

# Taxing inheritance

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**confronti 2025**

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# An emotional subject

## Inheritance tax

A hated tax but a fair one

The case for taxing inherited assets is strong

**The  
Economist**

NOVEMBER 2014 - DECEMBER 1ST 2014

Britain's bleak budget

Zimbabwe after Mugabe

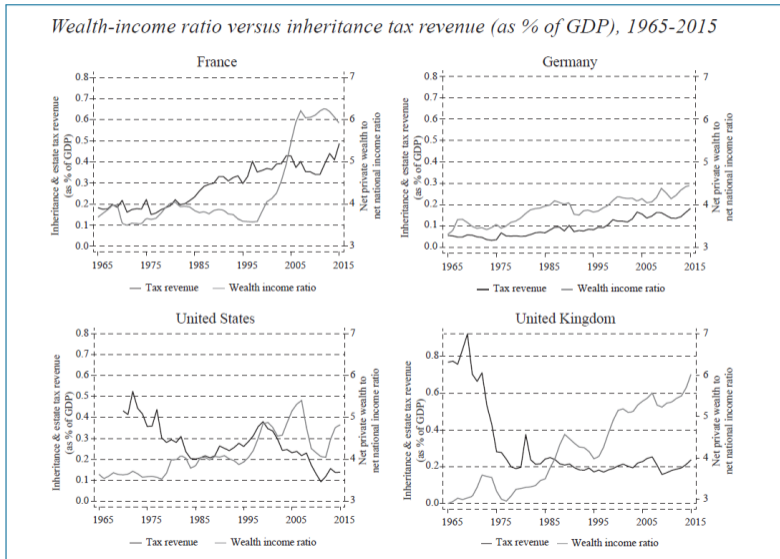
Donald Trump and Big Media

A special report on marriage

## The case for taxing death

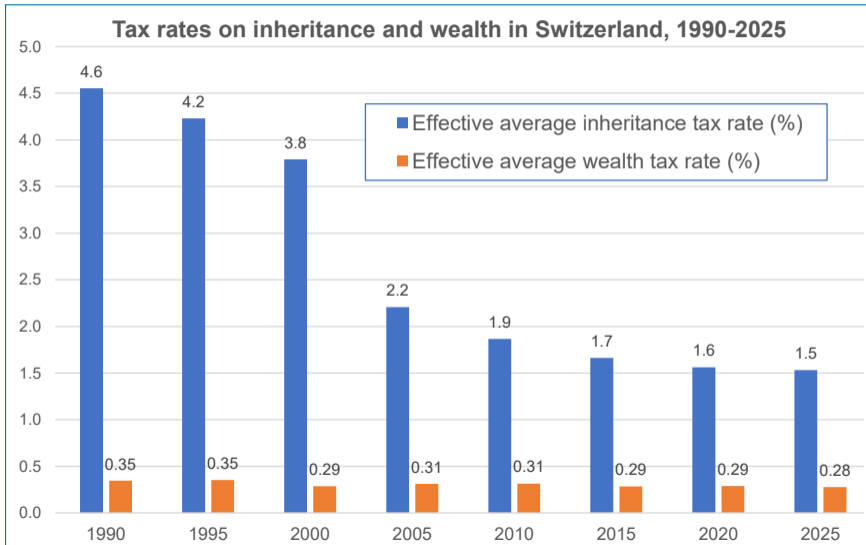


# Inheritance taxes have been lowered internationally...

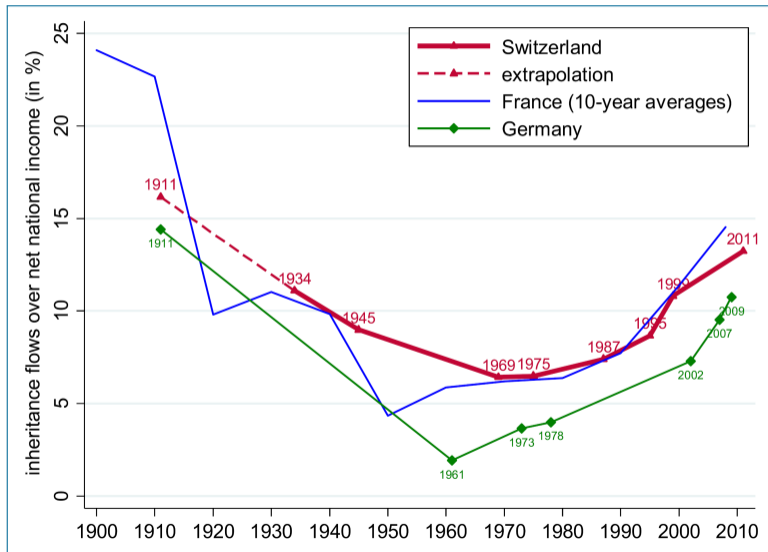


Source: Jestl (2021)

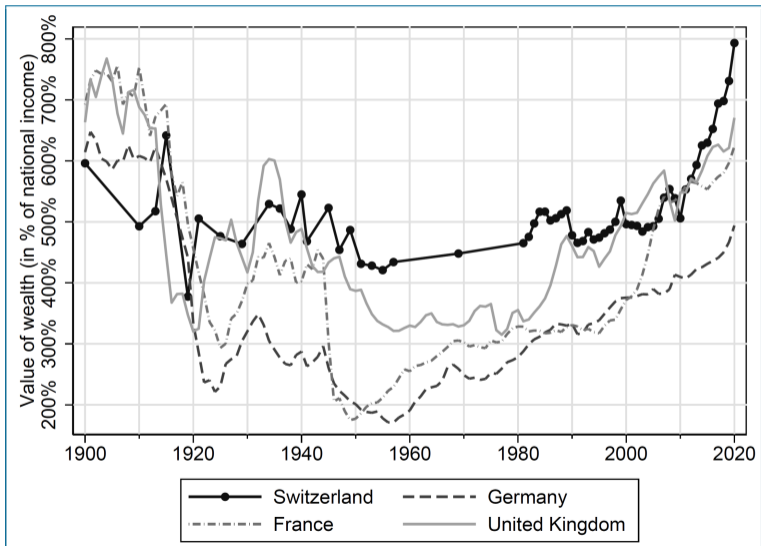
## ...and also in Switzerland,...



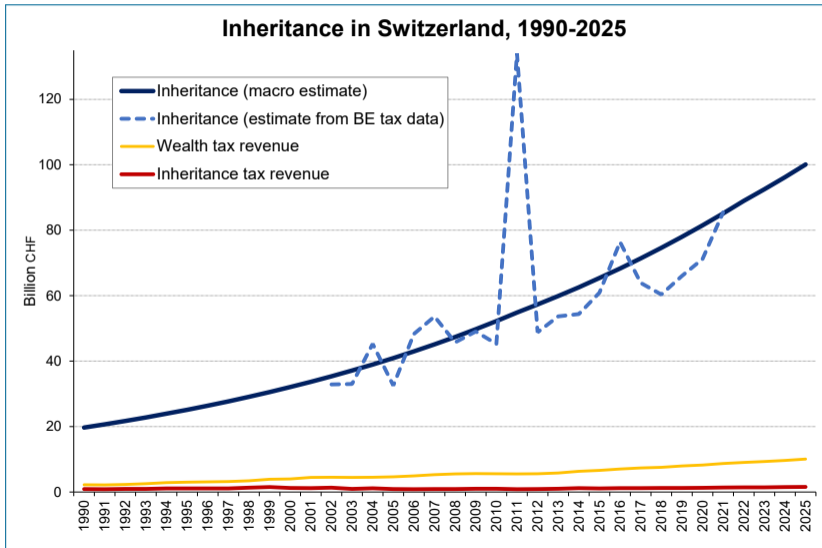
...even though the value of inheritances is rising fast,...



..., mirroring a long-run rise in wealth-income ratios,



...to reach 100 billion Swiss francs in 2025.



# Inheritance is highly unequal

Switzerland:

- ▶ Top-1% inheritance share = 32%
- ▶ Top-5% inheritance share = 52%

*BUT*

- ▶ Top-1% *wealth* share = 45%
- ▶ Top-5% *wealth* share = 65%

→ Inheritance

- reduces inequality on impact
- increases inequality in the medium run (Nekoei & Seim, 2023)

# Questions

- ▶ Why are inheritance taxes **popular with many economists**?
- ▶ Why are inheritance taxes **being lowered nonetheless**?
- ▶ Is the **proposed 50% tax on very large Swiss estates** a good idea?
- ▶ Is there **another way** of favouring intergenerational wealth diffusion?

# Why popular with economists?

Two criteria for a good tax:

▶ **Efficiency**/growth/incentives

- Testators: no evidence of real responses
- Heirs: negative labour-supply responses to large inheritances

⇒ Rare case of a tax that incentivises economic effort

▶ **Equity**/inequality/redistribution

- Inheritance tax can be highly progressive
- Affects “unearned wealth”

⇒ Perceived by many as a fair tax

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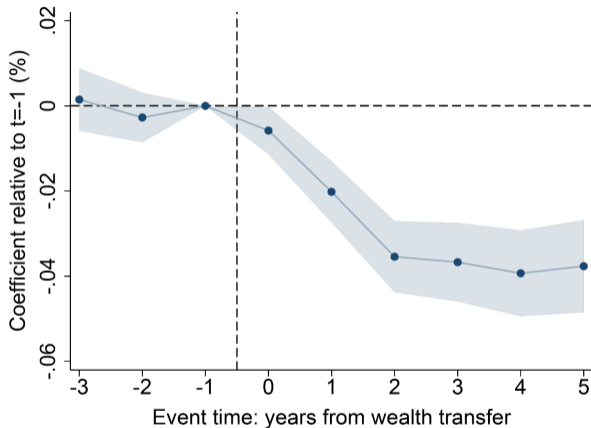
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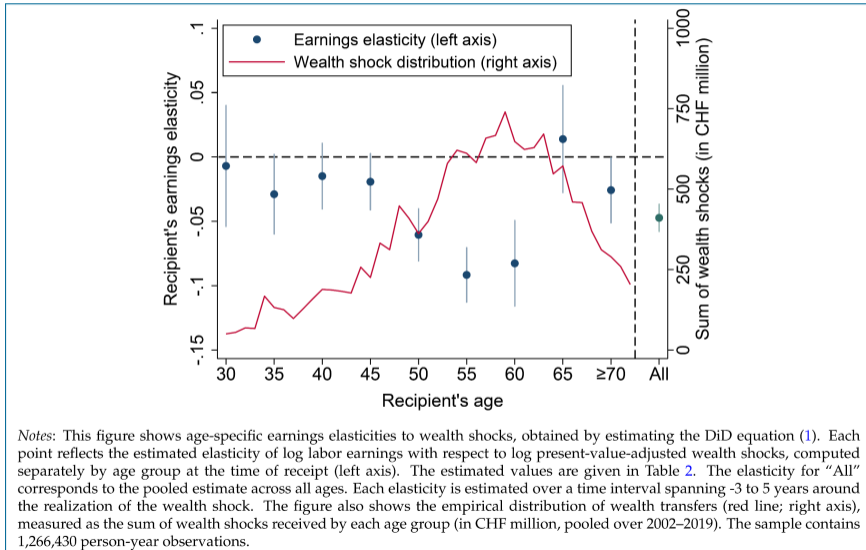
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# Larger inheritance $\Rightarrow$ larger drop in labour earnings



*Notes:* This figure shows the event-study coefficient estimates of the impact of receiving a wealth shock on the log of labor earnings. It plots coefficient estimates and the 95 percent confidence intervals obtained from equation (2): each point shows the effect of the wealth shock  $k \in [-3, 5]$  years from the realization of the shock relative to  $k = -1$ . Wealth shocks include both inheritances and lottery wins. Standard errors are clustered by individuals. The sample contains 1,266,430 person-year observations.

# Inheritance often arrives at a “sensitive age”



# The output cost of inheritance

- ▶ Inheritances are to some extent anticipated
  - ⇒ Part of the lifetime labour supply response occurs prior to the receipt of inheritance
  - ⇒ We use responses to **lottery wins** as a point of comparison and **a model of life-cycle labour supply** for quantification
- ▶ Complete dissipation of inheritance  $\Rightarrow$  GDP  $\nearrow$   $\sim 1.1\%$

# The output cost of inheritance

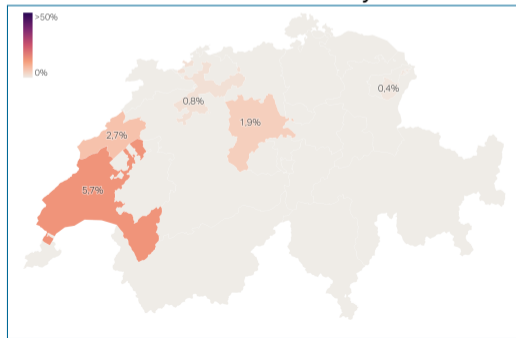
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- ▶ Complete dissipation of inheritance ⇒ **GDP** ↗ **~1.1%**

# Why the decline of inheritance taxation?

Studying taxation in the Swiss cantons allows us...

- ▶ ...to identify the political arguments invoked, and
- ▶ ...to test the validity of the main argument.

*Tax rate on inheritance of CHF 500k by direct descendant*

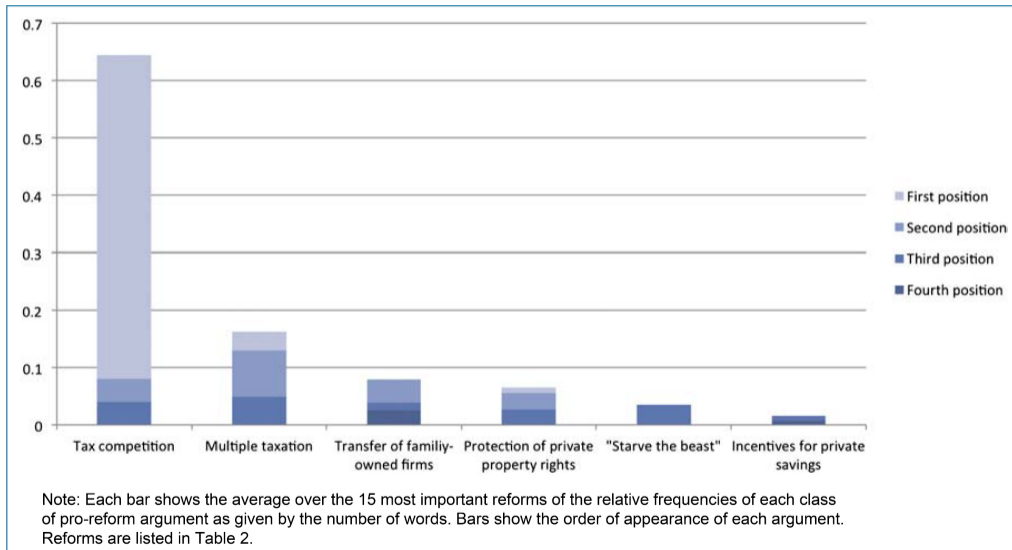


Source: [Swissinfo](#)

# Inheritance taxes fell like dominoes

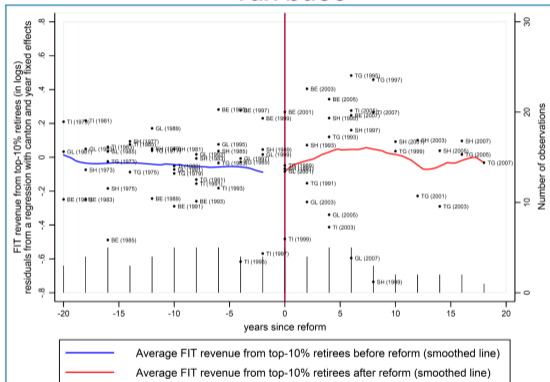
Canton	Year	Change	Main object of reform	Procedure	Decision date	Entry into force	Prevalence of tax comp. arguments	AITR	
								1973	2008
<i>Cantons with major reforms</i>									
Aargau	(AG)	2001	-7.7%	Repeal tax on direct descendants	Referendum	18.04.1999	01.01.2001	2.6	2.4
Appenzell Ausserrhodon	(AR)	1993	-7.0%	Repeal tax on spouses	Referendum <sup>a</sup>	26.04.1992	01.01.1993	3.2	5.3
		1999	-20.0%	Repeal tax on direct descendants	Parliamentary vote	27.09.1998	01.01.1999		
		2001	+65.6%	Change tax rate	Parliamentary vote	21.05.2000	01.01.2001		
Basel-Landschaft	(BL)	2001	-28.2%	Repeal tax on direct descendants	Referendum	04.03.2001	05.03.2001	21%	3.5 3.4
Basel-Stadt	(BS)	1990	-13.7%	Repeal tax on spouses	Parliamentary vote	16.03.1989	01.01.1990		4.9 2.8
		2003	-31.7%	Repeal tax on direct descendants	Referendum	09.02.2003	10.02.2003	61%	
		1989	-17.5%	Repeal tax on spouses	Parliamentary vote	01.09.1988	01.01.1989		3.8 1.6
Bern	(BE)	2001	-47.0%	Change tax rate	Parliamentary vote	23.11.1999	01.01.2001	79%	
		2006	-5.5%	Repeal tax on direct descendants	Parliamentary vote	23.11.2004	01.01.2006		
		1997	-7.1%	Repeal tax on spouses	Parliamentary vote	01.05.1996	01.01.1997		6.1 3.4
Fribourg	(FR)	2008	-30.6%	Change tax rate	Parliamentary vote	27.09.2007	01.01.2008	94%	
		2004	-26.8%	Repeal tax on direct desc. and spouses	Referendum	08.02.2004	01.06.2004	44%	7.3 6.0
Geneva	(GE)	2001	-69.0%	Repeal tax on direct descendants	Referendum <sup>a</sup>	07.05.2000	01.01.2001	74%	4.0 1.3
Graubünden <sup>b</sup>	(GR)	2001	-13.3%	Repeal tax on spouses	Referendum	13.06.1999	01.01.2001	0%	5.1 3.6
		2008	-7.7%	Repeal tax on direct descendants	Parliamentary vote	08.08.2006	01.01.2008		
		2007	-19.0%	Repeal tax on direct desc. and spouses	Parliamentary vote	13.12.2006	01.01.2007		3.9 <sup>c</sup> 3.4
Jura	(JU)	1982	+16.9%	Change tax rate	n/a	n/a	n/a		6.3 5.9
		2003	-25.3%	Repeal tax on spouses	Parliamentary vote	21.05.2002	01.01.2003	100%	
		1975	+31.6%	Change tax rate	n/a	n/a	n/a		1.9 0.7
Nidwalden	(NW)	1995	-13.6%	Repeal tax on direct desc. and spouses	Referendum <sup>a</sup>	24.04.1994	01.01.1995		
		2007	-63.1%	Change tax rate	Referendum	21.05.2006	01.01.2007	100%	
		1992	-71.7%	Repeal tax on direct descendants	Referendum	15.12.1991	16.12.1991	100%	5.2 1.8
Schaffhausen	(SH)	1991	-7.3%	Repeal tax on spouses	Parliamentary vote	09.05.1990	01.01.1991		3.5 4.1
		1997	-22.7%	Repeal tax on direct descendants	Referendum	08.06.1997	09.06.1997	76%	
		1990	-47.6%	Repeal tax on spouses	Referendum	24.09.1989	01.01.1990	58%	3.8 1.9
St. Gallen	(SG)	2001	-21.7%	Repeal tax on direct descendants	Parliamentary vote	24.05.2000	01.01.2001		
		1995	-11.3%	Repeal tax on spouses	Parliamentary vote	21.06.1994	01.01.1995		4.3 2.6
		2000	-44.7%	Repeal tax on direct descendants	Referendum	06.02.2000	01.01.2000	60%	
Vaud	(VD)	2005	-10.8%	Repeal tax on spouses	Referendum	16.05.2004	01.01.2005	22%	6.1 5.8
Zürich	(ZH)	1987	-35.0%	Change tax rate	Referendum	28.09.1986	28.09.1986		3.4 2.3
		2000	-17.9%	Repeal tax on direct descendants	Referendum	28.11.1999	01.01.2000	77%	

# One political argument dominated: taxpayer mobility



# No significant effects, even in the long run

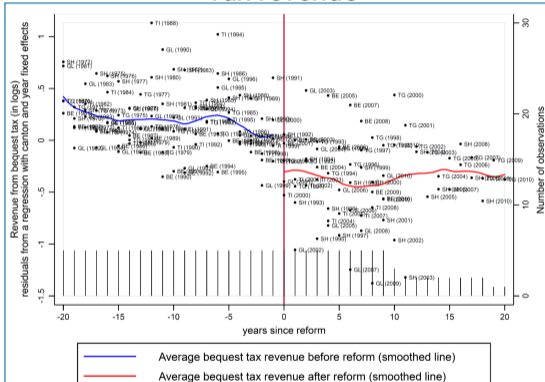
## Tax base



Note: Points are residuals from a regression of federal income tax revenue from the top 10% retirees (in logs) on canton and year fixed effects in the five cantons with the largest tax cuts ( $\geq 40\%$  of the AITR) occurring at least four years after the start and four years before the end of our sample period. Lines are obtained through Epanechnikov kernel-weighted local polynomial smoothing of degree one. Spikes above the horizontal axis represent the number of observations.

Fig. 4. Long-term effect of bequest tax reforms on federal income tax revenue from top-10% retirees.

## Tax revenue



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Fig. 5. Long-term effect of bequest tax reforms on bequest tax revenue.

# How about a federal inheritance tax for Switzerland?



Citizens' initiative to be voted in nationwide referendum on 30 November 2025:

- ▶ **50% flat-rate tax** on estate values above CHF 50 million
- ▶ Revenue earmarked for climate-friendly public investment
- ▶ Would affect  $\sim 2,500$  (0.04%) taxpayers

# Wealthy elderly taxpayers can be mobile

Tabelle 3: Empirische Schätzwerte zu Mobilitätsreaktionen gegenüber Erbschafts- und Vermögenssteuern

Studie	implizierte Semi-Elastizität <sup>a</sup>	implizierter prohi-bitiver Steuersatz <sup>b</sup>	berücksichtigte Steuersubstrats-Vari-able (abhängige Variable)	Datengrundlage	Bemerkungen
<i>Studien zu Erbschaftssteuern</i>					
Bakija & Slemrod (2004)	-0.40 <sup>c</sup>	25%	Anzahl Nachlässe über USD 5 Mio.	US-Staaten, 1965-1998	Studie ohne <i>peer review</i>
Conway & Rork (2006)	-0.23 <sup>d</sup>	43%	Netto-Zuwanderung von Ü65-Haushalten	US-Staaten, 1970-2000	Effekt nicht statistisch signifikant
Brühlhart & Parchet (2014)	-0.26 <sup>e</sup>	38%	Einnahmen direkte Bundessteuer von Rentnerhaushalten im obersten Einkommensdezil	Schweizer Kantone, 1973-2008	Effekte nicht statistisch signifikant
	-0.97 <sup>f</sup>	10%			
Moretti & Wilson (2023)	-0.23 <sup>g</sup>	43%	Vermögen von Personen in der Forbes-400-Liste	US-Staaten, 1981-2017	
	-0.40 <sup>h</sup>	25%			
<i>Studien zu Vermögenssteuern (nur internationale Migration)</i>					
Brühlhart <i>et al.</i> (2022)	-0.047 <sup>i</sup>	(>100%)	Netto-Zuwanderung von Vermögenssteuersubstrat aus dem Ausland	Kanton Luzern, 2005-2015	
Jakobsen <i>et al.</i> (2024)	-0.007 <sup>j</sup>	(>100%)	Netto-Zuwanderung von Steuerzahlerinnen mit Top-2% Vermögen	Schweden, 1990-2017	Studie noch ohne <i>peer review</i>

<sup>a</sup> Die abgebildeten Semi-Elastizitäten entsprechen dem im zentralen Resultat der jeweiligen Studie implizierten prozentualen Verlust an steuerbarem Substrat durch eine Erhöhung der Nachlasssteuer um 10 Prozentpunkte. Für die Vermögenssteuer-basierten Schätzwerte (unterer Tabellenteil) wird angenommen, dass ein Vermögenssteuer-Prozentpunkt 26 Nachlasssteuer-Prozentpunkten entspricht.

<sup>b</sup> Steuersatz ( $t^*$ ) ab welchem die Nachlasssteuer gemäss der implizierten Steuer-Semi-Elastizität ( $e$ ) und unter der Annahme einer konstanten Semi-Elastizität und eines homogenen Steuersubstrats netto null direkte Einnahmen generieren würde ( $t^* = 10 / -e$ ).

<sup>c</sup> Abgeleitet vom Schätzwert aus der ersten Spalte von Tabelle 9 in Bakija & Slemrod (2004). Abhängige Variable ist die Differenz zwischen der Netto-Zuwanderung von Steuerzahlerinnen im Alter von 65+ und der Netto-Zuwanderung von Steuerzahlerinnen im Alter von 25-44.

<sup>d</sup> Abgeleitet vom Schätzwert aus der letzten Spalte und untersten Zeile von Tabelle 4 in Conway & Rork (2005).

<sup>e</sup> Steuererhöhungen und -senkungen; abgeleitet vom Schätzwert aus dem kompletten Regressionsmodell (mit Kontrollvariablen) in Spalte (D) von Tabelle 4 in Brühlhart & Parchet (2014).

<sup>f</sup> Nur Steuererhöhungen; abgeleitet vom Schätzwert aus dem kompletten Regressionsmodell (mit Kontrollvariablen) in Spalte (D) von Tabelle 5 in Brühlhart & Parchet (2014).

<sup>g</sup> Alle «Fortune-400»-Vermögen. Abgeleitet vom Schätzwert aus Spalte 6 der Tabelle 2 in Moretti & Wilson (2023).

<sup>h</sup> Vermögen von Personen auf der «Fortune-400»-Liste im Alter von ≥65 Jahren. Abgeleitet vom Schätzwert aus Spalte 6 der Tabelle 3 in Moretti & Wilson (2023).

<sup>i</sup> Abgeleitet vom Schätzwert in Abbildung 9 von Brühlhart *et al.* (2022): zusätzliche internationale Nettozuwanderung von 2.2 Prozentpunkten bei einer differenziellen Vermögenssteuersenkung von 0.18 Prozentpunkten. Umrechnungsfaktor: 1% Vermögenssteuer = 26% Nachlasssteuer.

<sup>j</sup> Abgeleitet von der ausgewiesenen Elastizität der Anzahl Top-2% Vermögenssteuerzahlerinnen gegenüber der Veränderung des Vermögensanteils nach Steuern («net of tax rate»), Jakobsen *et al.* (2024, S. 33 und Figure 13A). Umrechnungsfaktor: 1% Vermögenssteuer = 26% Nachlasssteuer

# A fiscal own goal?

My estimates:

- ▶ Between  $\frac{1}{2}$  and  $\frac{3}{4}$  of affected taxpayers would leave / stay away
  - ⇒ Loss of up to 93% of affected tax base (estates at death)
  - ⇒ Loss of income and wealth tax revenue (prior to death)
  - ⇒ Net effect on overall tax revenue  $\in [-0.7, 0.3]$  billion CHF

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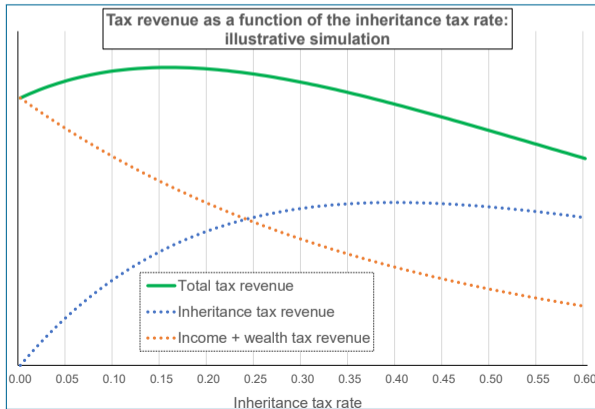
# Why consider mobility a problem now, and not then?

## Magnitudes:

- average  $\Delta$  tax rate of 2025 proposal:
  - +28 p.p. (weighted by # taxpayers)
  - +39 p.p. (weighted by taxable wealth)
- average  $\Delta$  tax rate cantonal tax reforms:  $\sim$ -2.4 p.p.

# The inheritance-tax Laffer curve

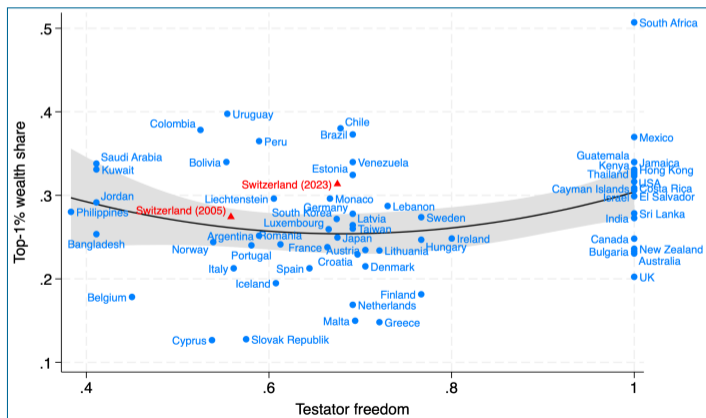
- ▶ Tax revenue relates non-monotonically to the tax rate
- ▶ Mobility lowers the revenue-maximising rate, *ceteris paribus*



Assumptions: constant migration semi-elasticity = -0.2,  
income+wealth tax payments per CHF of wealth = 0.02,  
years between migration and death = 12.

# There's more to inheritance than taxes

- ▶ **Civil-law inheritance rules** force dynastic wealth transmission
- ▶ More (voluntary!) wealth diffusion through more liberal laws?

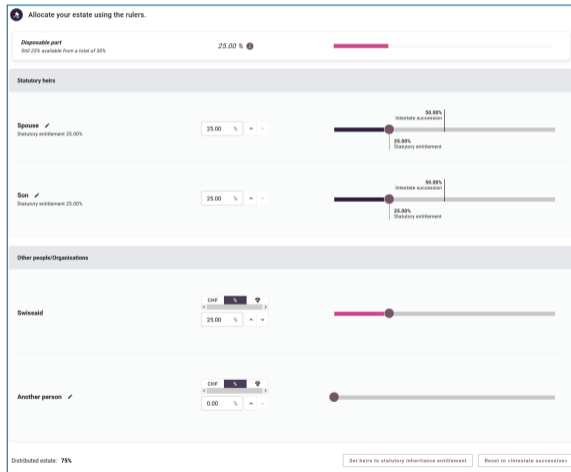


# The 2023 reform of Swiss inheritance law

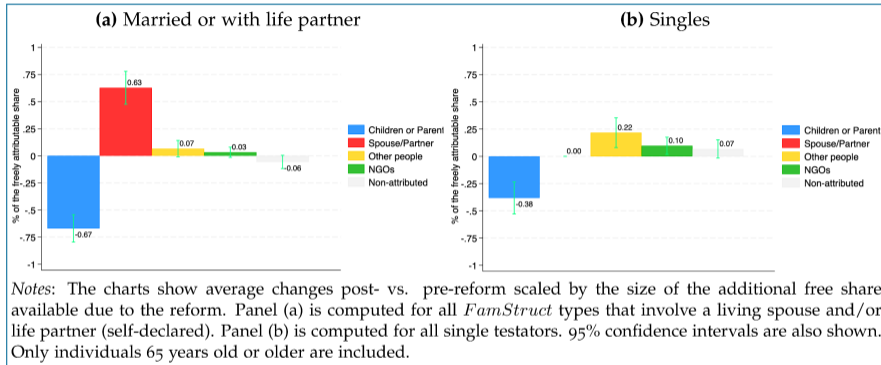
- ▶ Reform reduced compulsory share of children by  $\frac{1}{3}$  and abolished compulsory share of surviving parents
- ▶ The **freely bequeathable share increased by  $\sim 20$  p.p.**, from 41% to 61% (weighted average across family types)
  - Biggest increase: 50 p.p., from 50% to 100% (unmarried people w/o children and with living parents)

# Novel data: online wills

- ▶ Free, anonymous online will preparation service **Dein Adieu** (funded by charities)
- ▶ 16,933 completed wills, 2020-2024



# Voluntary wealth diffusion



- ▶ Single over-65s distribute 8 p.p. (i.e. 32% of newly free share) away from direct descendants
- ▶ Complete liberalisation  $\Rightarrow \leq 16$  p.p. additional diffusion

## In a nutshell

- ▶ Inheritance is growing faster than incomes
- ▶ Inheritance taxes have been lowered
- ▶ Inheritance taxes score well on efficiency and equity grounds
- ▶ Taxpayer mobility: political rhetoric or real concern – it depends!
- ▶ Liberalisation of inheritance law can support wealth diffusion without coercion

**Grazie.**



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