV	FMV
Lithuania	FMV	FMV	FMV	FMV	FMV	Oth	VNTP	MP	MP	FMV	FMV	VTP	VTP	FMV	FMV	NA
Luxembourg	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV
Netherlands	VTP	VTP	VTP	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV
Poland	FMV	FMV	FMV	FMV	FMV	Oth	Oth	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV
Portugal	VTP	VTP	VTP	VTP	VTP	MP	MP	MP	MP	FMV	FMV	FMV	NA	FMV	NA	FMV
Slovenia	FMV	FMV	FMV	NA	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV
Spain	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV
Switzerland	Oth	Oth	Oth	Oth	CEP	MP	MP	MP	MP	BV	BV	IV	VCA	VCA	NA	BV

United Kingdom	FMV	FMV	FMV	Oth	FMV	FMV	FMV	FMV	MP	FMV	FMV	FMV	FMV	FMV	FMV	VTP
United States	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV	FMV

Note: **BV**: Book value on the basis of tangible and intangible assets, annual sales, equity, employment etc.; **CEP**: Capitalised earnings or profits, on the basis of sales, earnings prospects, imputed income etc.; **FMV**: Fair market value; **IV**: Insured value; **MP**: Market price at the date of valuation or an average of prices over a specified time preceding the date of valuation; **Oth**: Other; **PO**: A specified portion of the value of the estate or a specified portion of the value of the residential property in the case of furniture and other household goods; **VA**: Value at acquisition or last market transaction; **VCA**: Value of comparative assets; **VNTP**: Value established by a government authority for non-tax purposes (e.g. exchange rate for foreign currencies); **VTP**: Value established by tax authority for purposes other than inheritance or estate taxes (e.g. recurrent taxes on immovable property, net wealth taxes etc.)
Source: OECD Questionnaire on Inheritance, Estate, and Gift Taxes

As cadastral values are typically below market values, using the VTP for residential property may result in substantial undervaluation. The VTP may draw on different tax estimates, such as transaction taxes (stamp duty), recurrent taxes on immovable property, and net wealth taxes. The base for these taxes may in turn draw on cadastral values, which are rarely updated in many OECD countries. As the VTP may underestimate the property value, this method could lead to implicit preferential treatment.

3.10.2. Accurate and consistent valuation is key to efficient and equitable inheritance and estate taxes

Taxable values should, as much as possible, be based on fair market value, and different approaches could be combined where such an approach to valuation is difficult. As discussed above, establishing FMV can be straightforward for many assets, but assets such as unlisted shares and closely held businesses pose particular challenges. In these cases, the type of business will be an important factor in determining the best approach to valuation. The comparability/market approach may be appropriate for large private businesses for which comparable listed companies exist. The book/asset approach may be more appropriate for small closely held or private businesses, although this will likely need to be combined with the income or market approach, as book values may understate the value of a business. Intangible assets are also challenging to value, given the lack of observable arm's length transactions of identical or substantially similar assets. Where the intangible asset is income producing or when it allows an asset to generate cash flow, income-based approaches may be the most appropriate. Transparent and consistent approaches to valuation are essential to ensure the fairness of inheritance or estate taxes.

Additional measures can be taken to address valuation issues. Allowing the tax authority to independently verify valuations can prevent taxpayers from artificially reducing their tax liability through undervaluation and there should be penalties associated with clear cases of undervaluation. Valuation discounts for family businesses due to minority holding or lack of marketability could also be carefully scrutinised.

3.11. The design of gift taxes

3.11.1. The design of gift taxes and their integration with inheritance and estate taxes varies widely across countries

Most countries that levy an inheritance or an estate tax also levy a gift tax. 23 of the 24 OECD countries that levy an estate or inheritance tax also levy a gift tax on inter vivos transfers. Latvia and Lithuania tax gifts through the personal income tax (Latvia taxes gifts only while Lithuania also levies an inheritance tax), and one country (Denmark) applies gift taxes to close relatives but applies income taxes to gifts to extended family and non-relatives.

However, the degree of alignment between gift taxes and inheritance or estate taxes varies (Table 3.10). Gift taxes and inheritance or estate taxes may be very similar in some countries, with identical rate structures and asset treatment, for example, while these operate as separate, but complementary, taxes in other countries. One aspect of the integration between gift taxes and inheritance and estate taxes is the tax exemption threshold. In a few countries, the inheritance tax exemption threshold is reduced by the value of gifts received during the donor's life (e.g. Chile, Italy, and Switzerland). Countries may instead have a small tax-free threshold for gifts renewed each year (e.g. Denmark, Lithuania, Slovenia, and the United States), or a larger thresholds renewed every few years (e.g. France and Germany). Another aspect of integration between gift taxes and inheritance or estate taxes is the tax base; for example, the United States applies gift taxes on a tax-exclusive basis, while applying estate taxes on a tax-inclusive basis.[20]

Gifts made shortly before the donor’s death are re-characterised as inheritances in several countries (Table 3.10). In Finland, France, Japan, Korea, and the Netherlands, gifts received before the donor’s death are included in the inheritance tax base, and any previously paid gift tax is deducted from the inheritance tax liability. In Belgium and Luxembourg, gifts are reinstated for the calculation of the inheritance tax unless gift taxes were paid at the time. Note that gift taxes are optional in Belgium for moveable and foreign immovable property, allowing donors to pay lower gift taxes or risk paying higher inheritance taxes if the donor dies within three years. In Ireland, gifts made before the donor’s death are characterised as inheritances, but this does not affect the final tax liability as all gifts and inheritances are taxed under the single lifetime wealth transfer tax. The United Kingdom exempts all gifts that are made more than seven years before the donor’s death, but adds gifts made within those seven years to the inheritance tax base. Gifts above the exemption threshold are taxed on a sliding scale, with older gifts taxed at lower rates than more recent gifts. In the United States, gifts over the annual tax-exempt threshold reduce the estate tax exemption that applies upon death.

Several countries provide a tax advantage where bare ownership and usufruct are separated for gift purposes, while others actively discourage this arrangement. Taxpayers may separate the full ownership of an asset into bare ownership (legal ownership of property without the right to use or derive income from it) and usufruct (the right to use or derive income from property). This strategy may be employed, for example, by parents who wish to give ownership of their main residence to their children, while retaining the right to live in the home until they die. There may be a significant tax advantage to such an arrangement, where gift taxes apply only to the bare ownership (that is, the value of the full ownership minus the value of the usufruct) and no further tax applies when the donor passes away and beneficiaries receive full ownership (Finland, France, Germany, Greece, Hungary, Italy, Luxembourg, Slovenia, Spain, and the United States). In contrast, Belgium, Denmark, and Switzerland tax the value of full ownership when bare ownership is gifted, to eliminate the tax advantage described above. Other approaches exist in a minority of countries. Ireland applies an annual charge on usufruct through its capital acquisition tax and the United Kingdom discourages gifts with reservation of benefit through anti-avoidance rules.

A minority of countries have special provisions for gifts to young people. As discussed in Chapter 1, the age at which people receive inheritances is increasing with the rise in life expectancy. To encourage wealth transmissions to people earlier in life, some countries may apply reliefs to gifts to younger generations, such as tapered relief for transmissions to recipients below a certain age. For example, the Netherlands allows parents to make a once-in-a-lifetime tax-free gift of around EUR 55 000 to children for their study and around EUR 100 000 to a young person aged 18 to 40 to purchase their own home. In Italy, transfers of agricultural land and farms to farmers under 40 years old are exempt if the heir is a descendant or ascendant up to the third degree of kinship.

A minority of countries tax in-kind gifts and some apply special exemptions to certain types of gifts. Rather than making direct transfers to beneficiaries, which may be subject to gift taxes, taxpayers can instead pay for expenses such as private education, health bills, and weddings. Five countries tax donations in kind like regular gifts (Greece, Lithuania, Slovenia, Spain, and Switzerland), while six countries also tax donations in kind but apply special exemptions in cases involving specified expenses, such as medical, education, weddings or maintenance costs (Finland, Ireland, Latvia, Netherlands, the United Kingdom, and the United States). Some conditions may apply to this exemption, including that the value of the gifts in kind be reasonable (Ireland and the Netherlands) and that the recipient be the donor’s child, a young person, or unable to maintain themselves due to disability (Ireland, the Netherlands, and the United States). In Finland, beneficiaries should not be able to use the funds for purposes other than education and maintenance and in Latvia, the exemption is conditional on retaining documentation of the nature of the expense. The United Kingdom does not tax gifts in kind, such as paying life insurance for a spouse, on the condition that these are regular gifts made from income.

Table 3.10. Gift tax exemption thresholds and threshold renewal

Country	Tax-free threshold for gifts		Renewal of tax-free thresholds	Gifts made before death are re-characterised as inheritances
	Children	Non-relatives		
Belgium	No exemption[1]	No exemption[1]	NA	3 years prior to death
Chile	USD 44 352	No exemption	Lifetime	No
Denmark	USD 10 257	Income tax[2]	Annual	No
Finland	USD 5 711	USD 5 711	3 years	3 years prior to death
France	USD 114 220	USD 1 821	15 years	1 year prior to death
Germany	USD 456 879	USD 22 844	10 years	No
Greece	USD 171 329	USD 6 853	Lifetime	No
Hungary	Exempt	USD 487	Every transaction separate	No
Ireland	USD 382 636	USD 18 561	Lifetime	2 years prior to death
Italy	USD 1 142 197	No exemption	Lifetime	No
Japan	USD 10 302	USD 10 302	Annual	3 years prior to death
Korea	USD 42 363	No exemption	10 years	10 years
Latvia[3]	Exempt	Income tax	Annual	No
Lithuania[3]	Exempt	USD 2 855	Annual	No
Luxembourg	No exemption	No exemption	NA	1 year prior to death
Netherlands	USD 6 299	USD 2 522	Annual	180 days prior to death
Poland	Exempt	USD 1 257	5 years	No
Portugal	Exempt	No exemption	Lifetime	No
Slovenia	Exempt	USD 5 711	Annual	No
Spain	USD 18 225	No exemption	3 years	No
Switzerland	Exempt		Lifetime	No
United Kingdom	Exempt[4]	Exempt[4]	NA	7 years prior to death
United States	USD 15 000	USD 15 000	Annual	Lifetime (amounts over annual threshold)

1. Taxpayers may opt to register the donation before a Belgian notary and pay gift taxes, which have no tax-free threshold but which are levied at lower rates than inheritance taxes. Registration is compulsory for domestic immovable property but is optional for moveable property and foreign immovable property.
2. Gifts between close relatives are subject to the gift tax (spouse, children, grandchildren, parents, grandparents, great-grandparents). Gifts to other recipient are subject to income tax (siblings, nieces, nephews, aunts, uncles, cousins and more distant relatives, parents-in-law, children-in-law, non-related parties).
3. Gifts are taxed under the personal income tax.
4. Gift is made more than seven years before the donor's death.
Note: Exemption thresholds are reported in USD 2020. This table assumes that beneficiaries are adults and do not have a disability.
Source: OECD Questionnaire on Inheritance, Estate, and Gift Taxes

Box 3.3. Illustrative simulations: impact of tax exemption thresholds on final tax liabilities

The stylised examples in Table 3.11 demonstrate the impact of tax design features, in particular of gift tax exemption thresholds, on the final tax liability. In each of the four scenarios, a donor transfers EUR 375 000 each to two beneficiaries, for a total transfer of EUR 750 000. In all scenarios, the transfers are taxed at 10% and the tax-free threshold is EUR 12 500. However, the frequency of the wealth transfers and the application of tax-free threshold varies for each case. In scenarios (1) and (2), the donor gifts EUR 25 000 to each beneficiary every year for 15 years. In scenario (1), both heirs benefit from the EUR 12 500 exemption every year and in scenario (2), both heirs benefit from the EUR 12 500 exemption once every five years. In scenarios (3) and (4), the donor bequeaths EUR 375 000 to each beneficiary upon the donor's death. In scenario (3), heirs are taxed on the wealth they receive and therefore both receive a EUR 12 500 exemption. In scenario (4), the estate is taxed and therefore the EUR 12 500 exemption applies only once.

The lowest tax liability arises in the scenario with annual gifts and annual tax exemption thresholds. These stylised examples lead to varying tax liabilities, with the lowest tax liability for gifts with annual exemptions (scenario 1), followed by scenarios with some renewal of tax-exempt thresholds for gifts (2) and tax-exempt thresholds for multiple heirs under an inheritance tax (3). Scenario 1 leads to the lowest effective tax rate of 5.0%, as half of the annual wealth transfer falls under the annual exemption threshold, while Scenario 4 leads to the highest effective tax rate of 9.8%, as the full estate is taxed and the tax-free threshold applies only once. This stylised example demonstrates how the level and frequency of gift tax exemption thresholds can have a significant impact on the tax liability.

Table 3.11. Stylised example of inheritance, estate, and gift taxation, with different tax design assumptions

	Gift tax with annual exemption (1)	Gift tax with 5-year exemption (2)	Inheritance tax levied on beneficiaries (3)	Estate tax levied on donor (4)
Total amount transferred	750 000	750 000	750 000	750 000
Number of beneficiaries, receiving equal shares	2 beneficiaries	2 beneficiaries	2 beneficiaries	2 beneficiaries
Amount transferred	50 000 annually	50 000 annually	750 000 at end of life	750 000 at end of life
Number of gifts or inheritances	15 gifts (one per year for 15 years)	15 gifts (one per year for 15 years)	1 inheritance (end of life)	1 inheritance (end of life)
Amount received by each beneficiary, per transfer	25 000 annually	25 000 annually	375 000 at end of life	375 000 at end of life
Amount received by each beneficiary, total	375 000	375 000	375 000	375 000
Tax-free threshold	12 500 annually	12 500 every 5 years	12 500 per beneficiary	12 500 per estate
Total amount taxable	187 500 per beneficiary	337 500 per beneficiary	362 500 per beneficiary	737 500 per estate
Tax rate	10%	10%	10%	10%
Total tax due, per beneficiary	18 750	33 750	36 250	..
Total tax due	37 500	67 500	72 400	73 750
Effective tax rate (Total tax / total transfer)	5.0%	9.0%	9.7%	9.8%

Source: Authors' calculations.

3.11.2. Gift taxes should be carefully designed, in particular to avoid significant tax minimisation opportunities

The provision of renewable gift tax exemption thresholds can allow taxpayers to significantly minimise their tax liability. Where taxpayers are able to transfer assets under a specified value tax-free each year they can decrease their gift tax and inheritance or estate tax liabilities by transferring wealth early. 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. In contrast, middle-class families who hold most of their wealth in their main residence and poorer households who rely on their savings to fund their retirement may not be able to gift their wealth during their lifetime.

Revising gift tax exemptions may improve equity and efficiency of inheritance and estate taxes. The provision of renewable gift tax exemptions should be carefully assessed and reviewed, as these can lead to tax-driven decisions to transfer wealth early and can allow wealth transfers to go largely untaxed. To combat tax avoidance through inter vivos gifts, one option would be to have a lifetime wealth transfer tax, allowing a certain amount of wealth to be received free of tax during the recipient's lifetime. Where that is not possible, countries could seek 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. For more generous tax exemption thresholds, the time before tax-free thresholds are renewed could be lengthened to reduce tax planning and increase fairness, although that may increase tax administration and compliance costs. Full exemptions for gifts that have been made a certain number of years before death should be removed.

There could also be a careful examination of other tax-minimisation opportunities, such as separating bare ownership from usufruct or making significant gifts in kind. Gifts of bare ownership (while donor retains usufruct) may enable households in the middle of the wealth distribution – whose wealth is typically tied up in their (illiquid) home – to take advantage of inter vivos giving, which may be easier for wealthier families who typically hold more (liquid) financial wealth. Countries may wish to issue a preliminary tax assessment where the value of usufruct is discounted according to mortality tables, and then adjust the assessment when the donor passes away and the beneficiary receives full ownership. Countries may also set limits to the value of gifts in kind, beyond which they would be considered direct transfers.

Countries may focus their compliance and reporting efforts on inter vivos gifts, where non-compliance risks are greater. Unlike wealth transfers upon death, where non-compliance risks may be comparatively lower due to the requirement for probate or notarial acts, gifts are more prone to underreporting. To ensure that tax authorities have a full view of gifts, the thresholds for reporting requirements could be lower than the taxable threshold. Where undeclared gifts are discovered at a later date, tax authorities could use part of the appreciated present value, rather than the value of the gift at the time of the transfer, to determine the basis for taxation.

Favouring gifts to young people may have positive multiplier effects, but risks increasing intra-generational inequality. Wealth transfers may help young people make investments in their education and mobility, which could improve their productivity and earning capacity. Wealth transfers may also help kick-start savings and spur further investments, for example allowing the recipient to purchase a home or start a business. Gifts may therefore have positive multiplier effects, including for productivity and investment. Wealth transfers to younger generations could also decrease intergenerational wealth inequality. However, as wealth transfers are unequally distributed across the wealth distribution, young people receiving a gift may come from wealthy households, so favouring gifts to young people could reinforce unequal opportunities and intra-generational inequality. Countries wishing to apply tax relief to gifts to young people should carefully assess this relief to ensure that it generates additional transfers of wealth; otherwise the relief may generate a windfall for households who were already intending to make the transfers.

3.12. Tax treatment of unrealised capital gains at death

3.12.1. Most countries that levy inheritance or estate taxes do not tax unrealised capital gains at death

Three broad approaches apply to the transfer of assets with unrealised capital gains. First, countries may consider that when assets are transferred, either as a gift or as a bequest, a capital gain is realised. In this transfer-as-realisation basis, capital gains taxes will apply to non-exempt assets. Second, countries may pass the liability for unrealised capital gains to the beneficiary, known as the carry-over basis. In this case, capital gains taxes are levied only when the beneficiary sells the asset, but are levied on the total increase in value since the donor acquired the asset. Third, assets may be stepped-up to market value when assets are transferred as a gift or at death. Under the step-up in basis, the capital gain that accrues to the donor is not subject to capital gains taxes and the heir acquires the asset at market value. When the heir sells the asset, only the capital gains accrued since they received the inheritance or gift are subject to capital gains taxes. This section does not consider ordinary exemptions, such as those applying to certain asset classes, low-value capital gains, or capital gains on long-held assets.

The step-up in basis is the most common approach among countries that levy inheritance, estate, and gift taxes (Table 3.12). The step-up in basis is the most common approach in countries that levy inheritance, estate, and gift taxes, applied in 12 countries, followed by the carry-over basis in eight countries, and the transfer-as-realisation basis in two countries. Three countries apply different rules depending on the assets received. The transfer-as-realisation approach applies to most assets in Denmark (except artwork, jewellery, vehicles, and household goods, which are taxed on the step-up in basis and family-owned businesses, which are taxed on the carry-over basis) and Hungary (except intangible property, which is taxed under the step-up in basis). The step-up in basis applies to all assets in Finland, except to business property, where the carry-over basis is partially applied.

The carry-over basis is the most common approach for countries that do not levy inheritance or estate taxes. In countries that do not levy an inheritance or estate tax, the carry-over basis is the most common approach for unrealised capital gains, applied in seven countries. The step-up in basis applies in Latvia, while Canada is the only country that applies the transfer-as-realisation approach, levying capital gains taxes upon the donor's death.

The tax treatment of unrealised capital gains may depend on whether assets were transferred as a gift or inheritance. A few countries apply a more favourable tax treatment to inherited assets with unrealised capital gains than to gifted assets. For example, the United Kingdom and the United States apply the step-up in basis to unrealised capital gains at death, but the United Kingdom taxes unrealised capital gains when gifted and the United States applies the carry-over basis to gifts.[21] Inconsistent interactions between inheritance, estate, and gift taxes and capital gains taxes can distort behaviour and give rise to incoherent outcomes.

Table 3.12. Treatment of unrealised capital gains at death

	Countries where treatment applies to most assets	
	Country levies inheritance or estate taxes	Country does not levy inheritance or estate taxes
Unrealised capital gains are taxed at death	Denmark, Hungary	Canada
Unrealised capital gains pass to heirs on a carry-over basis	Denmark, Finland, Germany, Ireland, Italy, Japan, Luxembourg, Switzerland,	Australia, Austria, Estonia, Israel, Mexico, Norway, Sweden
Unrealised capital gains are exempt upon death and transferred with a step-up in basis	Chile[1], Denmark, Finland, France, Hungary, Korea, Lithuania, Portugal, Slovenia, Spain, United Kingdom, United States	Latvia[2]

1. This is considered a non-taxed event, not an exemption.
2. Taxes gifts through personal income taxes, does not levy a separate gift tax or an inheritance tax.
Note: Countries may appear multiple times in the table if different treatment applies to different assets. Missing information from Poland and, the Slovak Republic. This table does not consider ordinary exemptions for certain asset classes, low-value capital gains, or capital gains on long-held assets. There is no capital gains tax in Belgium, Greece, and the Netherlands (levy inheritance or estate taxes) or in Czech Republic and New Zealand (do not levy inheritance or estate taxes). There is no capital gains tax on privately held movable property in Switzerland, except when individuals are judged to be traders.
Source: OECD Questionnaire on Inheritance, Estate, and Gift Taxes.

3.12.2. Allowing unrealised capital gains at death to partially or fully escape taxation reduces equity and efficiency

The step-up in basis creates significant distortions and avoidance opportunities, particularly where inheritance or estate taxes are not levied, or where inheritance or estate tax exemption thresholds are very high (Table 3.13). 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 go fully untaxed where there is no inheritance or estate tax. In addition to generating distortive lock-in effects, this may have significant distributional implications, as unrealised capital gains make up a large portion of the richest taxpayers' wealth. The step-up in basis also creates distortions where an inheritance or estate tax is levied because it discourages people from realising capital gains. Indeed, a taxpayer that sells appreciated property while alive may pay capital gains taxes, and then, if they transfer the net proceeds of the sale to their heirs when they die, they will also pay inheritance or estate taxes. The step-up in basis therefore creates horizontal inequity between taxpayers who realise gains during their lifetime and those who transfer wealth in the form of unrealised gains at death. Thus, there is a strong case for removing the step-up in basis for unrealised capital gains at death, especially where inheritance taxes are not levied. Unrealised capital gains may also very largely escape any form of taxation where the inheritance or estate tax threshold is very high. In such cases, countries could either reconsider the step-up in basis or lower the inheritance or estate tax exemption threshold.

Taxing unrealised gains at death may be the most efficient and equitable approach, especially where some payment flexibility is provided, such as deferral, in cases where this is demonstrably necessary. Compared to the step-up in basis, the carry-over basis reduces distortions by taxing unrealised capital gains when heirs sell the assets. This ensures taxpayers have the necessary liquidity when capital gains taxes are due, however, as this allows heirs to postpone liability for capital gains taxes until realisation, taxpayers may defer liability for an indefinite and potentially long period. Lock-in effects may be strong if there is a large tax liability due to long deferral of capital gains taxes. The carry-over basis would also require recipients to track the original cost basis of the donor, although this may become less difficult with digitalisation. On the other hand, taxing capital gains upon the donor's death ensures that gains made during the donor's life are taxed, preventing taxpayers from deferring capital gains taxes indefinitely or avoiding them altogether by holding assets until death. However, this may create liquidity problems for beneficiaries who could be forced to sell assets to pay capital gains taxes. In addition, taxing both capital gains and inheritances upon death may generate a high tax burden. Overall, levying capital gains and inheritances at death at reasonable tax rates, combined with deferral options when payment of tax may create hardships, may address some of the difficulties associated with existing approaches to taxing unrealised capital gains.

Countries should apply consistent tax treatment to gifted and bequeathed unrealised capital gains. Applying more favourable treatment to inherited unrealised capital gains, compared to gifted unrealised capital gains, incentivises taxpayers to retain assets until their death. There is no clear justification for differing treatment between inheritances and gifts, and the inconsistent treatment creates avoidance opportunities and unfair outcomes.[22] These distortions could also have wider economic impacts, as taxpayers could retain underperforming assets to benefit from the capital gains uplift at death (step-up in basis).

Table 3.13. Defining and assessing capital gains tax treatment at death

	Transfer-as-realisation basis	Carry-over basis	Step-up in basis
Definition	A capital gain is realised upon death and non-exempt assets are taxed	Liability passes to the beneficiary; gains since the donor acquired the asset are taxed when beneficiary disposes of the asset	Assets are stepped-up to market value and the capital gains that have accrued since the donor acquired the asset are exempt
Advantages	• Ensures capital gains are taxed • Removes tax incentive to hold assets until death or defer realisation	• Ensures capital gains are taxed • Liability occurs when taxpayers have liquidity	• Prevents liquidity issues
Disadvantages	• Liquidity issues • Potential for high tax burden (capital gains taxes + wealth transfer taxes)	• Heirs may postpone realisation indefinitely • Bookkeeping	• Avoidance opportunities • Lock-in effects • Negative distributional effects

3.13. Tax planning, avoidance and evasion

Tax avoidance and evasion can undermine the fairness and efficiency of inheritance and estate taxes. Avoidance and evasion opportunities can significantly reduce the revenue potential of taxes on wealth transfers. They may also reduce efficiency by distorting taxpayers' savings behaviours. In addition, tax planning and tax evasion opportunities may contribute to lowering the tax burden on those at the top of the distribution, potentially making inheritance taxes less progressive or even potentially regressive. This section finds that the design of inheritance, estate, and gift taxes can reduce opportunities for avoidance. Effective enforcement and tax transparency can address tax evasion.

3.13.1. Opportunities for tax planning and avoidance exist across OECD countries

Tax planning and tax avoidance allow taxpayers to reduce their inheritance or estate tax liability. The term “avoidance” may be used to describe the arrangement of a taxpayer's affairs in a way that is intended to reduce their tax liability.[23] Although the arrangement could be strictly legal, it may be in contradiction with the intent of the law it purports to follow. Alternately, governments may seek to encourage certain taxpayer behaviours through preferential tax provisions. This section examines some of the common techniques that taxpayers use to reduce their inheritance or estate tax liabilities, drawing on responses to the OECD Questionnaire on Inheritance, Estate, and Gift Taxes, as well as existing literature.

Opportunities for tax planning and avoidance should be carefully examined and addressed where they contradict the intended purpose of the tax code. Countries may wish to retain certain aspects of their inheritance, estate, or gift taxes even though they may give rise to risks of tax planning and avoidance, particularly where there is a strong justification for tax relief. However, in cases where the justification is weaker or a policy has unintentionally created planning and avoidance opportunities, these measures should be revised.

Bequests to certain heirs and bequests of certain assets

Taxpayers may spread their wealth among several heirs or leave bequests to heirs that are exempt. Where a single, large bequest to one heir would exceed the tax exemption threshold, several smaller bequests to multiple heirs may instead fall under the threshold. Similarly, several smaller bequests may be taxed at lower rates in countries that apply progressive inheritance tax rates, compared to one large bequest that may be taxed at higher rates. This tax planning strategy would not apply in countries that levy estate taxes on the donor's wealth and apply one tax exemption threshold. Donors may also reduce inheritance taxes by concentrating bequests among heirs that are exempt or benefit from the most generous inheritance or estate tax treatment, such as the spouse or children. As most countries apply the most favourable treatment to the spouse and few extend this treatment to co-habiting couples, there may be an incentive for couples to marry or enter a civil union.

Taxpayers may orient their portfolios toward assets that receive preferential tax treatment, in order to reduce their inheritance or estate tax liabilities. Preferential tax treatment may encourage taxpayers to hold assets that countries consider socially and economically desirable, such as businesses and owner-occupier homes, but it may also create tax planning opportunities for taxpayers who eschew other assets in favour of those that receive special treatment. These tax planning opportunities may have broader economic effects, where investment decisions are overly influenced by tax considerations or where taxpayers retain assets that are misaligned with their needs in order to benefit from the preferential treatment.

Emigrating to a location with lower or no inheritance or estate taxes

Taxpayers may relocate to a region or country with lower or no inheritance or estate taxes. Empirical studies have generally found limited evidence of tax-induced migration in response to inheritance or estate taxes, with super wealthy households being the exception, as recent research has found that billionaires' tax residency is sensitive to inheritance taxes, and that this sensitivity increases with age (Moretti and Wilson, 2020[13]) (see also Chapter 2 for a more detailed discussion). This is consistent with more anecdotal evidence of high-profile examples of fiscal expatriations, particularly among well-known business owners (Henrekson and Waldenström, 2016[1]). Fiscal expatriation may be a more serious concern for countries with close geographical neighbours where their citizens have residency rights, such as in many European countries. Tail provisions, where emigrants remain subject to their home country's inheritance, estate, and gift taxes for a number of years, are one option to address this form of avoidance.

Holding private assets through businesses or taking advantage of valuation rules

Preferential treatment for business assets may enable taxpayers to hold private assets through their business, though anti-abuse provisions can limit this type of avoidance. To avoid inheritance, estate, and gift taxes, taxpayers may also artificially cloak private wealth in the guise of tax-favoured assets by, for example, holding business assets or agricultural land without undertaking genuine economic activities. This strategy can be limited through anti-abuse provisions, such as restricting preferential treatment to assets used for business activities, but this may be more difficult for some asset classes, such as vehicles.

There may also be some scope for asset undervaluation where assets are hard to value. This may be particularly relevant for taxpayers whose portfolios mainly consist of assets for which valuation is difficult to observe or involves some subjectivity in choosing the most adequate valuation method (e.g. closely-held businesses, intellectual property assets).

There may be cases where taxpayers may claim significant valuation discounts on transferred assets by setting up specific structures. For example, donors in the United States may establish a Family Limited Partnership (FLP) and transfer assets to a limited partnership whose limited partners are typically family members. The tax advantage lies in the fact that valuation discounts may be available, based on a presumed lack of marketability and control because individual beneficiaries receive a minority interest in the partnership, even though family members might together hold the totality of the partnership interests (Schmalbeck, 2001[69], and US Senate Finance Committee, 2017). To prevent such avoidance, the federal government in 1990 restricted the use of valuation discounts for certain transfers among family members, but changes in partnership law at the state level have largely made the regulations implementing these anti-abuse rules ineffective (US Senate Finance Committee, 2017).

Gifting bare ownership of an asset, while retaining usufruct until death

In some countries, taxpayers may minimise their inheritance and estate tax liabilities by separating full ownership of assets into bare ownership and usufruct. Taxpayers may retain the usufruct of an asset, continuing to receive the income and benefits that an asset confers, while passing the bare ownership of the asset to their heirs. For example, taxpayers may transfer ownership of their main residence but continue living in it, or transfer control of a company but retain the income that the company produces. Inheritance and estate taxes are levied on a lower value than if the full ownership had been transferred where countries tax the transfer of bare ownership (i.e. the value of full ownership less the value of the usufruct) and do not levy further taxes when the usufruct ceases to apply and beneficiaries receive full ownership on the donor’s death. In the countries that tax the full ownership of assets, even when taxpayers pass on bare ownership while retaining usufruct, this strategy may still reduce indirectly the tax liability by allowing donors to make earlier property transfers, taking advantage of lower property values than if the asset were transferred upon death.

Interactions between inheritance or estate taxes and gift taxes or capital gains taxes

Taxpayers may avoid inheritance taxes by transferring their wealth during their life. In countries where gifts are only taxed where they occur shortly before the donor’s death and in countries where tax-free thresholds are renewed yearly or every few years, taxpayers may avoid inheritance and estate taxes by giving (regular) gifts during their life. As discussed in Chapter 2, there is empirical evidence that taxpayers use gifts as a tax-minimising strategy to some extent. As discussed in Section 3.11, revising the design of gift taxes or implementing a tax on lifetime wealth transfers would be a way to reduce avoidance by limiting the importance of timing for gifts and inheritances.

The difference in tax treatment of unrealised capital gains between inheritances and gifts opens opportunities for avoidance. For instance, some countries apply a carry-over basis for unrealised capital gains on gifted assets but apply a step-up in basis for unrealised capital gains on bequeathed assets. This creates an incentive to retain assets until death, when capital gains are “forgiven”, rather than being subject to capital gains taxes when the donor or the beneficiary of the gift sells the asset.

Preferential tax treatment for charitable giving

Charitable giving may allow taxpayers to reduce their tax liability while also creating a benefit for society. As discussed previously, most countries fully exempt transfers to charitable organisations, which have typically received certification allowing them to receive tax-free gifts and bequests. There is evidence that exemptions increase charitable bequests (Bakija, Gale and Slemrod, 2003[14]), which may generate a benefit for society. However, the tax treatment of charitable giving creates tax planning and avoidance opportunities (OECD, 2020[15]). Countries reported that common strategies include overvaluation of nonmonetary donations, donations of assets in which the donor retains an interest, and payments for goods and services disguised as donations.

There may be cases where wealth is transferred partially or entirely free of tax, using special structures that take advantage of the preferential tax treatment for charitable giving. The structures typically involve partial or time-limited transfers to charities. In the United States, for instance, a donor may set up a “charitable lead trust”, whereby they transfer property to a trust with instructions to make payments to a charity on a fixed schedule for the term of the trust, with remaining assets in the trust being distributed at the end of the trust term to non-charitable beneficiaries. The gift and estate tax benefit lies in the fact that assets are transferred to ultimate beneficiaries at reduced values (Schmalbeck, 2001[16]). When the charitable lead trust is created, estate or gift taxes are levied on the amount that is left in the trust at the end of its fixed term, discounted using “hurdle” rates set by the Internal Revenue Service (IRS).[24] Most donors structure their trusts so that the estimated value of the reportable gift (i.e. the remaining assets for distribution to beneficiaries) is (close to) zero. A “charitable remainder trust”, where the beneficiary receives income for a certain time and then assets are passed to the charity, can be used to achieve similar goals.

The use of trusts

Trusts may also be used to minimise inheritance or estate tax liabilities in some countries. Trusts typically involve a "settlor" or "grantor": the person who puts the assets into a trust; a "trustee": the person who manages the trust; and the "beneficiary": the person who benefits from the trust. Typically, trusts are used to separate the entitlement to the income that the property generates from the entitlement to the property itself, or to ensure that capital and income are distributed on a discretionary basis at infrequent intervals. While they may be used for legitimate succession or other non-tax reasons, the fact that ownership and access to benefits is split in some way means they can also potentially be used to avoid taxes on wealth transfers. Whether trusts are treated as separate entities or are transparent for tax purposes (i.e. tax authorities can “look through” trusts to assign assets to a taxpayer) may affect whether trusts can be used to minimise inheritance or estate taxes. Trusts have been a particularly significant challenge in Common Law countries. There may also be cases where trusts may be used to evade taxes, by concealing asset ownership, in particular through opaque offshore structures, although this has become much more difficult with the recent progress on international tax transparency (see section on tax evasion).

There are various types of trusts and their tax treatment differs. A common distinction between trusts is whether they are revocable or not. A revocable trust is a trust that can be changed or terminated at any point during the lifetime of the person who established the trust. An irrevocable trust, on the other hand, is essentially permanent, as the terms of the trust cannot be amended or revoked without the permission of the beneficiaries. Revocable trusts offer limited tax benefits and irrevocable trusts are typically those used for inheritance or estate tax planning. In the United Kingdom, trusts can also be divided into discretionary and interest in possession trusts. Discretionary trusts may give trustees complete discretion over income and sometimes over capital, while interest in possession trusts refer to trusts where beneficiaries have the right to receive trust income (although there may be discretion over capital). However, these simple trust categories group together more complex arrangements. For instance, the powers of the trustees may be restricted in some discretionary trusts, and interest in possession trusts may in practice devolve significant discretionary powers to the trustees (Chamberlain, 2020[17]).

In the United Kingdom, inheritance tax rules applying to trusts were tightened in 2006. Significant changes to the inheritance tax treatment of trusts were introduced in 2006 in the United Kingdom. Most lifetime transfers into trusts (whether discretionary or interest in possession) set up by a UK domiciled settlor are now subject to a 20% entry charge over the GBR 325 000 threshold, with an additional 20% tax if the settlor dies within seven years (Chamberlain, 2020[17]). This differs from the “potentially exempt transfer” (PET) system, which provides that inter vivos gifts between individuals (not through a trust) are free of inheritance tax if the donor survives seven years. In addition, a ten-year anniversary charge of up to 6% is levied every ten years from the start of the trust on the net value of any relevant property in the trust and an exit tax of up to 6% (although they tend to be much lower in practice) is levied on assets transferred out of the trust. Nowadays, trusts set up by UK domiciled settlors tend to be limited to “nil rate band” trusts settling GBR 325 000 every seven years or property that qualifies for business or agricultural property relief, or trusts settled by will, which are subject to a different tax regime (Chamberlain, 2020[17]). However, there are still considerable tax advantages for the foreign domiciled person that sets up non-UK resident trusts (Chamberlain, 2020[17]).

In the United States, inheritance tax planning and avoidance through trusts remains common. In the United States, a common type of trust to avoid estate taxes is the grantor retained annuity trust (GRAT). A GRAT is an irrevocable trust, where the grantor retains the right to receive a fixed periodic payment during the trust term, and if the grantor survives the trust term, remaining assets pass to “remainder” beneficiaries. When the grantor transfers wealth to the GRAT, the wealth transfer is considered as a taxable gift to beneficiaries, but the value of the gift is discounted because of the interest that the grantor retains, i.e. the annuity payments. The discount is calculated using IRS valuation tables, which assume that during the term of the GRAT trust assets will generate a modest rate of return – significantly below common stock market or private business rates of return. If the assets in the trust appreciate more than the IRS’s so-called “hurdle” rate, the excess growth in asset values passes to “remainder” beneficiaries free of estate or gift tax (The United States Senate Finance Committee, 2017). These types of trusts are particularly beneficial to grantors who expect their assets to appreciate significantly. Special trusts, called irrevocable life insurance trusts (ILITs) can also be used to avoid estate taxes on life insurance proceeds. The trust purchases an insurance policy on the life of the grantor, or the grantor transfers a policy to the trust. To fund the trust’s premium obligations with respect to the insurance policy, the grantor makes periodic payments to the trust, which are treated as gifts to the trust beneficiaries, but may qualify, under certain conditions, for the USD 14 000 gift tax annual exclusion. The value of the life insurance policy grows tax free, and when the grantor dies, the life insurance proceeds are distributed to the trust, and ultimately the trust beneficiaries, free of gift or estate tax (The United States Senate Finance Committee, 2017).[25]

Overall, the possibilities for tax planning through trusts or similar structures should be carefully assessed, and their tax treatment possibly revised. Whether trusts are treated as separate entities for tax purposes or as transparent entities (i.e. where 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’), the rules should not allow the use of trusts to significantly reduce the tax burden on wealth transfers. The tax treatment of other structures, such as foundations, should also be carefully examined.

3.13.2. Common forms of tax evasion range from simple cash gifts to sophisticated cross-border structures

Taxpayers can illegally reduce their inheritance or estate tax liability through tax evasion. The term “tax evasion” may be used to describe arrangements where taxpayers pay less tax than they are legally obligated to pay by hiding income or information from the tax authorities.[26] The following sub-section examines some of the techniques that taxpayers use to evade inheritance and estate taxes, drawing on various sources including responses to the OECD Questionnaire on Inheritance, Estate, and Gift Taxes.

Undeclared wealth transfers and incomplete inventories

A simple evasion technique is to pass on undeclared cash to heirs. It is difficult for tax authorities to trace transfers of cash, particularly when beneficiaries do not deposit it in a bank account. Such transfers may take place at any time, and could occur in anticipation of the donor’s death or over the months and years prior to their death. As keeping large amounts of cash carries the risk of theft, this technique is likely limited to small to moderate amounts and may be more attractive for regular gifts over the annual tax-free threshold than a (larger) bequest.

Taxpayers may also exclude assets from the inventory or not declare transfers of wealth. Heirs may receive some of the donor's assets following their death, without the heirs notifying the tax authority of the act. Failing to declare an asset or the transfer of an asset may be easier for assets that are difficult to trace, such as low- or moderate-value jewellery, compared to assets where ownership is certified by a public body, such as housing. Alternately, taxpayers may falsely declare that the total value of the donor's assets is below the threshold for the requirement to declare or pay tax on an inheritance. To reduce the administrative burden of declaring all transfers while preventing evasion of inheritance and estate taxes on low-value goods, some countries value household goods as a percentage of the value of the estate's housing assets.

Abuse of deduction provisions

Taxpayers may make excessive deductions for expenses and debts, by inflating their value or deducting ineligible expenses and debts. Debts are deductible in most countries that levy an inheritance or estate tax, but several countries apply conditions. Such conditions prevent abuses, such as disallowing deductions for debts that were contracted to purchase tax-exempt assets or debts that are to heirs or close family. Taxpayers may deduct fraudulent or inflated deductible expenses to reduce the inheritance or estate tax due. Tax authorities may require taxpayers to retain proof of expenses and cap the deduction of certain expenses, such as funeral costs.

Wealth held offshore

Taxpayers may attempt to hide assets offshore. Undeclared assets held in low-tax jurisdictions have traditionally posed a challenge to tax administrations, particularly when these jurisdictions practised banking secrecy. While taxpayers may hold wealth in low-tax jurisdictions for non-tax reasons, such arrangements limit countries' information about taxpayer wealth and enable taxpayers to evade taxes.

Exchange of Information (EOI) promotes tax transparency and helps tax administrations address tax evasion. Under the Exchange of Information on Request (EOIR) standard, tax authorities in one jurisdiction can request information about a particular taxpayer from tax authorities in another jurisdiction. Authorities can request a broad range of information, including accounting records, bank statements and information on the ownership of real and financial assets. Under the Automatic Exchange of Information (AEOI) standard, participating jurisdictions exchange information automatically and on a periodic basis. The Common Reporting Standard (CRS) is the global standard for reciprocal annual exchanges on financial accounts held by non-resident taxpayers and defines the type and format of information to be shared. This includes details about the account holder (e.g. their name, address, and date of birth) and the financial account (e.g. the account number and the account balance). The CRS is designed to capture information about commonly held assets and financial accounts, which tax authorities can then compare with other sources and, if necessary, pursue further investigation. This could include submitting a request for information under the EOIR standard, which allows for a broader type of information to be exchanged on a pre-identified taxpayer. EOI networks have expanded dramatically and have been increasingly relying on multilateral approaches (O'Reilly, Parra Ramirez and Stemmer, 2019[18]), especially since 2014 when countries were invited to commit to the AEOI standard to exchange information by 2017 or 2018. In 2019, 97 jurisdictions carried out automatic exchange of financial information, covering 84 million accounts and EUR 10 trillion of total assets (OECD, 2020[19]). The global exchange on request is also wide, with about 30 000 requests having been received in 2019[27].

However, taxpayers may seek to circumvent the Common Reporting Standard (CRS). Assets such as real estate and art are not included in the CRS. While taxpayers may hold these assets for legitimate reasons, they do provide one avenue for circumventing the CRS (see e.g. (De Simone, Lester and Markle, 2020[20]), for the impact of FATCA). As financial accounts are typically reported on by third parties, such as banks, taxpayers may establish an entity, such as a family-managed trust, that has the responsibility to report on its own assets and then fail to report. Taxpayers may also establish entities to hold financial assets and fracture ownership of these entities in order to fall below the relevant threshold at which reporting institutions should look-through to find the controlling person. In cases where taxpayers are subject to third party reporting, they may hold assets in non-participating jurisdictions. Certain residence and citizenship by investment (RBI/CBI) schemes, which allow individuals to obtain citizenship or residence rights through local investment or for a fee, can also be misused to circumvent the CRS.

There is a need for continued progress on international tax transparency and efforts to ensure that taxpayers do not circumvent the CRS. To address the risks posed by RBI/CBI schemes, the OECD has assessed and identified schemes that pose a high-risk to the integrity of the CRS. Financial institutions are recommended to take the outcome of the OECD's analysis into account when carrying out their CRS due diligence obligations. The OECD's Global Forum also assesses whether jurisdictions continue to effectively participate in EOIR and assesses the effectiveness of the implementation of the AEOI standard through peer review processes to ensure that all implementing jurisdictions are dedicating adequate resources, including by ensuring compliance by financial institutions with the requirements. While it has become increasingly difficult to circumvent EOI as the treaty network has densified and the culture of tax transparency has strengthened, it will also be critical to ensure that persons, assets, and institutions not covered under existing EOI standards do not offer opportunities for continued tax evasion.

As is the case for avoidance techniques, sophisticated evasion techniques will be more accessible to higher-wealth taxpayers. While low-wealth households may find it easier to engage in simple evasion techniques, such as undeclared transfers of cash and low- to moderate-value household goods, leveraging tax-exempt assets to invest in taxed assets or concealing assets abroad, for example, require some forethought and professional advice, and will incur costs.

3.14. Political economy of inheritance tax reforms

3.14.1. Inheritance and estate taxes tend to be unpopular and poorly understood

In many countries, inheritance or estate taxes are (among) the least popular taxes. In the United Kingdom, a 2015 YouGov Poll revealed that the inheritance tax was viewed as "fair" by only 22% of the respondents, making it the least popular tax among eleven major taxes.[28] In France, aversion to taxation is particularly strong when it comes to wealth transfers, on par with labour income taxation, and 87% of the French population said they were favourable to a reduction in inheritance tax to allow parents to transfer as much wealth as possible to their children. This opinion has seen an 8-percentage point increase since 2011 (Grégoire-Marchand, 2018[21]). In Sweden, where the inheritance tax was eventually repealed, a survey of attitudes towards taxes conducted in 2004 showed that almost two thirds of the respondents, including a majority of left-leaning individuals, wanted inheritance and gift taxes to be either reduced or altogether repealed (survey cited in Henrekson and Waldenström, (2016[1]). Similar unpopularity was reported in many other OECD countries.

Evidence also shows that inheritance or estate taxes are not well understood. In the United States, Kuziemko et al. (2015[22]) found that providing information on the incidence of the estate tax significantly increases support for it. This largely reflects misinformation, as many respondents believed a majority of families were subject to the estate tax, when the actual share was 0.1%. In France, where inheritance and gift taxes are levied on much lower wealth transfers, a recent study also shows that inheritance and gift taxation is misunderstood, with respondents significantly overestimating tax levels (Grégoire-Marchand, 2018[21]). For instance, on average, respondents estimated the average tax rate on transmissions to spouses to be 22%, when those wealth transfers are actually exempt. Respondents were also asked to estimate the average effective tax rate on wealth transfers. Since the 1980s, this rate has remained relatively stable: between 4% and 7% for all assets transferred, and between 2% and 3.5% for assets transferred to direct descendants. However, a majority of respondents thought that this rate was greater than 10% and more than 36% of respondents estimated it to be greater than 20%. A Tax Policy Survey conducted by Stantcheva (2020[23]) also found that the French had a poor understanding of the progressive nature of the tax: 42% of respondents wrongly believe that inheritances are taxed at a flat rate. Respondents who correctly answered that there are several rates were also asked to give their best guess on the lowest marginal tax rate on estates transmitted by direct transmission. The average estimation was 20%, 15 percentage points higher than the actual lowest rate of 5%.

The rest of this section considers ways in which governments may enhance the public acceptability of inheritance tax reform, starting with tax design. Indeed, some of the popular rejection directly stems from the way inheritance, estate, and gift taxes are designed and operate. There is for instance a strong sense of injustice in reaction to the fact that wealthy households have largely been able to avoid inheritance taxation in some countries. A better-designed tax, limiting the preferential tax treatment provided to certain assets and other tax-minimising opportunities, would contribute to reducing the unpopularity of inheritance taxation. In addition to limiting tax planning opportunities and increasing progressivity, broader tax bases could potentially allow lowering statutory tax rates, which may also enhance the public acceptability of inheritance taxation. There is evidence that in some countries, higher tax exemption thresholds would make taxes on wealth transfers more acceptable (Bastani and Waldenström, 2021[5]). Finally, a frequent popular concern is related to asset-rich but income-poor taxpayers who might be forced to sell their assets to pay the tax. Such concerns should be addressed through improved tax design, in particular by allowing tax payments in instalments and tax payment deferrals under certain conditions. In addition to having these measures in place, there should be clear communication highlighting their availability.

3.14.2. Information and policy framing are important to increase the public acceptability of inheritance tax reforms

Evidence also shows the importance of narratives and policy framing. The repeal of the estate tax in the United States,[29] and how it gained widespread popular support, provides an interesting example of the role of narratives and policy framing. Indeed, in the United States, many polls in the late 1990s and early 2000s showed widespread public support for repeal of the estate tax, in the range of 60% to 80%. Part of the popular rejection of the estate tax was the result of misperceptions of self-interest (only the wealthiest 2% of Americans paid the estate tax at the time, but the share of estate taxpayers tends to be vastly overestimated) but also of carefully framed narratives, particularly around the notion of “fairness”. For instance, references to the “death tax” and double taxation have helped frame the estate tax as an unfair tax. Emphasising the estate tax burden on family farms and businesses has also helped shape public opinions, particularly as entrepreneurship and family businesses form part of the “American dream” but also because many people have close family members who are small business owners (Birney, Graetz and Shapiro, 2006[24]). In reality, however, most of the estate tax burden does not fall on family–owned businesses or farms. Birney, Graetz and Shapiro (2006[24]) argue that these findings about public opinion were then used by interest groups in campaigns and building coalitions for the repeal of the tax. This highlights the importance of the way inheritance tax reform is framed. Reframing reforms aiming to raise more revenue from inheritance taxation around notions of equality of opportunity and inequality reduction may help increase their public acceptability. Such changes in narratives and policy framing may be easier with inequality becoming a more prominent topic in recent years (Perret, 2020[25]). Such reframing may also be more effective if, as mentioned above, it goes hand-in-hand with real changes in tax design that address popular concerns, particularly in relation to tax avoidance.

Providing information can play an important role in enhancing the acceptability of inheritance tax reform. There is evidence that people’s attitudes and public perceptions of capital and inheritance taxation change when they are given information on inequality. For instance, Bastani and Waldenström (2021[5]) find that exposing people to facts about inherited wealth significantly increases support for inheritance taxation through a randomised survey of 12 000 Swedish adults, linked to administrative register data, in which they expose different parts of the target population to different information treatments. They find that average support for inheritance taxation in the control group (which did not receive information) is 24.5% and that receiving information about inherited wealth increases support by about eight percentage points. This result holds true after controlling for various individual characteristics. These effects appear to be driven by changes in perceptions about inherited wealth and whether luck is considered to matter most for economic success. In addition to information about wealth inequality and inheritances, the perceptions and acceptability of inheritance taxation may change when people are better informed about the design and functioning of these taxes, in particular who they apply to. In the United States, a poll asking whether the estate tax should be abolished found very different results depending on whether respondents had received information about which estates were affected by the tax. Among the group told that the tax only affected estates worth more than USD 5 million, support for maintaining the tax was close to 20 percentage points higher than in the group that had not received the information (46% compared to 27%).[30] Stantcheva (2020[26]) also finds that showing people instructional videos about the workings and consequences of the estate tax in the United States strengthens the view that increasing the estate tax is a good way to reduce inequality.

Policy packaging may also be helpful. Inheritance tax reform may be more acceptable if it is accompanied by other reforms. If the introduction of an inheritance tax or an increase in existing inheritance or estate taxes is part of a more comprehensive tax reform and goes hand-in-hand with a decrease in other taxes, especially in labour taxes, which a majority of people are subject to, it may be more acceptable politically. Packaging an inheritance tax reform as part of a broader reform aiming at tax mix shifts rather than overall tax burden increases may increase the chances of the reform being adopted.

Finally, earmarking part of the revenues raised from inheritance or estate taxes may help increase popular support, although this should be considered very carefully. Part of the revenues collected from inheritance, estate, and gift taxes could for instance be earmarked for the financing of old-age care. Alternatively, revenues could partly be earmarked for education, particularly if inheritance tax reforms are framed as aiming to enhance equality of opportunity. Taxpayers may perceive inheritance or estate taxes as more legitimate if they know what part of the revenues are used for. The fact that the revenues raised from inheritance or estate taxes tend to be low compared to other taxes may reduce the potential inefficiencies arising from earmarking large amounts of public revenues, but earmarking still needs to be considered with caution.

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Notes

[1] The report presents information for 2020 and covers all 37 OECD countries except Colombia (which became a member of the OECD after the data collection exercise was completed), Iceland and Turkey.

[2] The chapter reports dollar values in USD 2020, using 2020 average exchange rates from the OECD National Accounts. The conversion series can be found at http://dotstat.oecd.org/restsdmx/sdmx.ashx/GetDataStructure/SNA_TABLE4.

[3] Portugal abolished the Inheritance and Gift Tax in 2004, replacing it with a stamp duty that is levied on transactions, including deemed transactions such as the transfer of assets when the donor passes away and the assets are passed on to the beneficiaries. The revenues from the stamp duty are no longer

recorded in category 4300 (Inheritance, estate, and gift taxes) of Revenue Statistics, which is the source for Figure 3.1.

[4] Further analysis has found identical trends when measuring inheritance, estate, and gift tax revenues as a share of GDP.

[5] Taxpayers who are tax residents in the United Kingdom but are domiciled abroad (i.e. their permanent home is outside the United Kingdom) are deemed tax domicile if they were tax resident in the United Kingdom for 15 of the past 20 years.

[6] These rules apply to donors who are former tax residents of France, Ireland; to donors who are citizens and former tax residents of Germany, Greece, and the Netherlands; and to donors who are deemed domicile or former actual tax-domicile of the United Kingdom. These rules apply where both donors and beneficiaries are citizens and former tax residents of Japan. In all countries, these provisions expire after a number of years.

[7] If the donor spouse is domiciled or deemed domiciled in the United Kingdom and the beneficiary spouse is not, the exemption is limited. However, the beneficiary spouse can elect to be deemed domiciled for inheritance tax purposes.

[8] If co-habiting partners have signed a notarial cohabitation agreement, this period is six months (inheritance) or two years (gift).

[9] Of the 24 countries that levy an inheritance or estate tax, marriage equality exists in 13 and same-sex civil unions exist in 20. Four countries do not recognise same-sex relationships and so restrict spousal treatment to different-sex married couples only (Japan, Korea, Lithuania, and Poland). Switzerland, which does not recognise same-sex marriage, provides more generous treatment to married couples than couples in a civil union.

[10] The tax-free threshold rises with the donor's wealth in Luxembourg, as the donor's children are exempt on the portion they would have received under an intestate succession (which is largest for children, compared to other heirs).

[11] The United Kingdom provides a residence nil-rate band (RNRB), which is an additional tax-free threshold for bequests of a "qualifying residence" to lineal descendants. The donor may have held the residence at death or held the residence in the past, allowing taxpayers to downsize or dispose of their residence and still qualify for the RNRB. Like the standard nil-rate band, any unused RNRB can be passed from a donor to their surviving spouse, regardless of whether the first spouse held a qualifying residence. The RNRB is tapered once the estate exceeds GBP 2 million. Only transfers at death qualify for the relief.

[12] Estates can choose between a standard deduction per donor and an itemised deduction, though most taxpayers claim the standard deduction. In both cases, estates can also claim a spousal deduction. Standard deduction: KRW 500 million. Itemised deduction: KRW 200 million basic deduction, KRW 50 million per child, KRW 10 million per minor for each year until they reach 20 years of age, KRW 50 million per heir 65 years or older, KRW 10 million per heir with a disability for each year until the reach their expected remaining years (as determined by Statistics Korea), and a housing allowance.

[13] In the United Kingdom, gifts are tax-exempt if the donor survives more than seven years. If a donor bequeaths assets to their spouse at death and the surviving spouse immediately gifts those assets to the couple's children, no inheritance tax will be due if the surviving spouse lives seven or more years. However, if the donor bequeathed their wealth directly to their children upon death, estate taxes would be due on

wealth over the exemption threshold. This avoidance opportunity would be eliminated if all inter vivos gifts were taxed, without needing to alter spouse exemption.

14 In addition to the statutory rate of 1%, a surcharge of 20% of the tax liability applies to siblings and other 2nd rank relatives, resulting in a final tax rate of 1.2%.

15 Backward-looking tax rates draw on data of actual inheritances and tax paid on these transfers to develop a single indicator of the tax burden on past inheritances.

16 Agricultural Property Relief (APR) is available only up to the agricultural value of the property and can apply to rented land owned for more than 7 years.

17 These benefits are not considered part of the inheritance and so are exempt from inheritance taxation.

18 For example, a donor living in Brussels wants to bequeath EUR 1 000 000 to a friend. Under a classic scenario, the donor bequeaths their estate to their friend, who pays EUR 758 750 in inheritance taxes and receives EUR 241 250 net. Under a legs en duo scenario, the donor bequeaths their estate to a charitable institution, who agrees to pay the inheritance taxes due and to pay half the donor's wealth to the friend, keeping the remainder. The charitable institution pays EUR 393 750 in inheritance taxes (the taxes due on the wealth received by the friend and by the charitable institution), pays EUR 500 000 to the donor's friend, and retains EUR 106 250. Simulations made on the 3rd August 2020 using the calculator at https://www.amnesty.be/donnez/legs-duo-testament.

19 https://www.oecd.org/ctp/glossaryoftaxterms.htm#F.

20 The estate tax applies to the full amount bequeathed by the donor and the gift tax applies to the amount received by beneficiaries after tax. For an estate tax rate of t=40%, the effective gift tax rate is $t/(1+t) = 28.6\%$.

21 While gifts are taxed at a lower effective rate than bequests (see footnote 20), the (more favourable) step-up in basis applying to bequests may offset the (less favourable) carry-over basis applying to gifts, for transfers of assets with unrealised capital gains.

22 The favourable tax treatment of unrealised capital gains at death may offset the lower effective tax rate on gifts, meaning the overall distortion is ambiguous in the case of transfers of appreciated assets (see footnotes 20 and 21).

23 https://www.oecd.org/fr/ctp/glossaryoftaxterms.htm.

24 For example, a donor transfers USD 500 000 to a charitable lead trust and mandates it to pay 5% of the initial transfer (USD 25 000) to a chosen charity for 20 years. The initial value of the transfer (USD 500 000 = USD 25 000 x 20 years) is discounted according to IRS tables. Assuming an interest rate of 0.4%, the annuity rate is 19.1841 (IRS 1457, Table B). The present value of the annuity is USD 479 603 (USD 25 000 x 19.1841) and the taxable transfer is therefore USD 20 397 (= USD 500 000 - USD 479 603).

25 https://www.finance.senate.gov/imo/media/doc/101217%20Estate%20Tax%20Whitepaper%20FINAL1.pdf.

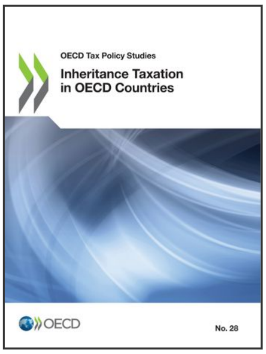
26 https://www.oecd.org/fr/ctp/glossaryoftaxterms.htm.

[27] http://www.oecd.org/tax/transparency/documents/global-forum-annual-report-2020.pdf.

[28] https://yougov.co.uk/topics/politics/articles-reports/2015/03/19/inheritance-tax-most-unfair.

[29] Legislation enacted in 2001 gradually phased out the estate tax by raising the tax exemption level and reducing the tax rate, leading to the tax's temporary repeal in 2010. The estate tax was re-instated in 2011.

[30] http://big.assets.huffingtonpost.com/tabsHPEstateTax20170929.pdf.



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), “Inheritance, estate, and gift tax design in OECD countries”, in *Inheritance Taxation in OECD Countries*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/b4dd2039-en

OECD