

CAN INHERITANCE TAXATION PROMOTE EQUALITY OF OPPORTUNITIES?

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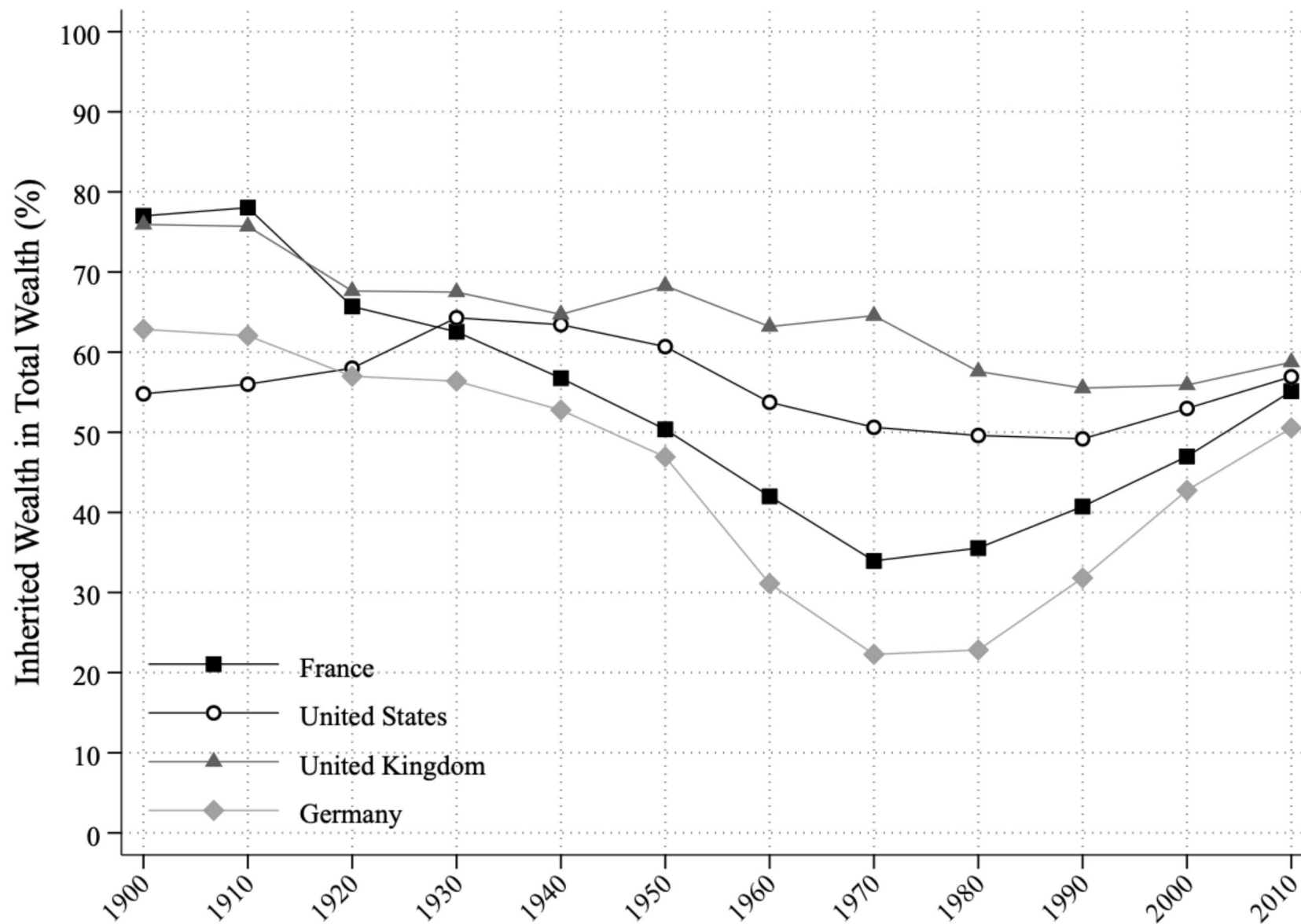
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Beveridge 2.0: Tax Justice Symposium

HEIRS ARE MAKING THEIR GREAT COME-BACK

- Strong ↑ of wealth-to-GDP ratio and ↑ of wealth concentration
 - ↑ inheritance flow over the past 50 years
 - ↑ share of inherited wealth in total wealth (35% in 1970, 60% in 2020)
 - Inherited wealth driving factor of ↑ in wealth inequality
 - Inherited wealth is extremely concentrated
 - E.g. in France, 50% of individuals will inherit less than \approx €50,000
 - Top 0.1% heirs more than €13 millions
 - A ratio of 1 to 180 (vs 1 to 10 for labour income)
 - Inheritance fuels IGC of capital (Nekoei and Seim, 2021)
- ⇒ Renewed interest for policies that redistribute inheritance flow to promote equality of opportunities (OECD, Blanchard-Tirole report)

SHARE OF INHERITED WEALTH IN TOTAL WEALTH



Source: Alvaredo et al. (2017)

BASIC LESSONS FROM OPTIMAL TAXATION

- Standard trade-off between **equity** and **efficiency**
 - Piketty and Saez, 2015; Saez and Stancheva, 2018
 - **Equity:** Inheritance tax promotes equality of opportunity
 - But some normative ambiguity around treatment of bequest motives
 - **Efficiency:** Inheritance tax can lead to:
 - Migratory responses
 - Empirically, migration elasticities found to be weak (Kleven et al., 2020), and ability to control them through exit taxes and other specific measures
 - Responses in terms of saving/consumption and investment behaviors
 - Empirical evidence is scant (and mostly suggests passive saving)
 - Redistribution of inheritance flow can positively interact with **other sources of inefficiencies**: liquidity/credit constraints in early life investments, etc
- ⇒ Optimal inheritance tax rate $\neq 0$: desirable for both equity and efficiency reasons

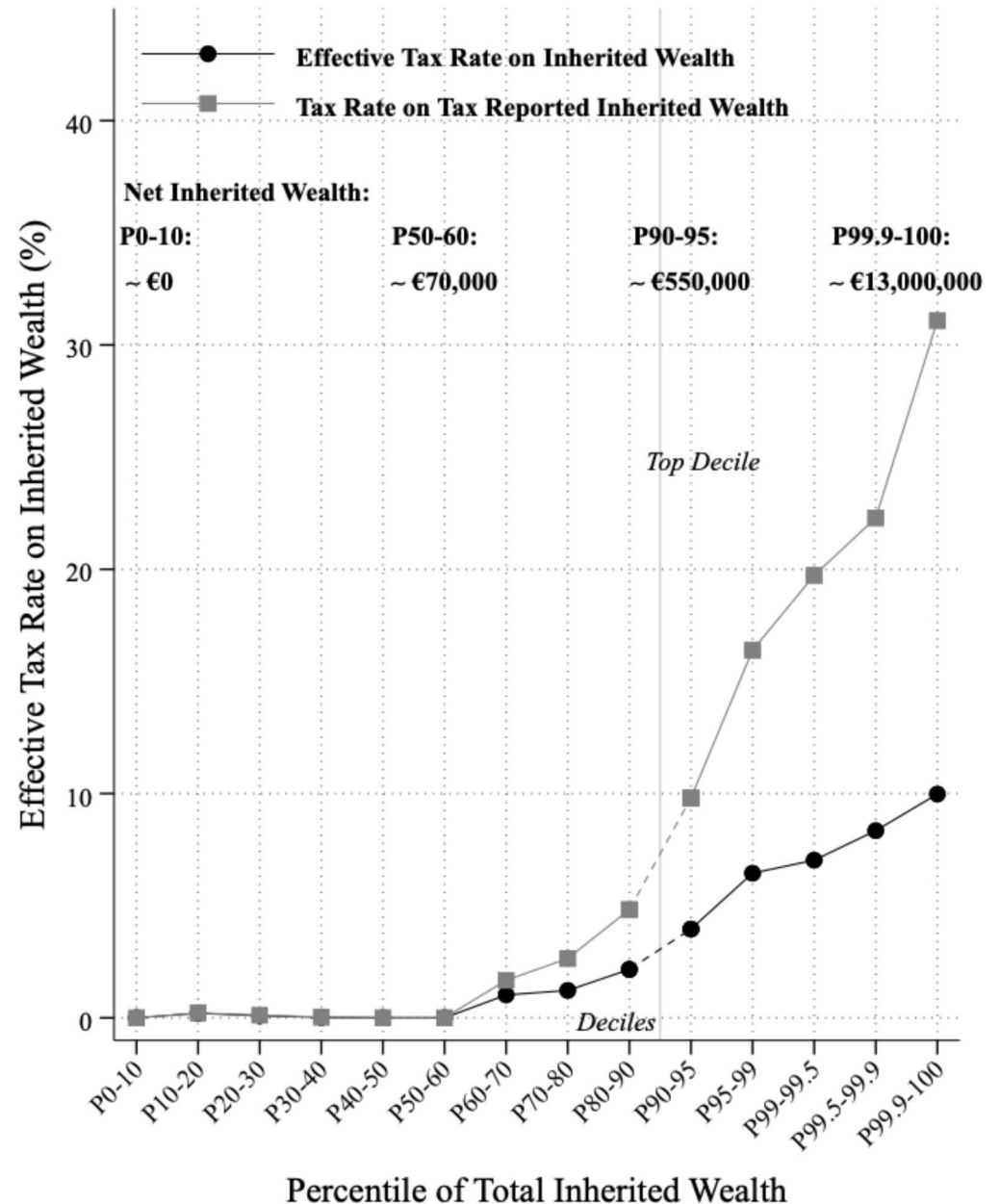
INHERITANCE TAX IS UNPOPULAR AND MISUNDERSTOOD...

Survey evidence shows:

- Lack of information re. basic functioning of tax and its incidence
 - Overestimation of tax rates actually paid by the 'middle class'
 - Perceived as a tax on lifetime labour income, rather than inherited capital
- Moral dilemma
 - From the point of view of children: don't want them to be exposed to different opportunities at birth
 - From the point of view of parents: hostile to taxing their bequests
- Flexibility of redistributive preferences
 - Better information re. functioning and incidence of inheritance tax significantly increases support for this policy (Kuziemko et al., 2015; Stantcheva 2021)

A MASSIVELY AVOIDED TAX AT THE TOP

- E.g. in France, tax reported flow of inheritances \approx 35-40% lower than true economic flow
- Tax base usually full of loopholes:
 - Closely-held businesses
 - Step-up-in-basis for K gains
 - Trusts, etc.



INHERITANCE TAX REFORM: PRINCIPLES

1. Use **total lifetime inheritance flow** received by individuals as tax base
2. Eliminate **tax loopholes**
3. Provide **wealth endowment for all**
4. Efficient and transparent **information system**

INHERITANCE TAX REFORM: PRINCIPLES

1. Use **total lifetime inheritance flow** received by individuals as tax base
 - Allows for more targeted redistribution of opportunities
 - Eliminates distortions between types of transmissions (e.g. “direct” vs “indirect” family links)
 - Eliminates distortions in the timing of transmissions
2. Eliminate **tax loopholes**
3. Provide **wealth endowment for all**
4. Efficient and transparent **information system**

INHERITANCE TAX REFORM: PRINCIPLES

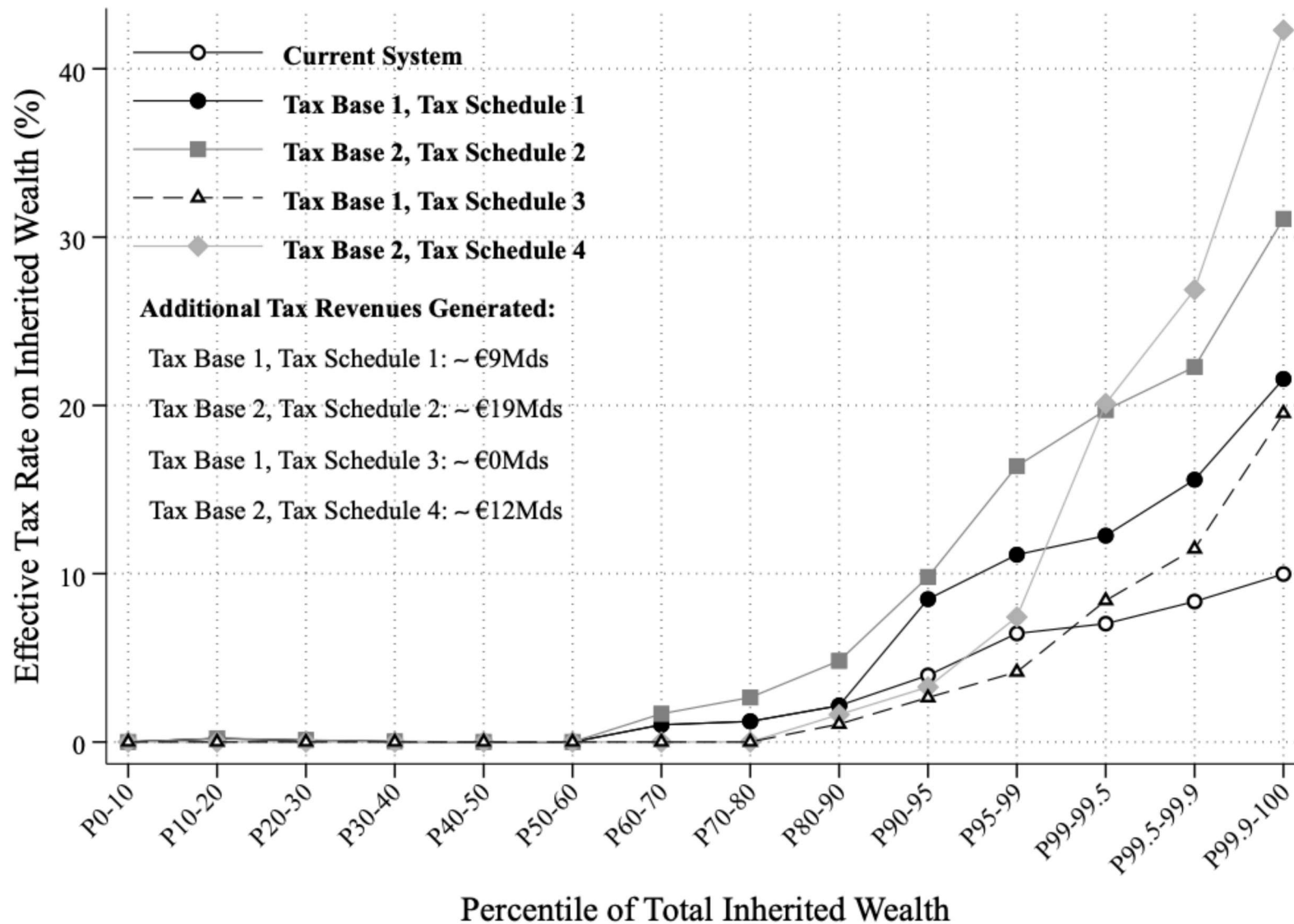
1. Use **total lifetime inheritance flow** received by individuals as tax base
2. Eliminate **tax loopholes**
 - Most of them have zero economic rationale
3. Provide **wealth endowment for all**
4. Efficient and transparent **information system**

INHERITANCE TAX REFORM: PRINCIPLES

1. Use **total lifetime inheritance flow** received by individuals as tax base
2. Eliminate **tax loopholes**
3. Provide **wealth endowment for all**
 - Reduces most extreme forms of inequality of opportunity
 - Addresses credit/liquidity constraints which negatively affect access to education, investment, housing in the lower end of the inheritance distribution
 - Proposition regularly put forward in the public debate by economists (Atkinson, 2015; Blanchard and Tirole, 2021)
 - E.g. Child trust fund in the UK
4. Efficient and transparent **information system**

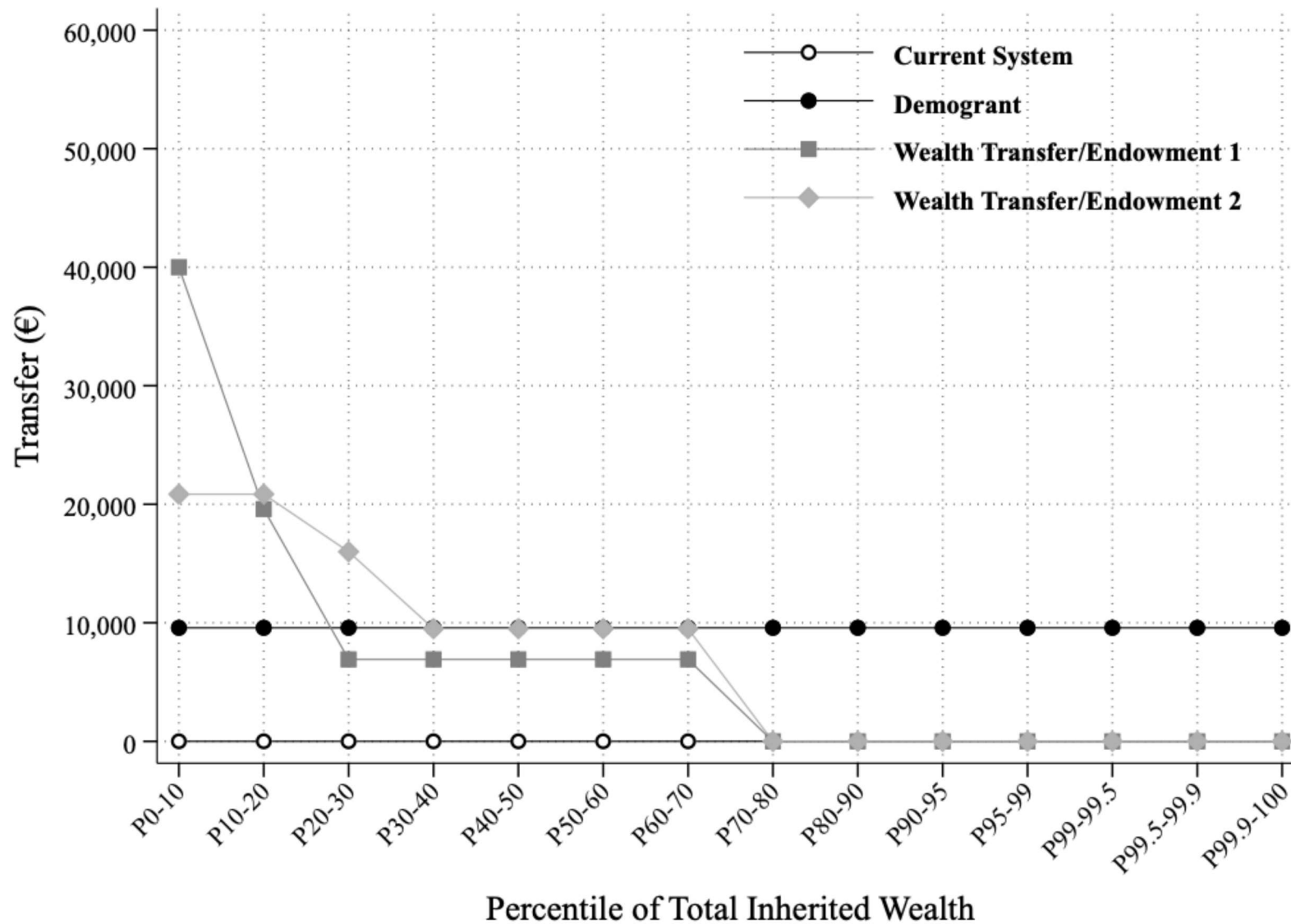
LIMITS TO INHERITANCE FLOW REDISTRIBUTION

TAX PROGRESSIVITY UNDER DIFFERENT REFORM SCENARIOS



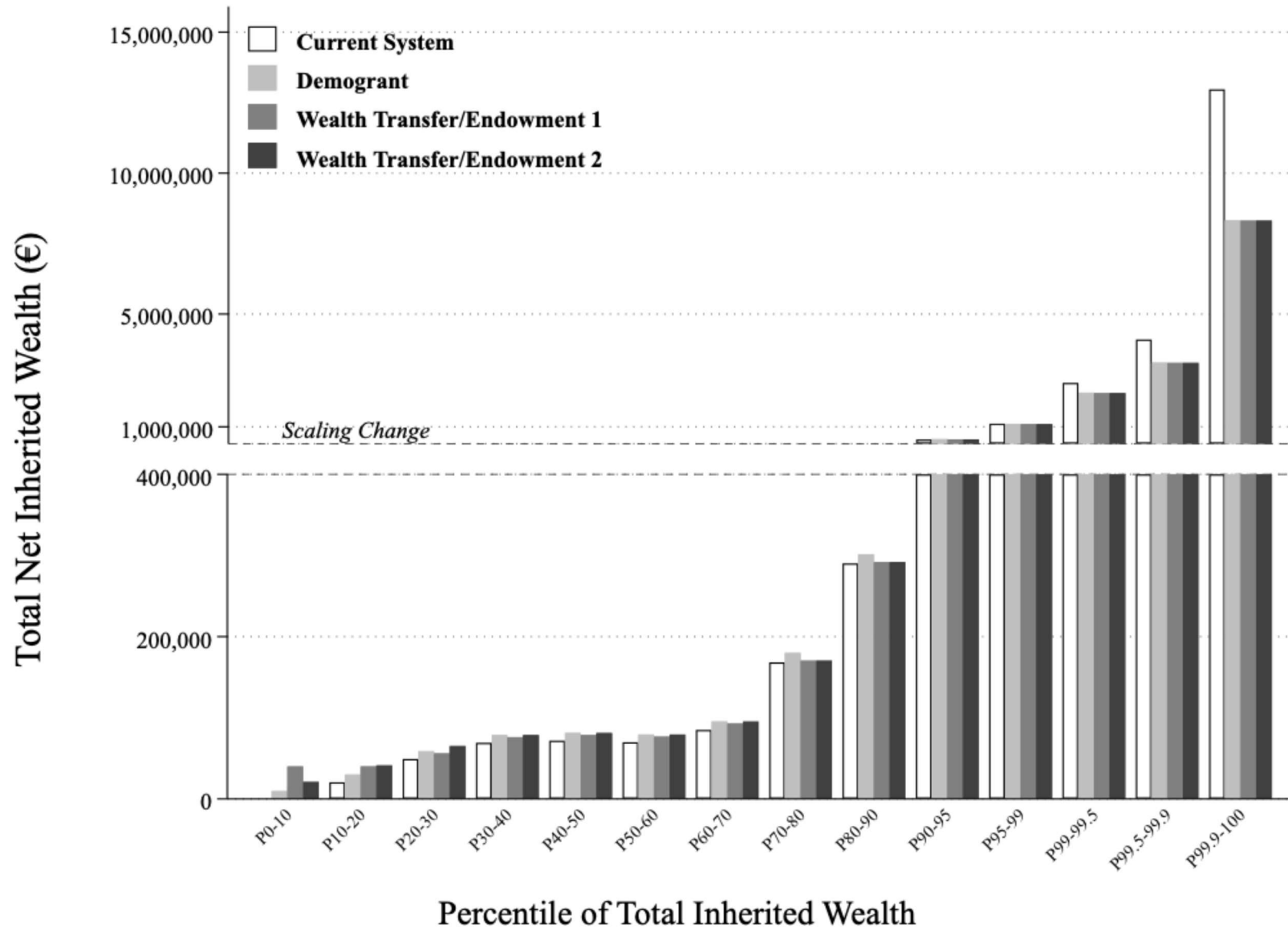
LIMITS TO INHERITANCE FLOW REDISTRIBUTION

WEALTH TRANSFERS UNDER DIFFERENT REFORM SCENARII



LIMITS TO INHERITANCE FLOW REDISTRIBUTION

NET INHERITED WEALTH UNDER DIFFERENT REFORM SCENARII



INHERITANCE TAXATION CANNOT DO THE HEAVY-LIFTING ALONE

- Inheritance is coming back as key driver of wealth inequality dynamics
- Most inheritance tax systems around the world are broken
- Reforms are long overdue
- But inheritance tax alone cannot meaningfully reduce drastic inequality of opportunities brought by inherited wealth
 - It is too unpopular
 - It creates large & sudden tax liabilities:
 - Forces sale of illiquid assets, portfolio reallocation, etc
 - Can affect investment, ownership structure and economic development of closely-held businesses
 - Progressive taxation of wealth / capital income necessary complement to inheritance taxation