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## SNS RESEARCH BRIEF SUMMARY

### Lessons from the Swedish Inheritance Tax \*

In 2004, Sweden repealed its inheritance tax. However, with the growing importance of wealth and concerns about wealth inequality, there is renewed interest in inheritance taxation. Its advocates see it as a means of promoting equality of opportunity and raising revenue. Its opponents, on the other hand, point out several potential problems associated with the tax. For instance, it may distort labour supply and savings decisions. It may also make transitions of family firms more difficult and lead to transfers of capital to countries where taxes are lower.

This report studies the Swedish inheritance tax, before the repeal in 2004. It answers questions such as to what extent people under-reported inheritances to evade taxation, how government revenues were affected by under-reporting and which groups managed to under-report most. Evasion, such as under-reporting, is an important response to the tax, as the possible positive features of the tax depend on the tax agency's ability to collect it. The answers to these questions thus give us an understanding of the workings of the Swedish tax and the scope that exists for inheritance taxation.

The results show that tax evasion was widespread and that inheritances were under-reported by an average of 17 percent. The under-reporting had a considerable impact on the government revenues from the tax, which would have been more than 30 percent higher without

it. Besides its pecuniary impacts, the under-reporting also reduced the redistributive properties of the tax, as larger inheritances were under-reported to a greater extent.

The findings of the report undermine several important arguments in favour of the tax: the revenues were reduced and its ability to redistribute wealth was diminished. However, the results are to some extent specific to the Swedish tax, which taxed relatively small inheritances, and responses may have been different to a tax with higher exemptions. But to determine whether or not a tax with higher exemptions would be desirable, we need to know more about the way in which it would affect entrepreneurship and people's willingness to work, save or relocate to other countries.

The report was presented at an SNS seminar in Stockholm on November 5, 2019.

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