conseil d'analyse
économique
French Council of Economic Analysis

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Rethinking Inheritance

Les notes du conseil d'analyse économique, no 69, December 2021

The second half of the 20th century saw a decline in wealth inequality and strong economic and social mobility. Today inheritance is once again a determining factor in the constitution of wealth in the industrialized countries. In France, inherited wealth now accounts for 60% of total wealth, up from 35% in the early 1970s. This return of inheritance, which is extremely concentrated, reinforces wealth inequality based on birth, the scale of which is much higher than the inequality observed for earned income. This explains the renewed international interest in inheritance redistribution policies to promote equal opportunity.

France's high levels of inheritance taxation compared to its neighbours are largely due to the continuation of significant differences in taxation between direct and indirect lines of inheritance, despite profound changes in family structures. Even though the French tax system is progressive in principle, its progressivity is nevertheless weakened by tax waivers and exemptions (life insurance, the dismemberment of property, transmission of family businesses, etc.) that have little economic justification. We present an original quantified analysis of the tax cost of these exemptions and show that they mainly benefit the largest transfers and that they very significantly reduce the progressivity of taxation at the top of the distribution. The unreliability of the current tax collection information system makes it impossible to assess the situation accurately. This is harmful for several reasons: difficulty in evaluating tax policies, inefficient tax controls, a lack of public information... The public considers inheritance tax to be one of the least acceptable ones, mainly due to misperceptions and a lack of information.

This *Note* proposes a thorough reform of inheritance taxation based on four pillars. The first pillar is the improvement of the current information system, which is indispensable for reform and oversight. The second pillar is the introduction of a policy that taxes the total inheritance flow received by an individual throughout their life in order to reduce wealth inequalities arising from inheritance. Such a system would eliminate distortions related to sequential inheritances and treat direct and indirect inheritances similarly. The third pillar consists of an overhaul of the inheritance tax base: reducing or even eliminating the main exemptions and waivers that have little economic justification. This would make it possible to introduce lower but genuinely progressive nominal rates, particularly at the top of the wealth distribution, while reducing rates lower in the distribution. Finally, to reduce the most extreme inequalities at the bottom of the distribution, the fourth pillar would create a capital guarantee for all. Our simulations of different scenarios show that a reform that broadens the tax base but lowers nominal rates can reduce inheritance taxes for 99% of the population while bringing in substantial additional tax revenue to finance public spending or to reduce inheritance taxes for smaller inheritances or other household taxes.

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The return of inherited wealth, and its importance as a driver of inequality

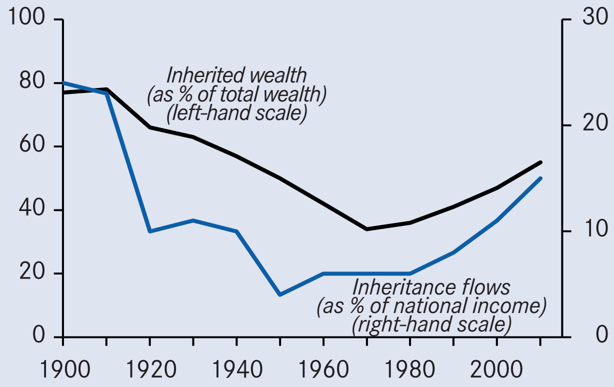
At the end of the Belle Epoque (1870-1914), France was, from the perspective of wealth, a society of heirs, like many other developed countries. Society was characterized by very high levels of inequality largely determined by birth, but the country underwent a brutal reorganization during the first part of the 20th century, under the impact of a series of economic, political and social shocks. The second part of the 20th century was then characterized by low inequality and high economic and social mobility. Wealth, and in particular inherited wealth, did not play a very important role, and inequality was primarily shaped by inequalities in labour income.

Inheritance is back

However, over the last thirty years or so, this "heir-free" society has been disappearing at great speed. Four main facts help to explain this. First is the sharp increase in wealth as a proportion of total income: wealth represented 300% of national income in 1970, compared with 600% in 2020. Next, and this is the second important fact, the concentration of wealth has increased significantly over the last thirty years. This trend, which is very strong in the United States,[1] can also be observed in France,[2] where the share of the wealthiest 1% in total wealth rose from 15% to 25% between 1985 and 2015.[3] Third, the flow of inheritance is increasing sharply: whereas the sum of inheritances represented barely 5% of national income in 1950, it now exceeds 15% (Figure 1). In other words, while the mass of accumulated wealth is increasing rapidly, it is not entirely consumed during one's lifetime, a significant part being passed on to future generations. As a result, inheritance is once again becoming a determining factor in the constitution of wealth (Figure 1): inherited wealth now represents 60% of total wealth, compared with an average of 35% in the early 1970s. While this trend is common to all developed countries, it seems particularly strong in France.

Inheritance has also changed in form and nature. First of all, the age of heirs has risen considerably, as life expectancy has increased. The average age of heirs is now around 50, compared to 30 at the beginning of the last century. At the same time, the proportion of inter vivos gifts has also risen sharply: in around 1900, it was just over 10% of all transfers; today it accounts for almost half. Estate transfers are therefore more spread out over time, and much more planned than before. Finally, it is much rarer to die without a spouse or direct heirs than it was a century ago. The share of indirect inheritances has therefore decreased. However, the French tax system continues to treat indirect inheritances extremely differently, despite the profound changes in family structures, which are leading more and more families to make voluntary gifts to stepchildren or collateral relatives. France is not alone in this, but it stands out for its significantly higher marginal rates in the indirect line, even for small transfers. This explains why, despite representing less than 10% of the capital transmitted, indirect successions and gifts bring in more than 50% of the inheritance tax (droits de mutation à titre gratuit or DMTG), and partly account for the high share of DMTGs in GDP in France, compared to other OECD countries.[4]

1. The return of inheritance: Inheritance flows in national income and share of inherited wealth in total wealth in France (1900-2010)



Note: The inheritance flow corresponds to the economic value of the sum of asset transfers (donations and inheritances) made each year. The inheritance flow is expressed here as a percentage of national income. For an international comparison, see Biernat *et al*. (2021).

Sources: Piketty T. and G. Zucman (2015): "Wealth and Inheritance in the Long" in *Handbook of Income Distribution*, vol. 2, Elsevier, pp. 1303-1368; Alvaredo F., B. Garbinti and T. Piketty (2017): "On the Share of Inheritance in Aggregate Wealth: Europe and the USA, 1900-2010", *Economica*, vol. 84, no 334, pp. 239-260.

The authors would like to thank the members of the CAE for their advice, Kevin Parra Ramirez and Thomas Renault, Scientific Advisors at the CAE, for their follow-up, Étienne Fize, Economist at the CAE, for his help in the elaboration of this Note, as well as Camille Biernat and Nicolas Grimprel for their contribution to data analysis. They would also like to thank the various people they met in the course of this work, in particular Marc Bornhauser and Laurent Martel, as well as the various departments of the DGFiP for the data extraction work carried out and the explanations provided.

[1] Saez E. and G. Zucman (2016): "Wealth Inequality in the United States Since 1913: Evidence from Capitalized Income Tax Data", *The Quarterly Journal of Economics*, vol. 131, no. 2, pp. 519-578. Smith M., O.M. Zidar and E. Zwick (2021): "Top Wealth in America: New Estimates and Implications for Taxing the Rich", *National Bureau of Economic Research*, no w29374.

[2] Garbinti B., J. Goupille-Lebret and T. Piketty (2018): "Income Inequality in France, 1900-2014: Evidence from Distributional National Accounts (DINA)", *Journal of Public Economics*, no 162, pp. 63-77.

[3] The use of data from the ranking of large fortunes (Challenges) and some tax data make it possible to confirm that this trend towards an increase in the concentration of wealth of living persons (as well as that of the concentration of wealth at death) has continued since 2015, as explained in Biernat C., C. Dherbécourt, G. Fack, É. Fize, N. Grimprel, C. Landais and S. Stantcheva (2021): "Repenser l'héritage: analyses supplémentaires", *Focus du CAE*, no. 77-2021, December.

[4] Inheritance taxes now account for about 0.6 % of GDP, compared to an average of about 0.3 % in OECD countries. For more details on all these stylized facts, see parts 1 and 2 of Biernat *et al*. (2021).

Inheritance and inequality of opportunity

Why should we be concerned about the return of inheritance? Because this development could profoundly affect equality of opportunity, a cardinal value of democratic societies and a condition for their long-term existence. Inherited wealth is indeed more unequally distributed than the other possible forms of transmission between generations (human capital, etc.), and it plays a fundamental role in the constitution of deep "dynastic" inequalities of wealth. Using French tax data, we have attempted to measure the distribution within a cohort of all inheritances and property transfers received throughout life (excluding spousal transfers), net of inheritance tax paid. Because inheritances are planned, i.e. because inter vivos gifts have become an important part of inheritance strategies, and because as a result many heirs will receive multiple transmissions over the course of their lives, it is essential to cumulate all the transmissions received in order to determine the extent of inequality of inherited wealth between individuals of the same generation.

The results presented in the Focus associated with this Note demonstrate the extreme concentration of inherited wealth (see Biernat, Dherbécourt, Fack, Fize, Grimprel, Landais and Stantcheva, 2021). Within a cohort, 50% of individuals will have inherited less than 70,000 euros of wealth throughout their lives, and of these, a large fraction will have inherited no wealth at all. On the other hand, fewer than 10% of individuals will inherit more than 500,000 euros of wealth over their lifetime. Even within this last decile, the concentration is extreme: the top 1% of heirs in a generation will receive on average more than 4.2 million euros net of taxes, and the top 0.1% about 13 million euros. The average inheritance of the top 0.1% is therefore about 180 times the median inheritance. In comparison, within this same cohort the ratio between the average labour income of the top 0.1% and the median labour income is just over 10. By simply living on annuities, the top 1% of heirs in a cohort can now achieve a higher standard of living than the top 1% of "workers". To reach the very top of the standard of living distribution, it becomes almost imperative to be lucky enough to inherit.

Is there a risk that this extreme concentration of inheritances within each cohort will lead to a long-term increase in the concentration of wealth, reducing social mobility by solidifying "dynastic"-type inequalities in wealth? In other words, will the children of today's rich necessarily be tomorrow's rich? Recent studies, using very precise Scandinavian administrative data, show that the intergenerational correlation of wealth is very high and almost twice as high as the intergenerational correlation of labour income.[5] This correlation is also much higher at the top of the distribution of parental wealth, even when controlling for a broad set of observable characteristics. Nekoei and Seim (2021) also show that labour supply and saving behaviours tend to reinforce the role of inheritance in shaping long-term inequality:[6] rich inheritors have higher rates of return and spend less of their inheritance than individuals inheriting small amounts.

The return of inheritance thus augurs a negative dynamic that reinforces inequalities based on birth. We have certainly not returned to the annuitant society that prevailed before 1914: the concentration of inheritances is still lower than it was then, and the role of "human capital" and labour income in determining living standards is much more important for a large majority of the population.[7] But inherited wealth has once again become the fundamental determinant for reaching the top of the living standards distribution. This explains the renewed interest, in all developed countries, in inheritance redistribution policies as a lever for promoting equality of opportunity. The OECD recently advocated an overhaul and strengthening of inheritance taxes,[8] as did the Blanchard-Tirole report in France.[9]

How to redistribute the flow of inheritances?

Inheritance tax as a trade-off between equity and efficiency

When it comes to promoting equity, economists, following the second theorem of welfare economics, always tend to recommend redistributing "initial endowments" rather than redistributing via tools that distort incentives (such as income taxation). There is thus generally a high degree of consensus among economists that redistributing the estate flow is a good way to promote equality of opportunity.[10] In

[5] The rank-rank correlation is about 0.3 in Denmark, 0.35-0.40 in Sweden. The intergenerational correlation increases with the age at which children's wealth is observed. Boserup S.H., W. Kopczuk and C.T. Kreiner (2018): "Born With a Silver Spoon? Danish Evidence on Wealth Inequality in Childhood", *The Economic Journal*, vol. 128, no 612, pp. F514-F544.

[6] Nekoei A. and D. Seim (2021): "How Do Inheritances Shape Wealth Inequality? Theory and Evidence from Sweden", *The Review of Economic Studies*, forthcoming.

[7] Black S.E., P.J. Devereux, F. Landaud and K.G. Salvanes (2020): "Where Does Wealth Come From?", *National Bureau of Economic Research*, no w28239. Piketty T. (2013): *Le capital au XXI^e siècle*, Le Seuil.

[8] OECD (2021): "Inheritance Taxation in OECD Countries", *OECD Tax Policy Studies*, no 28, OECD Publishing, Paris, https://doi.org/10.1787/e2879a7d-en.

[9] International Commission chaired by Olivier Blanchard and Jean Tirole, *cf*. Blanchard O.J. and J. Tirole (eds.) (2021): *The Major Future Economic Challenges*, June.

[10] When it comes to putting these ideas into practice in the context of the redistribution of the succession flow, how to define the normative criterion could come into question. The motives for bequeathing one's wealth to one's children are indeed multiple (altruism, pleasure of giving, involuntary bequests, etc.) and have different theoretical and normative implications. See Kopczuk W. (2013): "Taxation of Intergenerational Transfers and Wealth", in *Handbook of Public Economics*, vol. 5, pp. 329-390, Elsevier.

practice, the world is quite different from the one assumed by welfare economics theorems, and the optimal estate tax can be thought of as a trade-off between considerations of equity and efficiency, as with other taxes (Piketty and Saez, 2013; Saez and Stantcheva, 2018).[11] From an equity perspective, inheritance tax is first and foremost an equal opportunity policy, reducing birth-related differences in living standards and wealth. On the efficiency side, inheritance tax could lead to behavioural changes that may reduce the tax base and result in a deadweight loss. Among these behavioural responses, two main types deserve our attention. The first are migratory responses. In an "uncooperative" international environment, where each country may try to compete fiscally with its neighbours, imposing high taxes on inheritances may encourage the wealthiest to change their tax residence. To what extent does the migration behaviour of the wealthiest impose a limit on the progressivity of inheritance taxes? The consensus, based on a large literature on the impact of taxation on mobility (Kleven *et al*., 2020),[12] is that the constraint imposed by these migratory responses is weak.[13] This migration constraint can, moreover, be controlled by specific measures, such as a system based on citizenship, or long-term residence, with long delays required to benefit from inheritance taxation in another country.

The second type of response relates to savings, consumption and investment behaviour. Higher inheritance taxes have theoretically ambiguous effects on savings or labour supply. However, we know very little about these behavioural responses. The work of Goupille-Lebret and Infante (2018)[14] in the French context nevertheless suggests that the effects on savings and consumption are a priori rather small.[15] It should also be noted that the impact of these behavioural responses on economic efficiency (the so-called "size of the pie") depends on how the extra tax revenue is used. In the presence of credit constraints, the redistribution of revenues down the inheritance distribution can have positive effects in terms of economic efficiency, by favouring access to certain productive investments such as education,[16] entrepreneurship or housing. In the French context, for example, Arrondel and Masson (2011 and 2014)[17] show that young households receiving an inheritance are much more likely to start a business or buy a house.

To summarize, while uncertainties remain about the exact magnitude of some behavioural responses, the robust results from optimal taxation show that it is desirable to tax inheritance. The optimal tax rate on inheritance is therefore clearly not at zero: eliminating estate taxes, as some developed countries have done, cannot be justified theoretically or empirically by economic analysis, neither in terms of equity nor in terms of efficiency. While there is no debate about taxing inherited wealth, there may be questions about its integration into the broader framework of taxation of wealth and capital income. Should wealth be taxed at the time of transmission, or throughout the life cycle, by taxing the stock of wealth or the income it generates? In practice, estate taxes are complementary to other forms of capital taxation. They better target wealth inequality at birth and offer a back-up solution for capital or capital income that escapes taxation during the lifetime (such as unrealized capital gains, etc.). Finally, it should not be forgotten that too large a gap between taxes on labour and capital can have harmful effects in the short and long term by encouraging tax-base substitution and tax avoidance behaviour (Rodrik and Stantcheva, 2021).[18]

Inheritance tax is very badly perceived… but also very badly understood

Although there is little debate among economists about the relevance of inheritance taxes (*cf*. Blanchard and Tirole, 2021, *op. cit*.), public opinion views them negatively. A series of recent surveys conducted on a large sample of the population sheds new light on the public's negative perceptions (Stantcheva, 2021).[19] First, they confirm that inheritance tax is unpopular among the French (and in particular that it is more unpopular than the former French wealth tax called ISF). Second, this lack of popularity goes hand in hand with a very poor understanding and a serious

[11] Piketty T. and E. Saez (2013): "A Theory of Optimal Inheritance Taxation", *Econometrica*, vol. 81, no 5, pp. 1851-1886; Saez E. and S. Stantcheva (2018): "A Simpler Theory of Optimal Capital Taxation", *Journal of Public Economics*, no 162, pp. 120-142.

[12] Kleven H., C. Landais, M. Muñoz and S. Stantcheva (2020): "Taxation and Migration: Evidence and Policy Implications", *Journal of Economic Perspectives*, vol. 34, no 2, pp. 119-42.

[13] The elasticity of the number of the wealthiest people with respect to their tax retention rate (1 minus their marginal tax rate) is around 10%. Studies specifically on capital taxation are rarer, but suggest an even lower elasticity, see Jakobsen K.M., H. Kleven, J. Kolsrud and C. Landais (2022): "Do The Rich Flee Wealth Taxes?: Evidence from Scandinavia" (forthcoming), who find no effect of the abolition of inheritance taxes in Sweden on the migration behaviour of the wealthy. Moretti E. and D.J. Wilson (2020): "Taxing Billionaires: Estate Taxes and the Geographical Location of the Ultra-Wealthy", *NBER Working Paper*, no 26387, find little elasticity in the residence choices of American billionaires in relation to estate tax differentials between states.

[14] Goupille-Lebret J. and J. Infante (2018): "Behavioral Responses to Inheritance Tax: Evidence from Notches in France", *Journal of Public Economics*, no 168, pp. 21-34.

[15] Knowledge about the heterogeneity of these behavioural responses along the distribution of inherited resources is also limited. This heterogeneity may nevertheless be important in determining the appropriate level of progressivity of inheritance taxes.

[16] Lochner, L. and A. Monge-Naranjo (2012): "Credit Constraints in Education", *The Annual Review of Economics*, vol. 4, no 1, pp. 225-256.

[17] Arrondel L. and A. Masson (2011): "Taxer les héritages pour accroître la mobilité du patrimoine entre générations", *Revue Française d'Économie*, vol. 26, no 2, pp. 23-72. Arrondel L., B. Garbinti and A. Masson (2014): "Inégalités de patrimoine entre générations : les donations aident-elles les jeunes à s'installer ?", *Économie et Statistique*, vol. 472, no 1, pp. 65-100.

[18] Rodrik D. and S. Stantcheva (2021): "A Policy Matrix for Inclusive Prosperity", *NBER Working Paper*, no 28736.

[19] Stantcheva S. (2021): "Tax Policies: How Do People Reason", *Quarterly Journal of Economics*, vol. 136, no 4, pp. 2309-2369.

lack of information about the impact and functioning of this tax: most people erroneously think that inheritance tax has a single rate and is not progressive and that the exemption threshold is significantly lower than its real level. They also strongly overestimate the effective rates paid on inheritances. These biases systematically point in the same direction, i.e. they tend to greatly overestimate the burden of inheritance tax on the middle-wealth bracket (see Biernat *et al.*, 2021, *op. cit.*). Finally, these surveys also reveal the moral dilemma faced by respondents, depending on whether they see things from the point of view of children or of parents: very few people want children to face different opportunities or destinies simply because of their birth, but at the same time, most parents do not want their inheritance to be taxed. This normative tension, together with perception biases, means that redistributive preferences on inheritance are in fact extremely malleable. Indeed, (randomly) providing information on the operation and impact of inheritance taxes significantly increases support for this type of redistributive policy.[20] It would therefore be wrong to think that negative perceptions of inheritance tax capture a structural and intangible dimension of preferences. They are rather the result of a lack of information and transparency, to which this Note partly seeks to respond.

French inheritance tax is undermined by its opacity

A critical lack of reliable data

The lack of understanding, which undermines the social acceptability of inheritance tax, is unfortunately fuelled by the absence of reliable information from the tax administration. Until 2006, regular surveys based on a sample of tax returns (DMTG) were carried out, making it possible to monitor changes in the distribution of successions and gifts and their taxation. However, since 2006, the administration has not produced any usable information that would make it possible to trace the transfers made and the duties paid.[21] This seems to be due to the unfinished overhaul by the Directorate General of Public Finances (DGFiP) of its IT system for collecting and transmitting the data collected by notaries. As it stands, the lack of a real information system relating to inheritance tax has very negative consequences, both on the oversight of tax policy (impossibility of predicting revenue trends, inability to evaluate budgetary measures and their effectiveness, risk of misleading budgets, etc.), on public information relating to this policy, and on tax administration and control. On this last point, in view of the multiplicity and complexity of the mechanisms for optimizing asset transfers (Dutreil pacts, dismemberment of property, etc.), the poor quality of tax information is a dangerous encouragement to evade taxation. As already noted in the Blanchard-Tirole report, it is therefore absolutely imperative to overhaul the information system relating to inheritance taxation. This means building a real information system at the DGFiP on the basis of declarations by notaries and insurers, on the model of the FICOVIE (a French database on life insurance contracts, see Box), and creating a register of anonymized data sent to the Secure Data Access Centre (CASD), so as to improve the quality of public statistics and allow the development of independent research on these tax data.

Recommendation 1. Overhaul the architecture for collecting and using tax data from DMTGs: harmonize the collection of data on donations and successions and build an information system at the DGFiP on the basis of declarations from notaries and insurers as in the FICOVIE model.

Approximately 40% of inherited wealth is not captured by tax sources

Despite the poor quality of existing tax data, it is possible to capture the total flow of wealth transfers each year using national accounts data, demographic data and survey data.[22] The total annual flow of wealth transfers now represents more than 15% of GDP, or EUR 300 billion. A very large proportion of these transfers escape the notice of the tax authorities: for the most recent DMTG surveys available (1994, 2001, 2006), it can be seen that the total wealth transferred declared to the tax authorities is 35 to 40% lower than the economic flow actually transferred, even when the non-declarations of small-scale wealth transfers are added (Piketty, 2011).[23] The reason for this is the presence of numerous advantageous tax arrangements and other exemptions that encourage practices to optimize asset transfers and considerably reduce the tax base of the DMTG, thereby considerably reducing the progressivity of inheritance taxation.

A base limited by exemptions and waivers

French transfer taxation is characterized by high rates in comparison to the rest of the world. Despite the reforms of the tax scale in 2007, 2011 and 2012, the theoretical tax rates on the largest inheritances have remained stable

[20] See Kuziemko I., M.I. Norton, E. Saez and S. Stantcheva (2015): "How Elastic Are Preferences for Redistribution? Evidence from Randomized Survey Experiments", *American Economic Review*, vol. 105, no 4, pp. 1478-1508; Stantcheva (2021, *op. cit.*).

[21] The representativeness of the 2010 DMTG survey sample is not established.

[22] The transmitted economic flow Bt is indeed measurable via the accounting identity $B_t = \mu_t \,.\, m_t W_t$ où W_t where Wt represents total wealth, measured in national accounts figures, mt is the mortality rate, available in demographic data, and mt is the ratio between the average wealth of the dead and that of the living, measurable in wealth surveys. This accounting identity is then adjusted to take account of inter vivos flows.

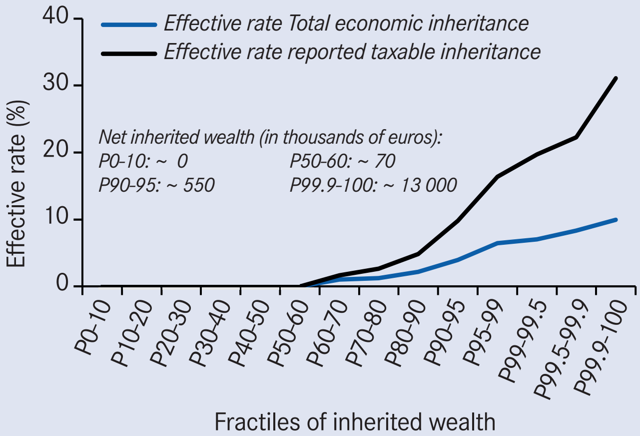
[23] Piketty T. (2011): "On the Long-Run Evolution of Inheritance: France 1820-2050", *The Quarterly Journal of Economics*, vol. 126, no 3, pp. 1071-1131.

or slightly increased (see Biernat *et al*. 2021, *op. cit*.). Nevertheless, changes in scale says little on its own about the evolution of the effective tax rate on large inheritances (above one million euros). In France, as in almost all countries that tax inheritance, certain assets and certain methods of transmission benefit from exemptions. French tax exemptions have three distinct characteristics: they are numerous, they are very generous compared to the tax norm, and they are focused on assets that the wealthiest individuals hold in large amounts. According to the simulations carried out using the latest data on transfers from the DGFiP, supplemented by the distributed wealth accounts, these exemptions mainly benefit the largest transfers: the effective tax rates on the total inherited wealth are in fact remarkably lower than those shown by the DMTG scale (Figure 2). At the top end of the distribution, the top 0.1% of each cohort, who will have received over the course of their lifetime approximately 13 million euros in gross inheritances, pay barely 10% of inheritance tax on all of this inherited wealth, a far cry from the statutory marginal rate of 45% for direct inheritances of over 1.8 million euros.

Inheritance tax actually strongly impacts the upper middle class, which makes up the bottom of the top decile of inheritances. The ratio of effective rates between the 90th percentile and the 99,9th percentile is in the order of 1 to 2, whereas the ratio of their inherited wealth is 1 to 24, and the progressivity of the nominal rates in the scale suggests that their effective rate should be at least in the order of 1 to 5. This situation feeds the feeling that DMTG taxation targets the savings of a lifetime of work and undermines their social acceptability.

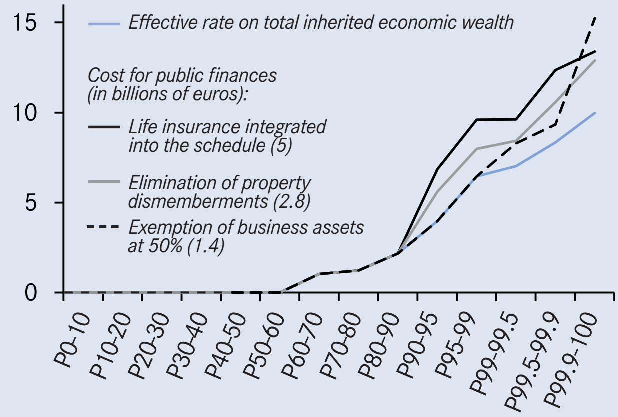
As it is impossible to make an exhaustive inventory of the various tax "niches" or exemptions and their effects on tax progressivity, we focus on the four most significant ones: transfers of business assets, transfers of life insurance policies, property dismemberments and the non-taxation of unrealized capital gains for income tax purposes at death.[24] The administrative data collected by the DGFiP in recent years provide an initial insight into the extent of these tax measures, both in terms of the cost to the Government's budget and in terms of redistribution (see Box). They show the extent to which these four mechanisms contribute to reducing the progressivity of taxation (Figure 3). It should be noted that the difference between the two lines in Figure 2 can be explained by these four tax mechanismsas well as by other mechanisms such as the non-recall of inter vivos donations made more than 15 years earlier.

2. Estimating effective tax rates on total inherited wealth



Note: The graph orders each cohort by fractile of gross inherited wealth over the life course. For each of the fractiles, the average effective tax rate paid is reported on the total wealth received ("effective economic inheritance rate") and the effective rate on the "taxable" inherited wealth is that reported in the tax sources. For more details on the construction of these estimates, see Biernat *et al*. (2021).
Source: CAE calculations based on tax and national accounts data.

3. Estimating the impact of different tax systems on effective tax rates on total inherited wealth



Note: The effective rate corresponds to the total tax paid on transfers (inheritance and gifts) in relation to the total economic wealth inherited over the life cycle. The cost for public finances of each of the exemptions in the absence of a behavioural response is shown for each counterfactual scenario.
Source: CAE calculations based on tax and national accounts data.

[24] Other methods of tax optimization include exemptions for forestry and agricultural property and historical monuments, transmission through a collective real estate company or a collective patrimonial company, or the non-referral to inheritance of gifts made 15 years or earlier. In addition, especially for the largest estates, international tax optimization or "offshoring" schemes are used. Moreover, the tax avoidance sought by such arrangements goes far beyond the sole question of inheritance tax and needs to be addressed by strengthening the exchange of information between countries and lifting banking secrecy.

The four main inheritance tax exemption or relief schemes

Dutreil Pacts

Since the end of the 1990s, following a recommendation by the European Commission, France has exempted the transfer of business assets via a 50% allowance, provided that the heirs keep their shares individually for 16 years. In 2003, the creation of the Dutreil Pacts strengthened the exemption for business assets, by increasing the allowance to 75% and reducing the holding period for the shares to 4 years. The allowance is not capped and can benefit all companies, regardless of their size. Dutreil Pacts are probably the tax measure that has the greatest impact at the top of the inheritance distribution, due to the extreme concentration of business assets. The study by Bach *et al*. (2021),[a] based on a novel matching of tax data with data on holdings of shares in listed and unlisted companies in 2017, shows that business assets represent less than 10% of total wealth up to the threshold of the wealthiest 0.1%, 30% at the threshold of 0.01%, and more than 60% for the wealthiest 0.001% (380 tax households). According to the DGFiP data to which we had access, the average value of the assets transmitted by Dutreil Pacts was about 5 million euros between 2017 and 2019. The average beneficiary of a donation or inheritance under a Dutreil Pact receives shares with an average value of around 2 million euros. The total value of assets transferred under the Dutreil Pact amounted to 8 billion euros in 2018 and 2019. About 40% of this total concerned Pacts with a value of more than 60 million euros. According to our estimates, the cost of this tax mechanism was around 2-3 billion euros in 2018-2019. According to the DGFiP, the number of Dutreil Pacts has been rising sharply for the past fifteen years. There were more than 2,000 Dutreil Pacts signed annually in 2018-2020, compared with 700 in 2008-2009.

Life insurance

The taxation of life insurance transfers represents another considerable tax exemption, given the macroeconomic weight of this asset (one-third of household financial assets). Transfers via life insurance are subject to a complex system of tax exemptions. The 1999 reform created heterogeneous schedules, depending on the date of opening of the contracts and on the age and years at which payments[b] were made, meaning that life insurance policies are not part of the estate.[c] They are either totally exempt or taxed according to an *ad hoc* schedule that does not depend on any family relationship. Transfers of life insurance policies amounted to 44 billion euros in 2019[d], more than double the level observed in 2006. It is difficult to determine precisely how these sums are distributed in the inheritance system, or the tax advantage they offer to the largest heirs.

The FICOVIE database, which was created in 2016 for tax audit purposes and covers all policies worth more than EUR 7,500 (92% of the total sums transferred in France by life insurance), does however offer some initial insight. This database provides information on the sums actually paid to the beneficiary at the time of the policyholder's death, as well as the duties levied deducted on this instance. Two main observations can be made. First, the distribution of life insurance transfers is highly concentrated. In 2017-2018, each year, around 45,000 beneficiaries inherited more than 152,500 euros, for a total of 17.5 billion euros. Of these beneficiaries, 1,900 inherited more than 852,500 euros. The latter inherited on average 2.8 million euros for a total amount of 5.5 billion euros. On the other hand, the cost of this scheme is considerable, even if it is difficult to determine precisely given the currently available data. According to our estimates, if we take taxation at the standard schedule and limit ourselves to beneficiaries receiving at least 152,500 euros per life insurance policy, it would be in the order of 4 to 5 billion euros.

Dismemberment of ownership: Bare ownership donations reserving the right to usufruct

A gift with a reservation of usufruct consists of giving only the "bare ownership" of an asset (movable or immovable), with the donor retaining the usufruct of the asset, i.e. the right to use it and to receive income from it. The tax advantage comes from the fact that the amount of transfer tax is based on the value of the bare ownership, which is considered to be lower than the value of the entire property, with a schedule that depends on the age of the usufructuary. Thus, the value of the bare ownership ranges from 10 % of the value of the property for a donor under 21 years of age to 90% for a donor over 90. On the donor's death, the usufruct is extinguished in favour of the donees, who automatically become full owners, with no additional transfer tax to pay. The declared value of property given in bare ownership represented approximately 18 billion euros in 2006 –the last year for which figures were provided by the DGFiP– or 45% of the value of all donations.[e] We estimate that the bare ownership then corresponded to an average of 60% of the value that these assets would have had if they had been donated in full ownership, which would have amounted to about 30 billion euros.[f] If the donated assets had all been given outright, the value of the taxable gifts would have been 30% higher. Our estimates suggest that the cost for public finances is in the order of 2-3 billion euros.

Wiping out latent capital gains upon inheritance

Finally, a last tax advantage is worth mentioning: the non-taxation of unrealized capital gains in case of inheritance or donation. Indeed, capital gains are taxed only when they are realized, and it is therefore possible to pass on an asset from generation to generation without ever having to pay capital gains tax, even if the recipient subsequently sells the asset. To our knowledge, there are no figures on the extent of this tax provision for France, but it may be noted that for the United States, the loss of tax revenue has been estimated at 0.05% of GDP by the Tax Foundation.[g]

[a] Bach L., A. Bozio, A. Guillouzouic and C. Malgouyres (2021): "Évaluer les effets de l'impôt sur la fortune et de sa suppression sur le tissu productif", *IPP Report*, no 36, October.

[b] This complexity is explained by the fear expressed at the time by the government that any tax measures that were applied retroactively to life insurance policies would be censured by the Constitutional Council. This fear now appears to be unfounded, as shown when the increase in the tax rate on all life insurance policies in 2014 was not sanctioned.

[c] Except for payments made after the age of 70 on policies taken out after 1991, which are subject to inheritance tax (with an additional allowance of 30,500 euros per estate), excluding capitalized interest.

[d] *Cf*. French Insurance Federation.

[e] See Table 3 of the report by the Conseil des prélèvements obligatoires (CPO) (2008): *La répartition des prélèvements obligatoires entre les générations et la question de l'équité intergénérationnelle*, November.

[f] Estimates obtained from the data on the age distribution of recipients provided in Table 14 of the CPO report (2008, *op. cit*.).

[g] https://taxfoundation.org/repealing-step-up-in-basis-analysis/. For France, this would correspond to a cost to the public finances of around 1.3 billion euros per year.

The outline of a new policy on inheritance and equal opportunities

A new policy on inheritance

In order to respond to the challenges of increasingly unequal access to inherited wealth, the opacity of the current system, the inefficiencies created by the numerous exemptions and the lack of information that undermines the social acceptability of inheritance tax, we propose to rethink inheritance policy by rebuilding it around four pillars:

- The establishment of a policy based on the total inheritance flow received by individuals over their lifetimes;
- An overhaul of the inheritance tax base to eliminate exemptions and waivers that have weak economic justification and to reinforce the effective progressivity of inheritance taxation;
- The guarantee of a capital for all to limit the most extreme inequalities of opportunity;
- The creation of an efficient and transparent information system.

A policy based on the total inheritance flow received during a lifetime

Inequalities in total inherited wealth over the course of life are extreme. Furthermore, they are higher than inequalities in annual inheritance flows. This is because the richest heirs receive multiple inheritances over their lifetime (multiple gifts and inheritances, from multiple parents, etc.), the value of which is highly correlated. In the current system where each transmission is taxed separately, this offers the possibility of benefiting from one or another allowance several times, thereby optimizing the timing of the flow of transmissions. To limit the regressive consequences of these practices, the latest reforms have sought to reduce the allowances and the recall periods and to display extremely progressive rates. The consequences of this have been to penalize those who receive fewer transfers, or smaller successions of unequal value, and to create the illusion that the system is actually very progressive. All this undermines the social acceptability of inheritance taxation. The introduction of a tax base that is based on the sum of the total inheritance flows received by an individual throughout their life makes it possible to take better account of the inheritors' ability to contribute to public finances. Under this system, the tax rate depends solely on the value of the inheritances received, regardless of how the assets were transmitted. For example, an heir who has received three gifts of 100,000 euros in his lifetime and an inheritance of 200,000 euros from each of his two parents pays the same tax as one who inherits 700,000 euros from only one of his parents. A lifetime inheritance tax thus offers the possibility of a more targeted and efficient redistribution of opportunities. In such a system, progressivity can be adjusted more finely, so that the minimum tax bracket can be set at a significantly higher level of the total inheritance received than under the current system.

This also eliminates all the distortions and inequities created by the current system with respect to the sequencing of inheritance transfers.[25] Note that families have much better information than the government about when to pass on their wealth (who needs a boost, who has suffered an income or health shock, how much to keep for old age, etc.). The desire to "circulate capital" earlier is not based on strong empirical evidence of any structural or behavioural inefficiencies (e.g. parents holding on too tightly to their wealth, or being unaware of the benefits of early transmission). Rather, it is the current system's incentives in the form of deductions that create perverse effects and distort a more optimal sequencing, by pushing people to give a series of smaller sums at intervals corresponding to the time limits for the non-recall of donations.

Furthermore, this kind of system would have the advantage of being neutral from the point of view of the nature of the relationship between donors and heirs: it would treat direct and indirect inheritances in an identical manner, thereby eliminating the major distortions in the current French system, distortions whose legitimacy may be called into question by changes in family structures. It should also be noted that, while respecting strict neutrality in the treatment of transmissions, the new system remains compatible with the provisions of the Civil Code and contract law, such as concerning the reserved portion of an estate, the possibility of dismembering property and the free choice of the beneficiary of life insurance contracts.

The many advantages of a tax base using total estate flows explain why it is a recurrent proposal in the public debate (Atkinson, 2015, and Blanchard and Tirole, 2021).[26] Moreover, this system already exists in some countries such as Ireland: the technical constraints on its implementation are relatively minimal. However, it requires an efficient information system to track the total estate flow per heir (see Recommendation 1).[27]

Recommendation 2. Calculate inheritance taxes on the basis of the sum of inheritance flows received by individuals over the course of their lives.

[25] Consider two families in which the parents make inter vivos donation, for example at age 70. In the first family, the parents die after the recall period for this donation; in the second, one parent dies before the recall period. Is it right that heirs in these two families should be treated differently and that heirs unfortunate enough to lose a younger parent should be subject to higher rates?

[26] Atkinson A. (2015): *Inequality, What Can Be Done?*, Harvard University Press, May; Blanchard and Tirole, 2021, *op. cit*.

[27] The system can be established on the basis of tax residence, as in Ireland, or on the basis of citizenship (the preferred option, as it is more compatible with a guarantee of wealth for all).

Rethinking the basis of inheritance tax

The differentiated treatment of life insurance in terms of transfer duties has no strong economic justification and clearly contributes to the complexity of the current system, which makes it desirable to integrate life insurance into the general DMTG scale. While there may be questions about the speed of this integration, its applicability should be retroactive as long as a general interest can be demonstrated.

Nor is there any strong economic justification for the dismemberment of ownership, other than to benefit from exemptions when making gifts. It would therefore be logical to abolish this mechanism as part of a reform that would tax the total succession flow, and this would be neutral from the point of view of the sequencing of transmissions (which would in practice lead to taxing the rejoining of the usufruct and bare ownership upon the donor's death).

The economic justification for exemptions for business assets (Dutreil Pact) is based on the argument that taxation of family business transfers can have negative effects on investment, employment, governance and business survival. This argument is theoretically valid, and these negative effects may be considerable in the presence of credit constraints, which may affect small and medium-sized enterprises. However, empirical work suggests that these negative effects are very limited or non-existent in practice. Bach *et al*. (2021) find that a large reduction in the exposure of entrepreneurs to wealth taxation (of the order of 10% of their economic income) had no significant effect on investment, employment or governance two years after the reform. Moreover, the value of a capitalism of heirs, encouraged by the exemptions from which business assets benefit, is open to debate (Philippon, 2007).[28] The empirical literature has not found clear evidence that encouraging family heirs to enter into the governance of companies is favourable to their development.[29] The privileged treatment of business assets within inheritance taxation is a major contributor to the transmission of wealth inequalities, while bringing no significant economic gains.

At the very least, it is therefore important to strengthen tax control over Dutreil arrangements to combat abuses (integration of non-business assets in holding companies subject to a Dutreil Pact, non-compliance with holding periods or governance obligations, etc.), to reconsider exceptional arrangements such as the 50% duty reduction for gifts before the age of 70, and to cap the use of the Dutreil Pacts for very large companies.[30]

However, the most appropriate solution would be to drastically reduce or even eliminate Dutreil exemptions in favour of payment facility mechanisms directly adapted to the problems of liquidity constraints, potentially caused by duty payments on business transfers. Duty deferral mechanisms do exist and can be strengthened if necessary. In addition, the implementation of appropriate mechanisms can be envisaged to share the risk linked to the volatility of the valuation of business assets. Our estimates suggest that simply reducing the Dutreil exemptions from 75% to 50% (the rate prevailing in the early 2000s) and eliminating the additional 50% duty reduction for gifts before the age of 70 would raise at least 1.5 billion euros. This increase in tax, using the 20-year deferral mechanisms already available, would correspond to an annual increase in the tax rates for owners of businesses transferred in this manner equivalent to that analysed in Bach *et al.* (2021): there is little reason to fear that it could have a very strong real impact on investment, employment or corporate governance. The continuation of business property exemptions should in any case be conditional on a transparent evaluation of their potential negative effects on business activity and corporate governance.

It should be noted that, of these three reforms of the tax bases (life insurance, dismemberments and business assets) discussed above, the reduction in the exemption rates for business assets is the most "progressive": it affects the very top of the distribution of inherited wealth in a more targeted way. The integration of life insurance into the general DMTG scale is also progressive, but its impact will be felt a little lower down the distribution of inherited wealth (see Figure 3).

It would also be desirable to review the exemption of capital gains at the time of death, which introduces a very significant tax distortion, without economic justification. This is used aggressively at the top of the wealth distribution to avoid taxation of capital gains. The taxation of capital gains normally subject to income tax[31] after death, for example at the time of the resale of the assets by the heir, as exists in certain developed countries (OECD, 2021, *op. cit*.), would allow for greater tax neutrality, particularly at the top of the wealth distribution.[32]

The estimates of the cost for public finance of these various tax measures have been made without directly taking into account the possible behavioural responses caused by their abolition and the resultant impact on the inheritance tax base. However, among these behavioural responses it is important

[28] Philippon T. (2007): *Le capitalisme d'héritiers. La crise française du travail*, Le Seuil, Coll. "La république des idées".

[29] Bennedsen M., K. Nielsen, F. Perez-Gonzalez and D. Wolfenzon (2007): "Inside the Family Firm: The Role of Families in Succession Decisions and Performance", *Quarterly Journal of Economics*, no 122, pp. 647-691.

[30] In 2016, Germany, for example, reduced the exemptions for business assets for companies valued above 26 million euros and eliminated them for those above 90 million euros.

[31] These are capital gains on securities subject to a flat tax or social security contributions and to the income tax scale after an augmented allowance, and capital gains on real estate other than the principal residence subject to a 19 % levy plus social security contributions. Capital gains on principal residences, which are exempt from income tax and social security contributions, are therefore not affected.

[32] Due to the lack of precise information, we were unable to carry out simulations of the effects of such a measure.

to separate those that come from the reallocation of wealth between various forms of assets due to differences in the treatment of these assets in terms of inheritance tax, and those that come from a change in savings and accumulation behaviour. In a system where distortions in the tax treatment of different types of assets have been eliminated, the former fall to zero by definition, and only the latter, which determine changes in the tax base, matters. However, as mentioned above, the paucity of empirical evidence available suggests that the behavioural responses in terms of total savings are limited.[33]

Recommendation 3. Overhaul the inheritance tax base to eliminate or reform the main exemptions (life insurance, property dismemberment regime and 75% Dutreil Pact).

This kind of overhaul of the inheritance tax base would also have the advantage of introducing lower but truly progressive nominal rates (see the results of our simulations below).

The extreme inequality of wealth inherited by the mere lottery of birth raises problems of equity but also of efficiency that other equal opportunity policies cannot address. Guaranteeing capital for all not only reduces the most extreme inequalities of wealth at the bottom of the distribution, but also removes the credit or liquidity constraints that can negatively affect access to education, investment and housing for the very large part of each cohort that receives nothing or almost nothing at birth. This explains why this proposal has been repeatedly put forward in public debate by economists (Atkinson, 2015, and Blanchard and Tirole, 2021), and was even temporarily put into practice in the United Kingdom in the late 2000s.

Such a system could be organized on the basis of citizenship at birth, and payment could be made at age 18, 25, or at the time of the first transfer inter vivos. To be able to effectively mitigate credit or liquidity constraints, the amount of the capital guarantee must be sufficiently large (see Balboni *et al*., 2021).[34] It is therefore preferable to have a capital transfer rather than annuities. More generally, its payment should not be subject to conditions (such as an educational obligation): recent literature suggests that paternalistic fears about negative effects on the labour supply or the inefficient use of resources remain modereate (Banerjee *et al*., 2020).[35]

Recommendation 4. Guarantee a capital for all, paid at the age of majority, on the basis of citizenship so as to limit the most extreme inequalities of opportunity.

Systemic reform or "*à la carte*" approach

In order to develop a policy to address the issue of inequality of opportunity in a holistic and transparent manner and thus promote its social acceptability, we believe that it is important to adopt a systemic approach that addresses all four pillars simultaneously. In particular, a capital guarantee for all should, in our view, be thought of as a component of a system of redistribution of opportunities that taxes and redistributes inherited by integrating the flow of inheritance received throughout the life course. Such a systemic reform could be implemented through a long transition period (from 10 to 18 years), enabling an efficient information system to be set up and the progressive inclusion of all the inheritance flows received by new cohorts.

Apart from the development of an effective information system, which is a prerequisite for any reform, our recommendations can be implemented independently, such as the one on the tax base. The use of the tax revenues released by broadening the inheritance tax base should be called for fruitful debate: should they be used to provide a capital guarantee for all, to finance other equal opportunity[36] policies, or to reduce other taxes on households? Should they be used to lower the taxation of smaller inheritances by raising the 100,000 euro threshold above which taxation is triggered? This Note shows that a reform of inheritance tax can open up these questions.

Simulations

How much would be gained by broadening the tax base, by increasing the effective progressivity? How much capital can each person be guaranteed? To frame the debate, we offer here, as well as in the *Focus* associated with this Note, a set of simulations that give orders of magnitude of the effects of the different measures on tax revenues and on inequalities in net inherited wealth. Our simulations are based first of all on two different assumptions of tax base reform. The first hypothesis (base 1) envisages a basic reform integrating the reduction of the Dutreil exemptions from 75% to 50%, the elimination of the additional 50% tax reduction in case of donations before age 70, the integration of all life insurance

[33] Chetty R., J.N. Friedman, S. Leth-Petersen, T.H. Nielsen and T. Olsen, (2014): "Active vs. Passive Decisions and Crowd-out in Retirement Savings Accounts: Evidence from Denmark", *The Quarterly Journal of Economics*, vol. 129, no 3, pp. 1141-1219.

[34] Balboni C., O. Bandiera, R. Burgess, M. Ghatak and A. Heil (2021): "Why Do People Stay Poor?", *NBER Working Paper*, no 29340.

[35] Banerjee A., E. Duflo and G. Sharma (2020): "Long-Term Effects of the Targeting the Ultra Poor Program", *NBER Working Paper*, no 28074.

[36] Including investment in targeted education policies. On higher education or reductions in class sizes, see Fack G. and E. Huillery (2021): "Enseignement supérieur : pour un investissement plus juste et plus efficace", *Note du CAE*, no 68, December, and Bouguen A., G. Grenet and M. Gurgant (2017): "La taille des classes influence-t-elle la réussite scolaire?" The long-term redistributive effect of these equal opportunities policies is, however, difficult to quantify, and their precise targeting is sometimes complicated.

policies into the tax schedule, and the taxation of the usufruct when it is rejoined to bare ownership. The second hypothesis (base 2) considers a more ambitious reform aiming at integrating all asset transfers received during the course of a lifetime into the tax base, at their economic value.

The concentration of inherited wealth and the concentration of the use of multiple optimization schemes are such that, whatever new base is chosen, broadening it would generate a very substantial increase in tax revenue and tax progressivity. Figure 4 shows that with base 1 and the current tax schedule (schedule 1), the additional duties would be around 9 billion euros. It also shows that a more extensive reform of the tax base (base 2), while keeping the same effective rates as those currently displayed on the taxable assets (base 2), would generate additional duties of around 19 billion euros.

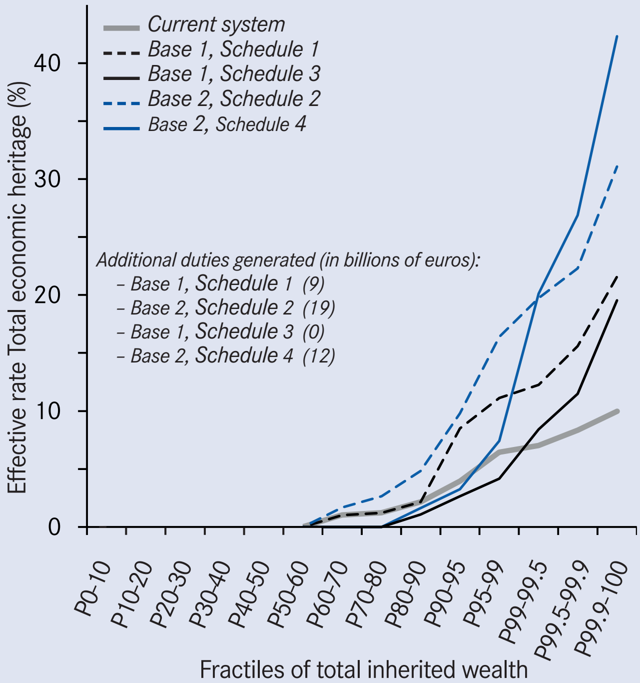
The additional revenues generated by these tax base reforms can a priori be used in many ways: offering a capital transfer to reduce inequalities in inherited wealth at the bottom of the distribution, reducing inheritance tax for certain categories of taxpayers, strengthening other equal opportunity policies, reducing other compulsory levies, etc. We therefore propose different simulations in terms of schedules and transfers. The combination of these different schedules and transfers makes it possible to visualize the effects of a wide range of options in terms of tax levels and redistribution between different groups.

Tax schedule 3, for example, shown in Figure 6, adjusts all nominal rates significantly downwards to compensate for the base reform. In this scenario, the reduction in rates and the increase in exemption thresholds result in 99% of heirs gaining from the base 1 reform, while total inheritance tax revenues remain unchanged. As shown in Figure 4, a reform such as base 1, tax schedule 3, therefore corresponds to a redistribution from the top 1% of heirs to upper middle-class heirs (P70-99), without affecting the share of DMTG taxes in total revenue.

Tax schedule 4, also shown in Figure 6, has an exemption of 200,000 euros (twice the current exemption) and significantly lowers rates on inheritances of up to 4 million euros; it would reduce effective inheritance tax for the vast majority of French people, while increasing progressivity beyond the highest percentile of inherited wealth. An alternative reform scenario, corresponding to base 2, schedule 4, would thus allow 99% of heirs to benefit or not be affected by the reform, while bringing in substantial additional tax revenues (of the order of more than 10 billion euros in steady state), as shown in Figure 4.

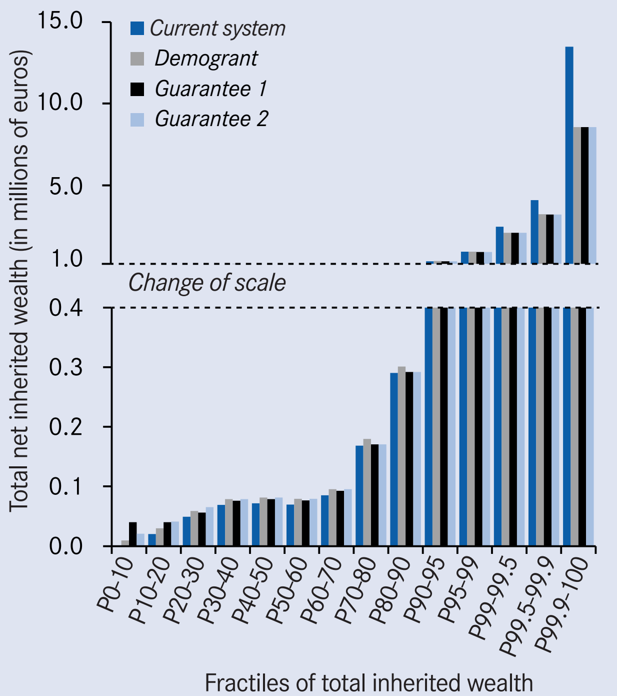
Using the additional tax revenues generated by the implementation of tax base and tax schedule reforms like these, what capital transfers could be financed? To answer this question, we also include four hypotheses in our simulations in terms of wealth transfers (Figure 5). In the

4. Effective rates and net inherited wealth by fractile in various simulations of reform of the tax base and scale



Note: The graph plots the effective rate by fractile of inherited wealth in the current system as well as in four reform scenarios. Under the current system, the revenue is 15 billion euros.
Source: CAE calculations based on tax data.

5. Net inherited wealth for three hypothetical capital transfers under a “base 2, schedule 4” reform



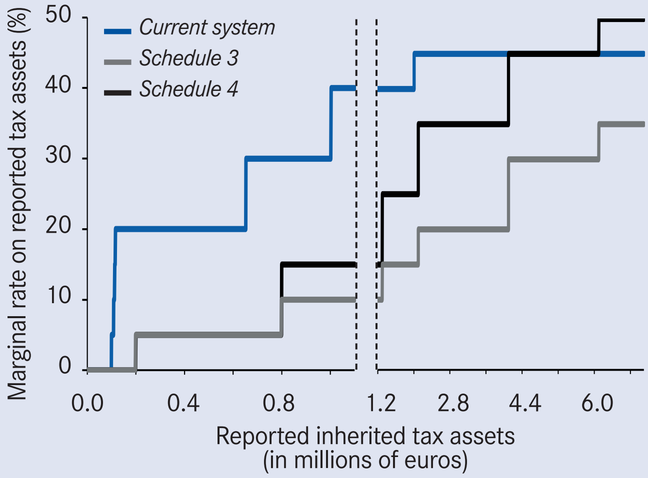
Note: The graph orders each cohort by fractile of gross inherited wealth over the course of a lifetime. It represents the average inherited wealth net of inheritance tax for each fractile under a ”base 2, schedule 4” reform for three different capital transfer assumptions.
Source: CAE calculations based on tax data (DMTG 2006).

first case, no transfers are made: the additional revenue can therefore be used for other public policies or to reduce other taxes or the public debt. In the second case, the additional tax revenues are used to pay a "capital for all", of the same amount for all individuals of the same cohort ("a demogrant"). In the last two cases, instead of a capital for all, we consider a capital guarantee (all children receive at least a certain minimum amount, so the state pays the difference between this guarantee and the total inheritance received). The difference between the latter two scenarios is the speed with which this guaranteed transfer decreases as the inheritances received increase. In one scenario (guarantee 1), the transfer falls sharply, imposing high implicit marginal rates on small inheritances. In the other (guarantee 2), the implicit marginal rates are lower, but so is the capital guarantee.

In the basic hypothesis of a reform of the tax base with a change in the scale (tax base 2, schedule 4), the "demogrant"-type transfer that could be paid to everyone is of the order of 10,000 euros. A more substantial capital for all could be paid out of course by mobilizing resources beyond the additional revenues generated solely by reforms of the scale. Moreover, the potential amounts of a "capital guarantee for all" (i.e. a differential transfer) may be much higher than those of a "demogrant"-type transfer, for example 40,000 euros (base 2 scenario, schedule 4, guarantee 1), but the question of the size of the implicit marginal rates for small inheritances arises. Indeed, as the individual receives more and more inheritances, the State would gradually recover all or part of the amount initially distributed as a guarantee. There is therefore a trade-off between the amount of the guarantee and the implicit marginal tax rates at the bottom of the inherited wealth distribution.

What would be the effect of these reforms of the tax base and scale on the concentration of net inheritances? In the case of a base 1, schedule 1 reform, the ratio between the average inheritance of the top 1% and the median inheritance would fall from the current 60 to around 50. In the case of what might be perceived as the most "ambitious" reforms, this ratio would be reduced to around 40. These measures thus represent a step towards greater equality of opportunity, without addressing all facets of this complex issue.

6. Comparison of tax schedules 3 and 4 with the current schedule for a direct succession (scale 1)



Note: For the two tax schedule proposals (schedule 3 and schedule 4), the temporality and the number of transmissions do not impact the tax rate because it applies to the total received by the individual during his or her lifetime, and without distinction of the relationship with the deceased. This is not the case in the current system, where each transmission is taxed separately and with different rates and allowances depending on the relationship. The three schedules are thus comparable only in the case where the individual inherits all his or her assets at once, in the case of schedule 1 from his or her parents.

Source: Authors calculations.

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