

Can Inheritance Taxation Promote Equality of Opportunities?

Etienne Fize *

Conseil d'Analyse Economique

Nicolas Grimprel †

Paris School of Economics

Camille Landais ‡

London School of Economics

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Abstract

After a period of relatively strong economic and social mobility during the post-WWII decades, labor income is now quickly losing its capacity to fuel mobility across the wealth distribution of Western economies, with inheritance becoming again the main determinant of individuals' ability to make it to the top of the wealth distribution. At a time where inheritance taxation therefore seems desirable from both equity and efficiency standpoints, most inheritance tax systems are broken. They have failed to be truly progressive, and have remained very unpopular among the public. In this paper, we propose general principles to guide an in-depth reform of inheritance tax systems, to make them more efficient, progressive and transparent. Using administrative survey data from France, we also discuss whether the revenue generated by these reforms can promote equality of opportunities, by guaranteeing a wealth endowment for all. Based on detailed simulations, we explain why inheritance taxation alone cannot deal with the current dynamics of concentration of wealth at the top of the distribution, and why it needs to be complemented by progressive taxation of wealth and/or capital income.

JEL codes: D14, D30, D31, D63, D64, H21, H24, H26, H31.

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*Conseil d'Analyse Economique, Avenue de Ségur, 75007 Paris, +33(0)1-4275-5300, etienne.fize@cae-eco.fr

†Paris School of Economics, Boulevard Jourdan, 75014 Paris, +33(0)1-8052-1660, nicolas.grimprel@ehess.fr

‡Department of Economics, Houghton Street, London WC2A 2AE +44(0)20-7955-7864, c.landais@lse.ac.uk

1 Introduction

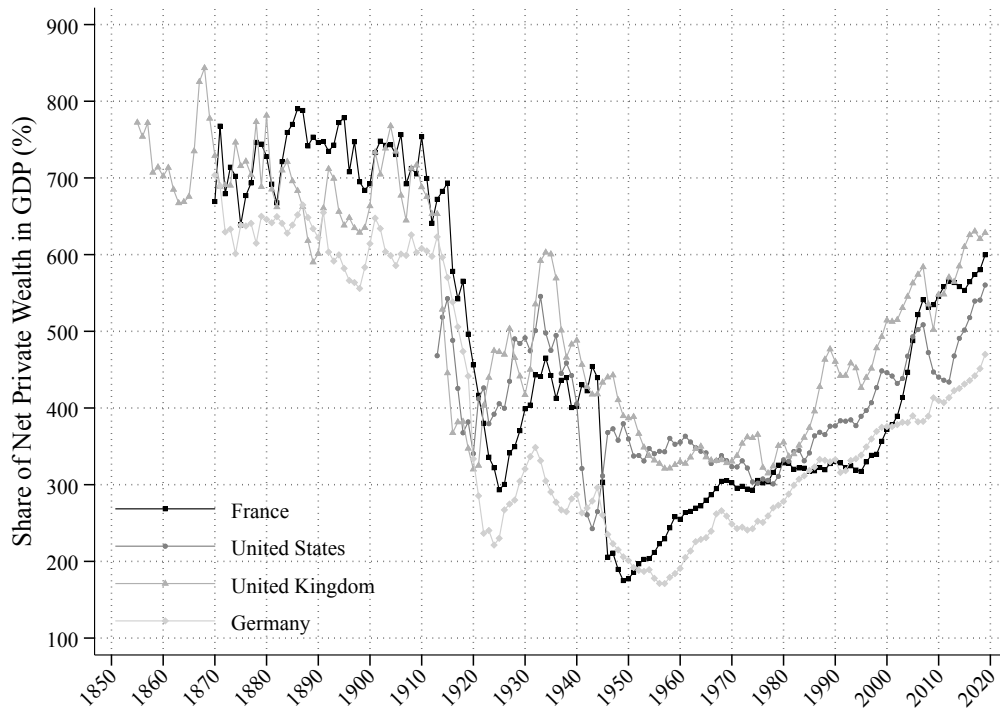
Inheritance tax systems are at a crossroads. Economists traditionally love inheritance taxation, and favor it as a form of wealth taxation to guarantee equality of opportunities. They view the reallocation of endowments as the perfect way to deal with redistribution without interacting with the functioning of markets, and so without distorting prices and creating inefficiencies. But despite being praised by economists, most inheritance tax systems are in disarray. They are broken, unpopular and failing at a time where inheritances are making a swift and decisive come-back in explaining increased wealth concentration at the top. Can they be repaired? Can they alone guarantee equality of opportunity and prevent the solidification of a dynastic class of rentiers at the top of the distribution? In this piece, we rely and expand on the work we carried in the French context for the French Council of Economic Advisers ([Dherbécourt et al. \[2021\]](#), and [Biernat et al. \[2021\]](#)) to explain the current challenges faced by inheritance tax systems across the globe, and draw more general lessons for reforms.

2 Inheritance: The Great Come-Back

At the end of the 19th century, the economy of most Western countries was characterized by high levels of inequality, and a strong concentration of wealth, with inherited wealth being the key determinant of individuals' wealth rank in society. But the intense economic and political shocks during the first half of the 20th century put these dynamics to the sword. The end of the Second World War then marked the start of a period of high economic growth and relatively low inequality, which allowed for strong social and economic mobility. During that period, wealth accumulation was mostly driven by labor income, and inheritance played a much more minor role in determining people's economic status. This trend has not been maintained, however. Over the last three decades, Western economies have witnessed the return of inheritance as the main driver of wealth inequalities at the top, with labor income quickly losing its capacity to fuel mobility across the wealth distribution. We present four stylized facts to illustrate that recent shift.

First, the share of net private wealth in GDP has been rapidly rising over the last 50 years. [Figure 1](#) shows that while net private wealth represented about 300% of the U.S., U.K., and France's respective GDPs in the 1970s, it now represents around 600% in all three countries. Germany has also followed a similar pattern, with net private wealth going from around 250% of national income in 1970 to more than 450% today.

Figure 1: EVOLUTION OF NET PRIVATE WEALTH AS SHARE OF GDP

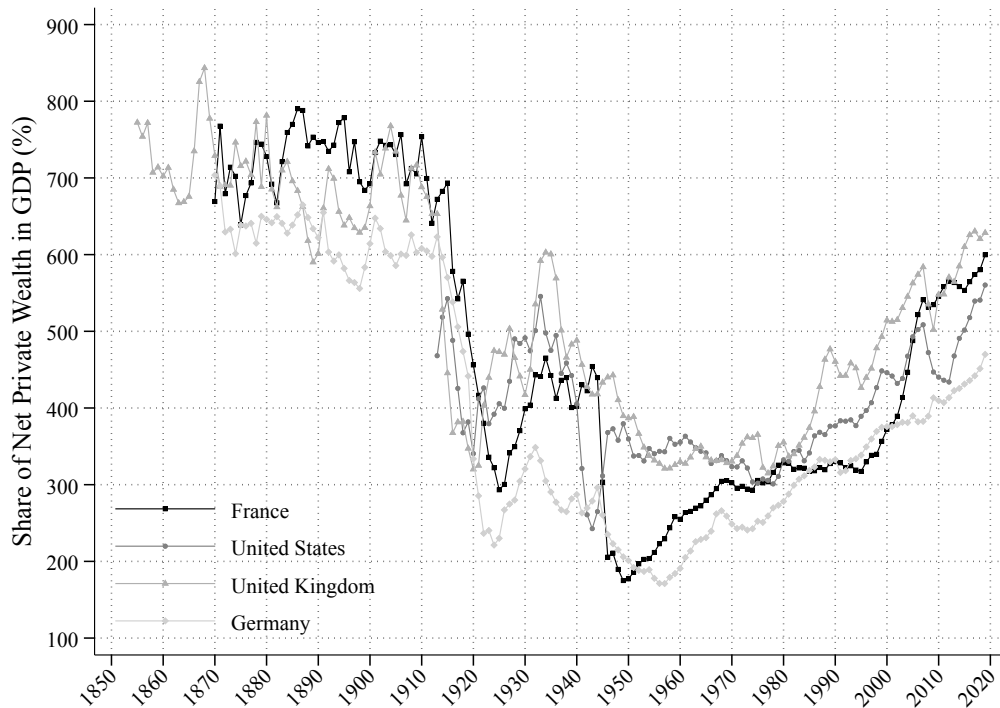


Notes: Net private wealth corresponds all wealth held by individuals and other private entities, net of taxes and debts. Net private wealth is expressed here as a share of GDP.

Source: World Inequality Database

Wealth has therefore been accumulating steadily, and at a much faster rate than income. But this newly generated wealth has not been distributed evenly across individuals. On the contrary, wealth has become increasingly concentrated over the last 30 years. As shown in Figure 2, in 1985, France's 1% richest individuals owned 15% of the country's total personal wealth, but today, they own 25%. We find a similar pattern in the U.S., with the top 1% owning 25% of the personal wealth in the 1980s, to over 35% now.

Figure 2: EVOLUTION OF THE TOP 1% SHARE OF TOTAL PERSONAL WEALTH

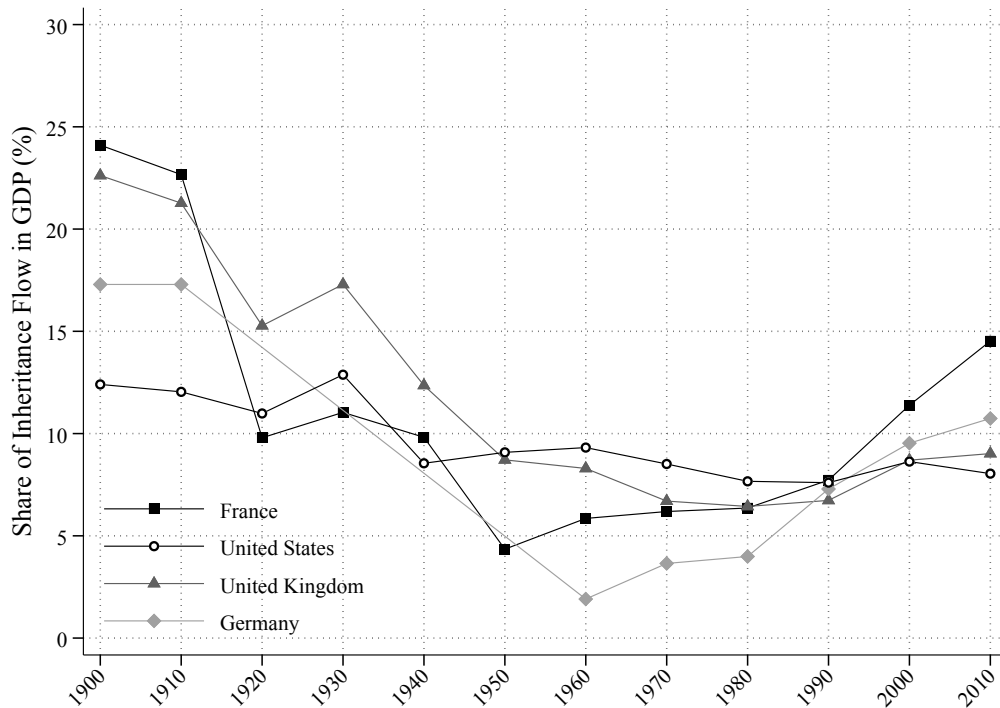


Notes: Personal wealth corresponds to all wealth held by individuals, net of taxes and debts. The share of the top 1% in total personal wealth corresponds to the ratio between the total net personal wealth held by the 1% wealthiest individuals in the population and the total personal wealth held by the whole population.

Source: World Inequality Database

While wealth has been accumulating rapidly at the top of the wealth distribution, a significant portion of it is not being consumed during individuals' lifetime. Instead, it is being passed over to their descendants. This is best illustrated by [Piketty and Zucman \[2015\]](#), which showed that inheritance flows relative to GDP have been steadily increasing over the past 50 years, particularly in countries such as France or Germany. Their results are reported in [Figure 3](#) below.

Figure 3: EVOLUTION OF INHERITANCE FLOW AS A SHARE OF GDP

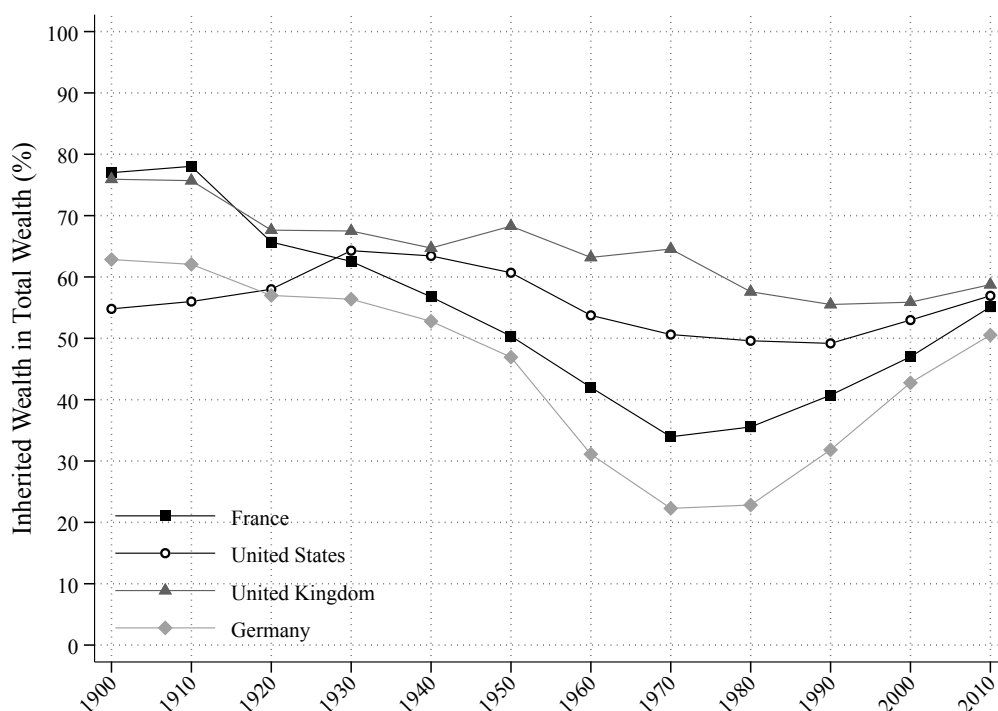


Notes: Inheritance flow corresponds to the yearly flow of wealth transmissions (donations and inheritance). Inheritance flow is expressed here as a share of GDP.

Source: Piketty and Zucman [2015]

Consequently, inheritance has returned to being a major source of wealth accumulation. As shown by [Alvaredo, Garbinti and Piketty \[2017\]](#), the share of inherited wealth among total wealth has indeed been rapidly increasing over the last 50 years. Figure 4, which reports their findings, shows that while in the 1960's, inherited wealth represented 35% and 20% of France and Germany's respective total national wealth, it has now reached over 50% of total wealth in both countries.

Figure 4: EVOLUTION OF INHERITED WEALTH AS A SHARE OF TOTAL WEALTH



Notes: Simplified definitions using inheritance vs. saving flows; approximate lower-bound estimates.
 Source: [Alvaredo, Garbinti and Piketty \[2017\]](#)

Taken together, the above facts strongly point towards inherited wealth becoming once more a key driver of wealth inequality, especially at the very top, similarly to what Western economies experienced at the end of the 19th century. To this end, inherited wealth is extremely concentrated among the few. In France, based on estimates produced from administrative data, we show in [Dherbécourt et al. \[2021\]](#) that 50% of the population will inherit nothing to very little. The sum of all inheritances received throughout their lifetime by the median heir in the inheritance distribution is less than €50,000, while the top 0.1% will inherit more than €13,000,000, i.e., a ratio of about 1 to 180. As a comparison, the difference between the median and top 0.1% labor income earners in France only yields a ratio of 1 to 10. In other words, while in the period following the Second World War, labor income alone could allow individuals to pull themselves to the top of the wealth distribution, this has now become almost impossible, with inheritance returning to being the most important - if not only - determinant of individuals' ability to reach the top of the wealth distribution.

How much should we worry about this extreme concentration of inheritance flow? Will it exacerbate dynastic wealth inequalities and permanently affect social mobility? It very much depends on how heirs use their inherited wealth. Recent work by

Nekoei and Seim in Sweden ([Nekoei and Seim \[forthcoming\]](#)) leaves little room for doubts. It shows that heirs at the very top of the inheritance distribution tend to have higher savings rate and higher returns on their wealth than the rest of the population. This in turn implies that inheritance increases the magnitude of the intergenerational correlation in wealth and reduces social mobility at the top.

But while we are witnessing the resurgence of inheritance and of a rentier society at the very top of the wealth distribution, one should not forget about a key difference between today and the rentier society of the end of the 19th century. This difference is the presence of a large group - about 40% of the population - who are tucked between the bottom 50% of the population, who inherits nothing, and the top 10% of wealth holders. This middle class group holds positive wealth, typically a house and the outcome of a life of work and savings. This group did not really exist a century ago. The existence of that group is a major source of political stability for capitalist societies. Importantly, the wealth owned by this large middle class gets bequeathed to the next generation. These inheritance flows are relatively small in magnitude, and do not appear to create a major issue for the dynamics of wealth concentration nor a threat to social mobility, as they get dissaved and consumed much more quickly across generations than top inheritances. Typically, they are also not subject to inheritance taxation in most countries, although for a lot of citizens, as we shall see, this basic fact may not necessarily be perceived as such. The point is that progressive inheritance taxation should be concerned about the very top of the distribution of inheritance flows, rather than with taxing the bequests of this middle class.

3 Optimal Taxation of Inheritance

While the role of inheritance in fueling wealth inequality and hindering economic mobility may alone motivate its taxation from a normative standpoint, setting up the precise level and progressivity of taxation of inheritances requires a trade-off between equity - i.e., what redistribution outcome we deem to be fair or morally desirable - and efficiency - i.e., the deadweight losses incurred in trying to reach that outcome. This trade-off has been extensively documented in the academic literature, for example in [Piketty and Zucman \[2015\]](#), and also [Saez and Stantcheva \[2018\]](#). From the perspective of equity, taxing inherited wealth promotes equality of opportunity among individuals. It reduces differences in living standards and wealth that are only determined by birth. However, some other, and possibly competing, normative arguments should also be taken into account, such as bequest motives, and the right for individuals to transmit a legacy to their spouse and descendants.

From the perspective of efficiency, inheritance tax is generally perceived by economists

as less harmful than other proportional taxes. This is primarily because of the relatively lower scope for distortions of economic incentives. Nevertheless, two types of inefficiency may still arise from taxing inherited wealth. First, taxing inheritance may trigger migratory responses, with wealthy individuals moving to more inheritance-friendly countries and therefore exiting the tax base. Empirically, however, migrations in response to increases in wealth taxes have been shown to be very limited in scale (Kleven et al. [2020]). Besides, one could think of several means by which to mitigate such responses. For example, someone's liability to inheritance tax could be determined by citizenship, rather than residency. Alternatively, countries could (and quite a few of them do) impose stricter conditions on foreign residency as a mean to escape 'home' inheritance tax, by requiring long-term residency abroad and/or exit taxes.

The second potential type of inefficiency arising from taxing inherited wealth is individuals' responses in terms of saving, consumption, and investment behaviors. Empirical evidence on these effects remains scarce, but mostly suggests weak behavioral responses in terms of saving and consumption (Goupille-Lebret and Infante [2018]). Moreover, the redistribution of the revenue generated by inheritance tax can interact positively with other sources of inefficiencies. If redistributed at the bottom of the wealth distribution, inheritance tax could alleviate credit constraints and allow for productive investment in education, entrepreneurship or housing. In the French context, Arrondel and Masson [2011], and Arrondel, Garbinti and Masson [2014] show for example that inheriting wealth at a young age significantly increases the probability of starting a business or buying a home.

Overall, while more work is needed to further estimate the behavioral response that inheritance tax may induce, the current literature suggests limited efficiency losses from taxing inherited wealth. When added to the several benefits, both in terms of equity and efficiency, that the taxation of inheritance and the redistribution its revenue would generate, it appears quite clearly that the optimal inheritance tax rate is above zero.

4 Inheritance Tax is Unpopular and Misunderstood

There is little debate among economists on the efficacy and relevance of inheritance tax, both for its equity benefits and its ability to generate revenue without creating much distortions in the economy. Yet, inheritance tax has been particularly unpopular among public opinion. Inheritance tax tends to be perceived as a tax on lifetime labor earnings, rather than on inherited capital. Moreover, and perhaps most importantly, inheritance tax is poorly understood by the public, which tends to largely overesti-

mate the tax rates effectively paid by the ‘middle class’. This (mis)perception of inheritance taxation was extensively studied in the U.S. (Stantcheva [2020]), as well as in the French context (Rodrik and Stantcheva [2021]). Using a set of surveys conducted over a large sample of the French population, they find that inheritance tax is indeed very unpopular, including relative to other taxes, such as the French wealth tax (‘ISF’). This research also shed light on a moral dilemma that respondents face, depending on whether they view the question from the perspective of children, or parents. Very few respondents wish for children to be exposed to different levels of wealth and opportunities by birthright. But parents value the right of transmitting a legacy to their children, and are therefore reluctant to having their inheritance taxed.

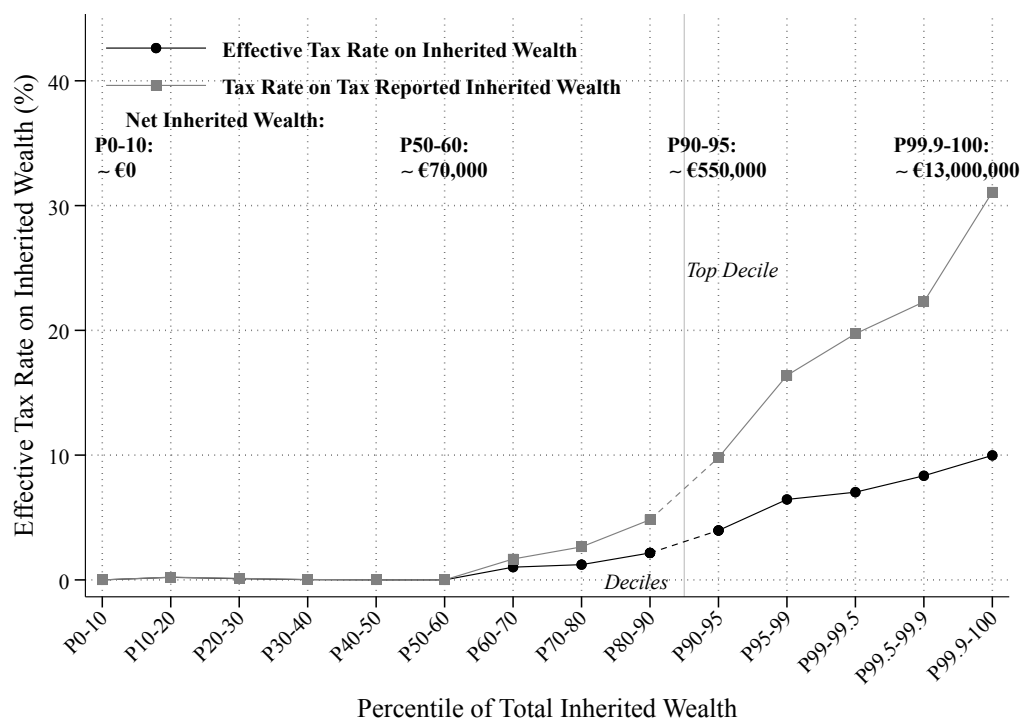
Furthermore, Rodrik and Stantcheva [2021] find that most individuals completely misperceive both the functioning of the inheritance tax and the effective liability of the average citizen. A majority of respondents wrongly believes that inheritance tax is flat, i.e., that there is a unique tax rate for all levels of inherited wealth. They also significantly underestimate the threshold of wealth above which inheritance tax is payable, and strongly overestimate the effective tax rates incurred by individuals across the wealth distribution.

The many biases in people’s perception and understanding of the inheritance tax system, together with the normative tension between valuing equity and bequest motives, make individuals’ opinions on that matter very responsive to informational shocks. For instance, Kuziemko et al. [2015] found that providing information on the functioning and the incidence of inheritance tax significantly increased support for these type of redistributive policies. In a broader context, Stantcheva [2021] found that improving individuals’ general understanding of the current state of inequalities and the potential benefits and drawbacks from redistribution also significantly increased support for a progressive taxation of wealth. But we should stress that people’s biased beliefs are also in large parts due to the opacity of most inheritance tax systems. The French system is a case in point. While displaying a very progressive tax scale, the effective tax rates incurred by the top of the inherited wealth distribution remain close to the rest of the population, thanks to the existence of generous tax loopholes that are generally inaccessible to the average taxpayer. These tax loopholes, which partly exempt from inheritance tax numerous forms of wealth, such as closely-held businesses, step-ups in capital gains, or trusts, are very common among Western countries, and largely undermine the intended progressivity of the inheritance tax.

To demonstrate the massive amount of inheritance tax avoidance and tax optimization taking place at the top of the wealth distribution, we computed the average tax rate paid on reported wealth and the effective tax rate on all inherited wealth, for each fraction of total inherited wealth over one’s lifetime using French administrative data for

cohorts born around 1950 to 1970. First, we find that the tax reported flow of inheritances is overall 35-40% lower than the true economic flow. This means that more than a third of inheritances are not even observed in tax data. But Figure 5 also suggests that this avoidance is massively concentrated at the top of the distribution. It showcases the massive gap between the nominal progressivity and the effective progressivity of the French tax system. While tax rates on tax reported inherited wealth increase steeply along the inherited wealth distribution, the tax rate effectively incurred when taking into account all inherited wealth follows a much flatter trajectory. For the top 0.1% of heirs in a cohort, who will inherit around 13 million euros net of taxes, the effective tax rate paid on their lifetime inheritance flow is just under 10%, very far from the top marginal tax rate of 45% that technically applies to transmissions greater than 1.8 million euros.

Figure 5: EFFECTIVE INHERITANCE TAX RATES ACROSS THE INHERITED WEALTH DISTRIBUTION



Notes: The graphs ranks each cohort of individuals by percentile of inherited wealth through their lifetime. For each percentile, the effective tax rate corresponds to the average amount of taxes paid on transmissions (donations and inheritance), divided by the average economic value of (lifetime) inherited wealth. The tax rate on reported inherited wealth corresponds to the taxes paid on transmissions (donations and inheritance), divided by the average tax reported value of (lifetime) transmitted wealth.
Source: [Dherbécourt et al. \[2021\]](#)

Overall, the unpopularity of inheritance taxation does partly draw from genuine nor-

mative views on the importance of bequests and legacy. However, the lack of knowledge regarding the extent of wealth concentration and the role of inheritance flows, as well as misinformation around the actual functioning and incidence of inheritance taxation, seems to play an equally important role in its lack of popular support. If one wants to get progressivity to work, it therefore seems absolutely key to restore transparency in inheritance tax systems.

5 Reforming Inheritance Tax Systems: Some Guiding Principles

Inheritance taxation is arguably desirable from an economic and normative standpoint, and we are in a unique historical period where restoring progressivity in the taxation of inheritance flows appear critical to prevent the extreme concentration of wealth at the top, the solidification of a dynastic class of rentiers and the demise of social mobility along the wealth distribution. Yet, faced with such urgency, the inheritance tax systems of most Western economies are failing on all fronts. They have first failed in hindering the return of inheritance as the main driver of individuals' wealth rank in society. They have also failed in being truly progressive, with the top of the inherited wealth distribution benefiting from various tax loopholes that bear limited - if not any - economic justification. Finally, they have failed in being accepted and truly understood by the public, both in terms of their aim and functioning.

Most inheritance tax systems are therefore broken, unable to cope with the task, and there is a real risk that more countries engage, like New Zealand (in 1992), Sweden (in 2004), or Austria (in 2008), in abolishing estate or inheritance taxation altogether at the worst possible time.

In light of the above diagnoses, economists ([Atkinson \[2015\]](#), [Blanchard and Tirole \[2021\]](#)) and international institutions ([OECD \[2021\]](#)) have called for important reforms. Here we propose four general principles that should guide such reforms, to make them more efficient and transparent, while restoring their intended effective progressivity:

- Switch to a system based on total lifetime inheritance flow, instead of taxing each transmission independently;
- Eliminate most tax loopholes, especially those that do not bear economic justification, and reinforce the effective progressivity of the inheritance tax schedule;
- Redistribute generated tax revenues as a wealth endowment for all to alleviate inefficiencies generated by credit constraints and allow for productive investments at the bottom of the wealth distribution; and,

- Create an efficient and transparent information system to assess and adjust the inheritance tax system through time.

5.1 A system based on lifetime inheritance flow

Inequalities in the wealth inherited by individuals over their lifetime are extreme. They are also much stronger than the inequalities that one may observe from annual inheritance flows. This is due to the richest heirs tending to receive numerous transmissions of similar values throughout their lifetime. Those transmissions generally come from several family members, and are split into both donations and inheritance. The current inheritance tax systems of most Western economies, because they tax each transmission independently, allow richest families to optimize the timing of transmissions and benefit several times from the tax exemption threshold in place. The independent treatment of each transmission plays an important role in explaining the gap between the very progressive tax scale displayed, and the much lower effective tax rates incurred by individuals at the top of the wealth distribution. It also unfairly penalizes individuals that receive fewer or more uneven transmissions, and therefore feeds into the unpopularity of inheritance tax among the public. The need for an integrated succession tax system that would be independent of the number and timing of transmissions has been extensively discussed in the economic literature, following the early work of William Vickrey in the mid 1940's (Vikrey [1944]). Consistently, we propose in this paper a succession tax system that would be based on total lifetime inherited wealth, rather than individual transmissions. This type of taxation, often referred to as *accession tax*, was formally introduced by Rudick [1945], and frequently brought back into the policy debate by economists (Meade [1978]) and legal scholars (Halbach [1988]). Such a system would prevent optimization of the timing of transmissions from the part of richest families, while making it fairer to people receiving fewer and/or more uneven transmissions. It would also permit a less aggressive tax schedule, with a higher exemption threshold, and make the system more transparent to the public, by reducing the gap between the tax scale displayed and the tax rates effectively incurred. In the current system, someone receiving throughout their lifetime three donations of €100,000 each, and who then inherit €200,000 from both their parents, would incur a much lower overall effective tax rate than someone that would inherit €700,000 all at once from a single inheritance. In our proposed system, the value of all previous transmissions would be taken into account to determine the relevant marginal tax rate for each new transmission, so that both individuals face the same effective tax rate throughout their lifetime.

In addition, moving to a system based on lifetime inheritance would eliminate several

distortions. First, it will suppress the distinction between direct and indirect transmissions. Countries like France have been applying different tax rules depending on the family relationship between the deceased and the heir, differentiating between direct, i.e., parent-to-children, and indirect, i.e., other transmissions. These distinctions bear limited economic rationale, and may prevent efficient transmission decisions. If for example, a wealthy grandparent wants to donate wealth to her credit-constrained grandchildren to allow them to productively invest in their education, a tax system that would aggressively tax indirect transmissions relative to direct ones may discourage her to do so. Second, a system based on lifetime inheritance would also eliminate distortions in the timing of transmissions. Current systems generally bear numerous rules and incentives regarding the timing of donations, such as tax rebates for early donations, and specific time requirement between each transmission. All these incentives distort the timing of transmissions, as they prevent individuals from donating the most adequate amount at the most adequate time, depending on their relatives' needs and life events. If for example, a wealthy parent would like to donate now a significant portion of her wealth to her credit-constrained daughter to allow her to optimally invest in her business, current timing incentives would instead push her to donate a smaller than optimal amount now, and similarly small amounts much later in the future.

Overall, switching to a system based on lifetime inheritance flows would bear significant advantages in terms of fairness, transparency, and efficiency. This explains why this idea has frequently been put forward by economists ([Atkinson \[2015\]](#); [Blanchard and Tirole \[2021\]](#)). Several countries, such as Ireland, have already successfully switched to a lifetime-based system. Building on these first experiences, we also know that the move to a lifetime-based system does not require heavy technical adjustments, conditional on being able to record individuals' total inherited wealth over time.

5.2 Eliminate tax loopholes

In the U.S., inherited estate wealth of more than \$1,000,000 faces a marginal tax rate of 40%. In France, the marginal tax rate for direct transmissions above €900,000 is 40%, and 45% for wealth exceeding €1,800,000. Yet, the effective tax rate incurred by individuals at the top 0.1% of the inherited wealth distribution hardly reaches 10%, in spite of inheriting on average €13,000,000 over the course of their lifetime. As shown in [Figure 5](#), a lot of this gap can be explained by the many tax loopholes in place in Western economies, allowing richest families to have a significant portion of their wealth avoid inheritance taxation. As we will see, these loopholes generally bear very limited - if not any - economic justification, while creating many distortions that affect the efficiency

of saving and transmission behaviors. Moreover, they are generally only available to the very top of the wealth distribution, which raises important equity concerns. We therefore believe that eliminating these loopholes is the only way of truly improving the effective progressivity of the inheritance tax system. If not, any increase in the progressivity of the nominal tax schedule would disproportionately punish the upper middle class, while still allowing the very top of the wealth distribution to get most of their wealth exempted from the tax base. Such an increase in nominal progressivity without reforming the tax base would not improve effective progressivity and would only reinforce the unpopularity of the inheritance tax system.

In the context of France, we identify at least three major tax loopholes that currently allow top heirs to drastically reduce their tax liability: life-insurance, trusts, and closely-held businesses.

There is no strong economic argument for taxing life-insurance at a lower rate relative to other types of transmitted wealth. We therefore propose to integrate life-insurance to the general inheritance tax regime. Similarly for trusts, the tax exemptions and/or rebates in place do not provide any credible efficiency gain, while almost exclusively benefiting the top of the inherited wealth distribution. In the context of our proposed lifetime-based inheritance tax system, we would therefore also suggest taxing transmissions through trusts as any other type of transmitted wealth.

For transmission of closely held businesses, a higher tax rate does raise some valid efficiency concerns. If credit constraints are strong, the burden of inheritance tax may hinder productive investments, negatively affect the firm's employment and governance, and even threaten the firm's survival as a whole. In practice however, the empirical literature has found these effects to be very small, if not null. [Bach et al. \[2021\]](#) find for example that strongly reducing wealth tax for entrepreneurs has no significant effect on investment, employment or governance in their firm, even two years after the reform. There has also been no clear empirical evidence in the literature that incentivizing heirs to participate in the governance of their inherited firm improved its performance or development in any way ([Bennedsen et al. \[2007\]](#)). On more normative grounds, we may also ask ourselves whether an economy where productive assets would be increasingly allocated by birthright, rather than through labor, is a desirable outcome. We would propose as a minimum to strengthen monitoring and inspections to prevent abuses, cap exemptions for very large firm and remove age-specific incentives that distort the timing of transmissions. As a preferred option, we would recommend to strongly reduce the scope for tax exemptions related to professional wealth as a whole, and in exchange allow for tax payments to be spread across a very long period of time, to prevent any inefficiencies arising from liquidity constraints.

Additionally, we would also suggest reviewing the current exemptions in place on

step-ups in capital gains, which allow heirs to be exempted from paying taxes on step-ups in inherited wealth. While mostly benefiting to the very top of the wealth distributions, these exemptions create important fiscal distortions and do not hold much justification from an economic standpoint. We would therefore propose to tax step-ups in inherited wealth consistently with the regime in place for other types of wealth. This tax on step-ups could for example be paid by heirs at the time of sale of their inherited asset, as it is already the case in several developed countries (see [OECD \[2021\]](#)).

5.3 Use inheritance tax revenues to fund wealth endowments for all

As discussed in Section 3, guaranteeing a wealth endowment for all is arguably desirable for both equity and efficiency reasons. From an equity standpoint, providing a wealth endowment to individuals with no or very little wealth would reduce the severe inequalities observed at the bottom of the wealth distribution. On the efficiency side, this wealth transfer would alleviate inefficient credit and liquidity constraints that prevent the bottom of the wealth distribution from productively investing in education, businesses, or housing. While in this paper, we make the argument for a direct redistribution of the generated tax revenue as endowments, one could think of many other ways in which to use that additional revenue to improve equality of opportunity. Indeed, the obstacles to social mobility go well beyond inequality of wealth: access to education, parental background, geographic concentration of poverty, and many other factors are likely to shape paths of disadvantage, and all deserve to be tackled with active policymaking. However, these policies often have a hard time targeting the right population, as they are conditional on specific behaviors (pursuing education, living in a particular place, etc.). With that regard, an endowment for all would allow on the contrary to reach all individuals, unconditional on their behaviors. The benefits of this reform explain why it has frequently been put forward by economists ([Atkinson \[2015\]](#); [Blanchard and Tirole \[2021\]](#)). Such a system could be based on citizenship at birth, and the wealth transfer could be made when individuals reach 18 years-old, 25 years-old, or at the time of the first received transmission. One should also note that to really alleviate liquidity and/or credit constraints, the wealth transfer has to be large enough. [Balboni et al. \[2021\]](#) indeed show that small transfers of wealth do not allow poor individuals to sustainably invest and consequently escape poverty. This phenomenon, frequently referred to as the *poverty trap*, motivates our argument for a large, one-off wealth transfer, rather than for monthly or yearly benefits. The transfer should also not be conditioned or constrained in its use. Any condition or constraint would indeed create distortions, and potentially prevent individuals from making the most efficient investment decision, based on their own knowledge of their

abilities, personal situation and aspirations. Moreover, the paternalistic concerns that the acquired wealth would be 'misused' or affect individuals' labor supply are not supported by the empirical literature (see [Banerjee, Duflo and Sharma \[2020\]](#)). Finally, we note that these concerns are rarely raised when it comes to wealth transfers at the other end of the wealth distribution.

5.4 Build efficient and transparent information systems

While the above suggestions can all be implemented independently from one another, all of them require as a prerequisite to build an efficient and transparent information system. A lifetime-based inheritance tax system must be able to track individuals' accumulated inherited wealth overtime. Reducing the scope of tax loopholes and preventing abuses implies that the tax authorities will have access to sufficiently precise data on individuals' inherited wealth in order to effectively conduct monitoring and inspections. Redistributing the tax revenue as wealth transfers requires to be able to effectively estimate the revenue generated by inheritance tax. Moreover, these transfers can only be targeted to the bottom of the wealth distribution if individuals' full wealth is being precisely recorded. Finally, an efficient and transparent information system is necessary to be able to predict and evaluate the effects of the reforms, and to adjust the system as required.

6 Can Inheritance Taxation Truly Deliver Equality of Opportunities? Some Simulations

Inheritance tax reform is long overdue, and the principles suggested above can provide useful guidance. But one question remains: can these reforms single-handedly level the playing field when it comes to wealth inequality? How much do they restrain wealth concentration? Can they alone prevent the creation of a class of rentiers by inheritance at the top of the distribution? To give a sense of the effects of such reforms, we simulated the impact of various scenarios of reforms in France on the distribution of total lifetime inherited wealth by cohort, and on the effective tax rates and transfers received along the distribution. All scenarios share some important features. In each one, we consider the effect of the reform in steady state for a cohort of individuals born in the 1960s and to which the new tax schedule would have applied to the sum of all inheritances received over their lifetime; and we assume that the extra revenues generated would have been used to fund a wealth endowment at birth. But the scenarios differ in terms of:

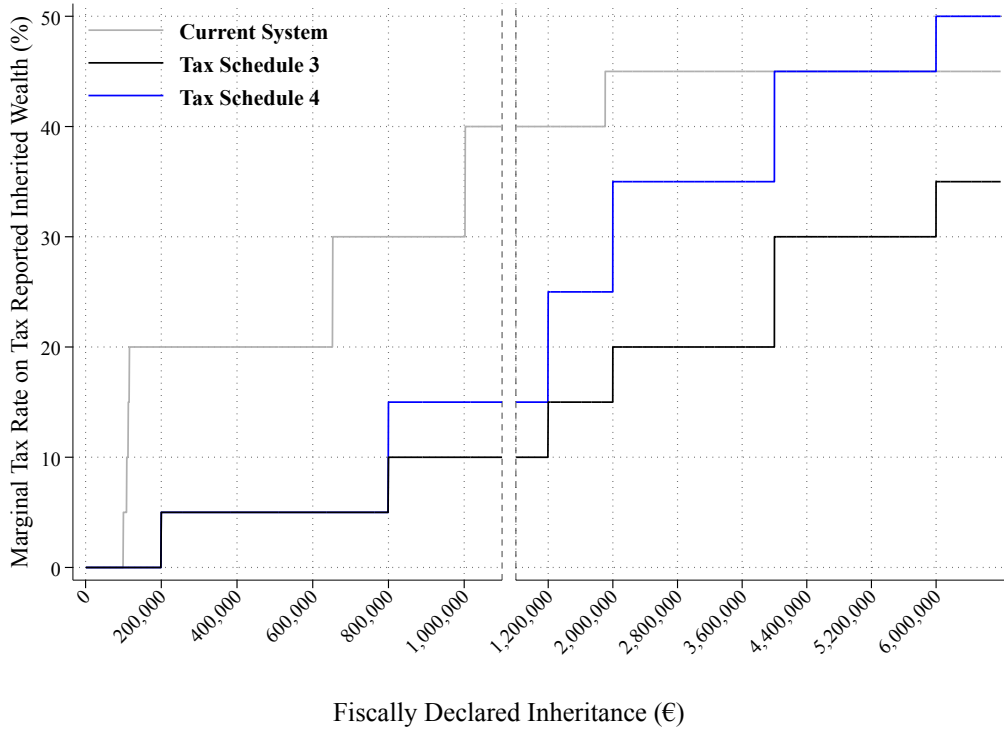
1. The extent to which they restrain tax exemptions, close loopholes and enlarge the tax base;
2. The progressivity of the nominal tax schedules they apply; and
3. The amount of wealth endowments at birth.

Results of these simulations are presented in Figures 6 and 7. Three main lessons arise from this exercise.

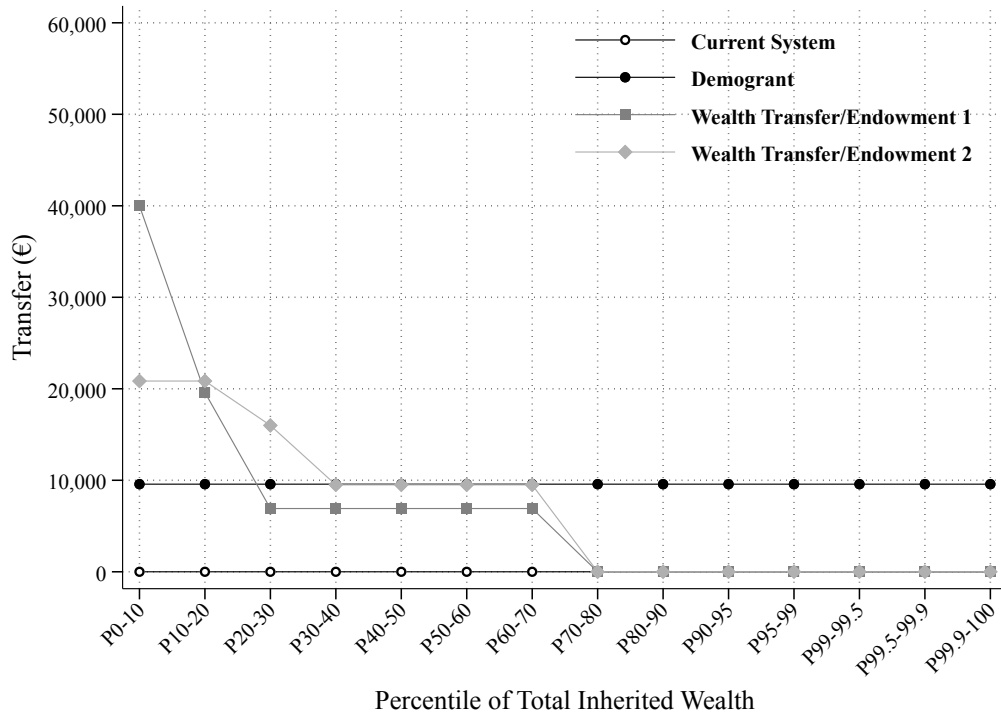
First, reforming the tax base can yield substantial tax revenues, due to the massive amount of avoidance and tax optimization at the top of the inheritance distribution. Second, the concentration of top inheritance flows is such that, absent other forms of taxation on capital, inheritance tax alone cannot make a big difference, unless top rates are set extremely high, way above 50%. Indeed, in our most progressive scenario, with effective average tax rates above 40% for the top 0.1% of inheritances, the ratio between the net inherited wealth of the top 0.1% of heirs and that of the median heir would still be above 40. Reducing this ratio further through inheritance taxation alone could prove difficult, both politically and constitutionally. Continuously taxing the flow of income generated by wealth might be a much more effective way to limit the concentration of inherited wealth at the top. Third, and finally, our simulations on endowments suggest that, in order to truly offer opportunities for the bottom 50% of the population that receives next to nothing, one would need much more substantial endowments than the ones that can be financed by additional tax revenues from reforming the inheritance tax base. Despite the substantial tax revenues generated, the level of a demogrant transfer, given to everyone, would hardly be larger than 10,000 euros. Wealth transfers could of course be made more substantial at the bottom, rather than resorting to a demogrant. But the problem is that this would impose large implied marginal tax rates on bequests by parents at the bottom of the wealth distribution, which is problematic both on equity and efficiency grounds.

Figure 6: NOMINAL TAX SCHEDULES AND DIRECT WEALTH TRANSFERS UNDER DIFFERENT SIMULATIONS OF REFORMS IN FRANCE

A. Nominal Tax Schedules

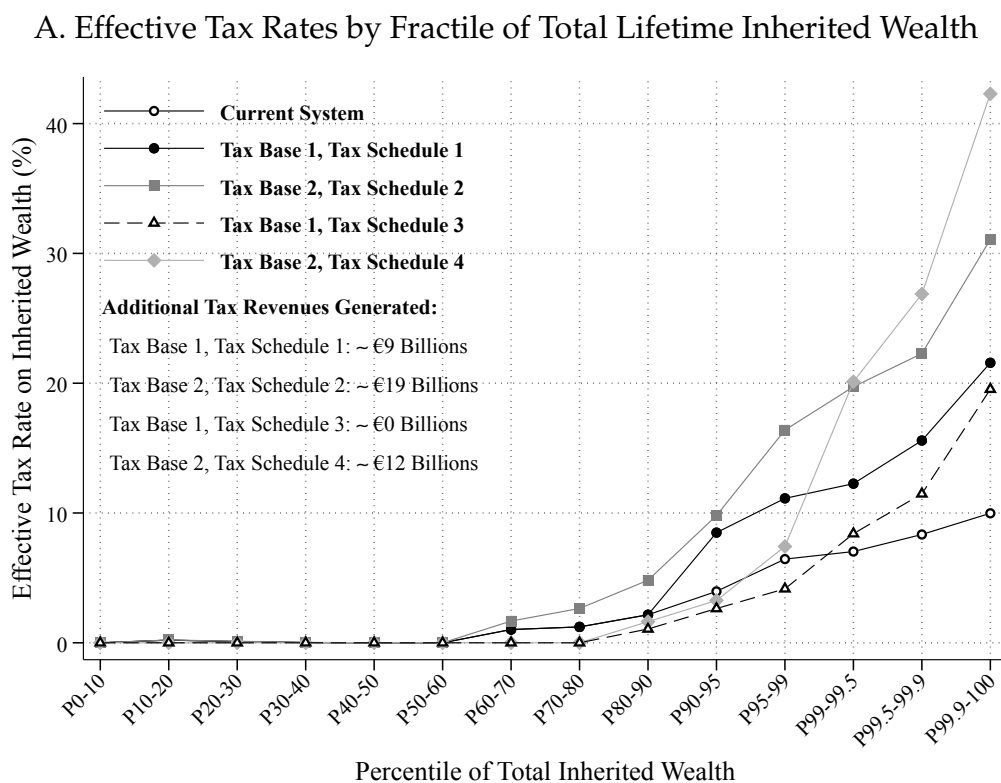


B. Wealth Endowments

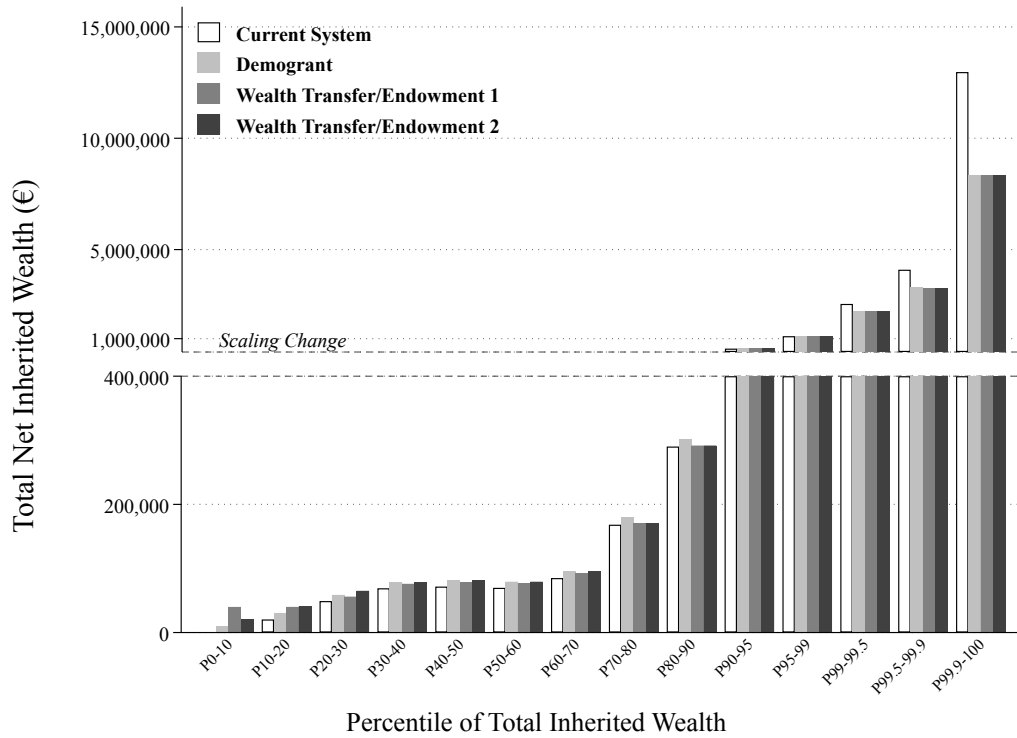


Notes: Panel A compares the different reforms of the inheritance tax schedule tested in [Dherbécourt et al. \[2021\]](#) and [Biernat et al. \[2021\]](#). Tax schedules 3 and 4 do not depend on the timing and number of transmissions, and does not distinguish between direct and indirect family links, consistently with our argument for a uniform, lifetime-based system. On the contrary, the current system treats each transmission separately and applies different rates and rebates depending on family links. The current schedule displayed is therefore only comparable to schedules 3 and 4 in the case where an individual receive all their inheritance at once, from their parents. Additionally, one should note that while schedules 3 and 4 display lower marginal tax rates than the current schedule, we have applied these schedules to larger tax bases than in the current system, consistently with our argument for removing most of inheritance tax loopholes and exemptions. This allows to generate additional tax revenue, while displaying lower nominal rates. Tax schedule 4 has been designed so that 99% of the population would be positively affected or unaffected by the reform (i.e., only the top 1% would pay more inheritance tax). Tax schedule 3 corresponds to the rates that shall be applied to maintain the same tax revenue as currently, while enlarging the tax base to eliminate tax loopholes and their accompanying distortions. Panel B compares the different types of endowment that could be redistributed from the tax revenue generated by the reform (see also [Dherbécourt et al. \[2021\]](#) and [Biernat et al. \[2021\]](#)). The values displayed correspond to a reform scenario using tax schedule 4 on a tax base that would eliminate most tax loopholes, and where 99% of the population would be positively affected or unaffected by the reform (i.e., only the top 1% would pay more inheritance tax).

Figure 7: EFFECTIVE INHERITANCE TAX RATES AND NET INHERITED WEALTH UNDER DIFFERENT SIMULATIONS OF REFORMS IN FRANCE



B. Total Net Inherited Wealth by Fractile of Total Lifetime Inherited Wealth



Notes: Panel A compares the effective tax rates implied by the different reforms of the inheritance tax tested in [Dherbécourt et al. \[2021\]](#) and [Biernat et al. \[2021\]](#). The effective tax rate corresponds to the average amount of taxes paid on transmissions (donations and inheritance), divided by the average economic value of (lifetime) transmitted wealth. The tax revenue of the current inheritance tax system is €15 Billions. Panel B compares the net inherited wealth across the wealth distribution in the current system with the net inherited wealth after the reform and redistribution of the additional tax revenue as wealth endowments. Once again, the scenario selected here is the one that positively affects - or does not affect - 99% of the population (Tax Base 2, Tax Schedule 4)

7 Conclusion: Inheritance Taxation Cannot Do the Heavy-Lifting Alone.

Inheritance is returning as a 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 the drastic inequality of opportunities brought by inherited wealth. It is too unpopular. And it creates large and sudden tax liabilities. This in turn can force the sale of illiquid assets, portfolio reallocation, etc. It can also potentially affect investment, ownership structure and economic development of closely-held businesses. Progressive taxation of wealth or capital income is therefore a necessary complement to inheritance taxation, to reduce the concentration of wealth at the very top, and ensure everyone starts with some minimal wealth endowment in life.

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