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Taxation and Intergenerational Fairness: Exploring the Role of Inheritance Taxes with a Focus on Ireland

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Discussions about economic equality have, in recent years, extended beyond considerations of income distribution to encompass the distribution of wealth and its intergenerational transfer. Driven by new and more frequent data, a better understanding is emerging of the concentration of wealth within society and the dynamics of its transfer between generations.

This article contributes to that discussion by assessing the economic and social rationales for the taxation of intergenerational wealth transfers. It outlines the social policy case for inheritances taxes grounded in vertical equity principles. Then it presents comparative data on household wealth across high-income European countries before focusing on one of these, Ireland, to consider whether current inheritance taxation policies counter or perpetuate these inequalities. Focusing on that system, the article explores a range of inheritance taxation reforms intended to address wealth inequality while providing recurring funds for public services and redistribution.

Keywords: net wealth, taxation, inheritance, Ireland.

Introduction

The discussion about economic equality has, in recent years, extended beyond considerations of income distribution to encompass the distribution of wealth and its intergenerational transfer. Driven by new and more frequent data on assets and their ownership, a better understanding has emerged of the concentration of wealth within society and the dynamics of its transfer between generations.

This article contributes to that discussion by assessing the economic and social rationales for the taxation of intergenerational wealth transfers (section two). This includes a problematisation of the perception of intergenerational taxes as unfair, 'taking away people's hard-earned possessions' – and outlines the social policy case for fair and transparent inheritances taxes grounded in vertical equity principles where those with the greatest resources contribute more taxation to society.

We then present comparative data on the composition and distribution of household wealth across high-income European countries (section three) and examine design considerations and different approaches to taxing wealth transfers (section four). The analysis uses data from the fourth wave of the EU-wide European Central Bank (ECB) Household Finance and Consumption Survey (HFCS), covering nineteen Euro area countries as well as Croatia, Czechia, and Hungary.

Focusing on one of these countries, Ireland, we examine the way these taxes are structured with a particular emphasis on wealth transfers and their consequences for intergenerational fairness (section five). In recent years, a prolonged crisis of housing supply has put upward pressure on house prices, generated windfall gains for property owners, and made it more difficult for younger generations to own a home. These experiences have not only increased current levels of household wealth inequality but also raise important issues regarding the appropriateness of current inheritance taxation approaches given the inevitability of substantial asset transfers between generations in the decades ahead. The 2022 Report of the Commission on Taxation and Welfare (COTW) recommended that capital taxes should be substantially re-worked in order to deliver a higher tax yield from sources of wealth and to reduce intergenerational inequality. Given this context, we determine a range of inheritance taxation reforms intended on enhancing fairness and providing a substantial source of recurring funds that will be available to fund public services and redistribution policies.

Economic and social rationales for and against the taxation of intergenerational wealth transfers

The key objective of the taxation system is to raise revenue for the state (Byrne and Ruane, 2017; Collins *et al.*, 2022). Other challenges for policymakers are to design combined tax and welfare systems that promote long-run economic growth; are sustainable; minimise administration and compliance costs; reduce inequality of opportunity and outcome, and ensure income adequacy (OECD, 2010; Collins, 2021; COTW, 2022). Governments obtain all of their tax receipts (including social security contributions) from three tax bases – consumption, labour, and capital. Alternatively, we may conceptualise tax receipts as coming from income, profits, expenditure, property, or wealth. For example, taxes on wealth transfers can be considered either as taxes on income or taxes on wealth depending on how they are designed and the desired policy goal.

Much of the debate about economic equality focuses on income distribution but in recent years the discussion has increasingly expanded its focus to wealth distribution. Wealth generates benefits to the holder beyond that of the income it yields (Meade, 1978; Galbraith, 2016; Horan *et al.*, 2020). Benefits include, but are not limited to, power and influence; security and respect; independence and comfort, and a greater ability to borrow (Piketty and Zucman, 2015).

A household's wealth is a function of past endowments (primarily inheritances but also gifts); past income flows; past value changes; as well as past saving and consumption decisions. The distribution of wealth in any population is invariably much more concentrated than that of income and it will become more concentrated over time in the absence of policy intervention.

Inherited or otherwise endowed wealth, which is usually unearned by beneficiaries, explains a significant proportion of wealth inequality and contributes to the persistence of wealth inequality across generations (D'Arcy and Gardiner, 2017; Palomino *et al.*, 2022). For example, Alvaredo *et al.* (2017) estimate that inherited wealth accounts for 50–60 per cent of private wealth in 2010 for the United States with broadly similar calculations for a set of European countries (France, UK, Germany, and Sweden). Taxes on wealth transfers are thus a crucial policy tool as they directly target and reduce initial wealth endowments.

Aggregate net household wealth in Ireland, a country examined in more detail later, averaged 1.04 trillion Euro in 2022 (Central Bank of Ireland, 2023). Net household wealth was 2.05 times as large as GDP (€506.3 billion), 2.86 times as large as Gross National Income (GNI) (€363.6 billion) and 3.82 times as large as GNI* (€273.1 billion).[1] Piketty and Zucman (2015) estimate the annual flow of bequests in some European countries in 2010 was between 8 and 15 per cent of GNI. Even the lower bound of their estimate suggests that net wealth and wealth transfers are potentially very significant sources of tax revenue and therefore of interest to policymakers.

Throughout the economics, public policy, social policy, and taxation literatures there are a range of arguments both in favour of, and against, the taxing of wealth transfers. Collating these, and connecting them better to contemporary social policy objectives, is important in the context of a growing appreciation of the relevance of taxation choices to social policy making and outcomes (Ruane *et al.*, 2020 and Collins *et al.*, 2022). We summarise these arguments throughout the remainder of this section.

Equality considerations are often employed as justifications for taxing wealth transfers. These arguments include equality of opportunity; social solidarity; horizontal equity; and the need to restrain the build-up of wealth concentration and to impede its compounding over time.

Equality of opportunity is arguably the main justification used for the taxation of wealth transfers. Inheritances and gifts provide an advantage to the beneficiary that is not linked to their own efforts and that transmits wealth inequality across generations (Alstott, 2007; Institute for Fiscal Studies (IFS) and Mirrlees, 2011). Such an advantage is likely to be exacerbated if the transfer happens earlier in life. The OECD (2021) note that optimal tax rates for wealth transfers are positive when a society has meritocratic and equality of opportunity preferences, with the preferred tax structure being a recipient-based tax rather than a tax on the estate.

The social solidarity argument relates to the notion of vertical equity or progressive taxation where those with the greatest resources and taxable capacities pay more. Thus, taxing wealth can be understood as social solidarity or the idea 'we are all in it together'. Vertical equity implies there should be taxes on wealth transfers and that such transfers should be subject to progressive rates with higher rates for particularly large inheritances and gifts (Farhi and Werning, 2010; OECD, 2018 and 2021). The inherited wealth, at least from the recipients' perspective, is usually the result of fortunate personal circumstances and unrelated to merit or personal action. Not taxing, or even charging very low effective rates, on what is essentially unearned income also undermines the political argument for other forms of taxation, particularly other taxes on income and taxes that particularly affect low income and low wealth households' gifts (Alt *et al.*, 2010; Summers, 2019a).

Horizontal equity suggests we should tax persons or groups in similar circumstances in the same way (James and Nobes, 2018). It implies that all income should be treated the same for tax purposes regardless of its source. Thus, income received from intergenerational wealth transfers should be taxed no differently to income from other sources, such as from wages. Exemptions, reliefs, and favourable valuations or rates will all undermine horizontal equity. Crucially, wealth transfers provide a source of unearned income without requiring the beneficiary to pay the opportunity cost of sacrificing leisure or work (Batchelder, 2020). Thus, the beneficiary receives greater net utility from the unearned income than they would from an equivalent earned income. This suggests

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that inheritances and gifts (indeed all unearned income) should be taxed at a higher rate than earned income.

The wealth concentration argument stems from concern that excessive wealth concentration and dynastic wealth can affect the balance of power and influence in a society. Undue influence can undermine democracy and distort policymaking while wealth concentration itself creates an imbalance in terms of equality of opportunity and social mobility (Saez and Zucman, 2019; Rowlingson, 2023). There is also diminishing marginal utility to the holding of additional wealth, implying that highly unequal distributions of wealth will be inefficient from a society-wide utility or well-being perspective (Summers, 2019a). Wilkinson and Pickett (2009), Atkinson (2015) and Hills *et al*. (2019) point to evidence suggesting societies with high levels of inequality perform worse across a range of well-being indicators. Inequality and the accumulation of excess wealth by the wealthy may in itself be a negative externality that reduces society-wide utility and well-being (Collins *et al*., 2020). If so, this justifies taxing wealth transfers as a corrective tax.

Holders of wealth can passively or actively exploit that wealth to generate even more wealth over time through the return on capital. Thus, wealth inequality tends to compound over time in the absence of countervailing progressive capital taxation (Piketty, 2014). Given the scale of inherited wealth in private wealth it seems reasonable to argue that the taxation of intergenerational wealth transfers may be the most important countervailing fiscal tool in terms of wealth redistribution (Advani *et al*., 2020; Rowlingson, 2023).

The main efficiency argument in favour of inheritance taxes relates to their limited opportunity cost or efficiency impact relative to other forms of taxation such as taxes on labour, profits, or capital income (James and Nobes, 2018). Other potential benefits include a limited effect on donor savings behaviour (relative to other capital taxes), a positive impact on recipients' incentive to work, to save, and to invest in their own human capital, and a potentially better long-term allocation of capital assets (OECD, 2021).

It is also argued that these taxes are administratively preferable to recurrent taxes on net wealth as they only require the tax to be collected once per lifetime and do not impose recurring valuation and other compliance costs on taxpayers and tax authorities (McDonnell, 2013). On the other hand, taxing wealth transfers is more administratively complex than taxes on, for example, capital income, or taxes on immovable property where valuation is often straightforward.

The main arguments against the taxation of intergenerational wealth transfers relate to perceptions of double taxation, and fears they will distort investment and economic activity and could lead to the break-up of inherited businesses. Inheritance taxes are often criticised as double taxation; taxed when the wealth is created and then taxed again when it is transferred (Summers, 2021). Yet double, or even treble taxation is true of almost all taxes. For example, consumption taxes must be paid out of post-tax current income, or out of savings which have been taxed as income at some point in the past. Overall, the number of ways that something is taxed is not the relevant issue, rather it is its total effective rate. In any event, concerns about double taxation or 'penalising people upon their death' can be allayed by taxing the beneficiary of a wealth transfer rather than the donor. Similarly, the notion of taking away someone's 'hard earned possessions' could equally be applied to the taxing of someone's wages and overlooks the capital gains realised between when an asset is acquired and transferred; gains that would normally be taxed were it realised as income.

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The anticipation of inheritance taxes, it is argued, can trigger individuals and firms to alter activities and investment decisions via tax planning or shifting assets to other jurisdictions. However, while the wealth preservation incentive for tax planning is clear, its realisation will mainly be a function of the exemptions, reliefs and favourable valuations built into the design of any tax (Sinfield, 2023). In other words, tax planning should primarily be understood as an issue of bad tax design rather than a problem inherent to inheritance taxes. Thus, its provision is explicitly a policy choice, but one open to influence by well-resourced lobby groups (Rehm and Schnetzer, 2015; Galbraith, 2016). A simple tax structure without any tax expenditures should curtail most opportunities for tax planning. Even so, outward migration to avoid inheritance may remain an issue with regard to very wealthy households (Moretti and Wilson, 2020). The OECD (2021) suggests one option to curtail such avoidance is to use tail provisions, whereby emigrants remain subject to wealth transfer taxes for a number of years after leaving.

Research also highlights how receiving an inheritance, or the anticipation of its receipt, negatively influences the labour supply decisions of beneficiaries (reduced participation and hours worked, earlier retirement) and also disincentivises saving (Kindermann, Mayr and Sachs, 2020; OECD, 2021). However, there is some evidence that inheritances may actually reduce wealth inequality while at the same time increasing the absolute dispersion in wealth (see for example Wolff and Gittleman, 2014; Elinder *et al*., 2018; Arrigoni *et al.*, 2023). The reason for this discrepancy is that while wealthier households inherit more wealth in absolute terms than less affluent households, wealthier households also inherit less relative to their existing wealth.

Might inheritance taxes lead to the break-up of family businesses with potentially negative knock-on consequences for the economy? In particular, an inheritance tax could lead to liquidity issues for the recipient successor and reduce the level of capital available for the business to invest or even to survive. However, if the business is a viable concern then it should be possible to sell the business, or raise finance, in the same way as can be done for any other asset. While empirical studies indicate that inheritance taxes reduce entrepreneurship and future investment by heirs (see for example Tsoutsoura, 2015), this contrasts with other research highlighting how the retention of businesses in family ownership is bad for the economy and efficiency-reducing, with people unsuited to entrepreneurship and business management becoming business owners (Bennedson *et al*., 2007; Bloom and Van Reenen, 2007; OECD, 2021).

A final point is that individual taxes cannot be considered in a vacuum and should instead be considered against the opportunity cost of less public services and/or the opportunity cost of higher taxes on other tax bases (Ruane *et al*., 2020; Rowlingson *et al*., 2021). In general, taxes on inheritances and gifts are likely to have minimal negative impacts on economic growth and poverty, at least relative to the impact on growth of taxes on labour income or even capital income, and relative to the impact of certain consumption taxes on income adequacy (OECD, 2010, 2021; Summers, 2019a). There is therefore a strong case for increasing the share of taxes on wealth transfers as a proportion of overall taxes.

Household wealth composition and its distribution

The past decade and a half have seen the emergence of robust and recurring microdata on the composition and distribution of wealth within high-income countries (Crossley and

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O'Dea, 2016; D'Arcy and Gardiner, 2017; Collins and Regan, 2021). Through new surveys, and extensions to existing instruments, household level wealth data has become more frequently available including via the UK's Wealth and Assets Survey (ONS, 2022a), the US Survey of Income and Program Participation (Sullivan *et al.*, 2023), Canada's Distributions of Household Economic Accounts (Statistics Canada, 2022), New Zealand's Household Economic Survey (Stats NZ, 2023), Australia's Household Income and Wealth (Australian Bureau of Statistics, 2022), and the European Central Bank's HFCS (ECB, 2023a). The availability of these data has begun to shift discussion on wealth taxes, and on the transfer of wealth between generations, from occasional, and often theoretical consideration, or from assessments of abstract national accounting balance sheets, to evidence informed policy exploration regarding both its taxation and its current and future impact on societal inequality (Rehm and Schnetzer, 2015; Bell and Corlett, 2019; Clark *et al.*, 2020; Brzeziński *et al.*, 2020; Apostel and O'Neill, 2022; Rowlingson, 2023; Kapeller *et al.*, 2023).

In this section we have selected the European HFCS for further analysis given its unique potential to provide cross-country contemporaneous comparative data on household wealth. This survey, which was first undertaken in 2010, provides household level data collected in a harmonised way by the ECB in collaboration with national statistics agencies across all euro area countries and applicant states. Our analysis focuses on the ECB's published household net wealth (gross assets minus liabilities) data for the fourth wave of this survey; data collected over the (Covid-19 pandemic) period from mid-2020 to mid-2022. It covers households in nineteen eurozone countries as well as Czechia, Croatia, and Hungary (ECB, 2023a) and we use it to determine measures of asset possession and summary measures of net wealth distribution across these states.

Within the euro area, we find a mean net wealth (gross assets minus liabilities) of €292,100 and a median net wealth of €123,500 (see Table 1). The data suggest that higher net wealth is associated with larger households, higher completed education, home-ownership, and work (both employee and self-employed) (ECB, 2023a). Net wealth has 'a hump-shaped pattern' when charted against age, rising until the age of sixty and declining thereafter as savings are drawdown to support retirement (ECB, 2023a: 35); a pattern similar to that found for the UK and the US (Crawford *et al.*, 2016; D'Arcy and Gardiner, 2017; ONS, 2022b; Sullivan *et al.*, 2023).

Real assets are the main component of household wealth. The largest types of assets held by households are deposits in financial institutions (median value €9,000), vehicles (median value €7,000), and the household's main residence (median value €191,000). The proportion of households holding some wealth in their own home varies between states, ranging from 94 per cent in Lithuania to 44.5 per cent in Germany; the figure for Ireland is 69.6 per cent (ECB, 2023b). This tenure effect is reflected in the conditional median value of real assets which is €220,500 among those who own their home outright, €272,600 for owners with a mortgage and €7,000 for renters (ECB, 2023a: 15).

The distribution of wealth across all the HFCS countries is detailed in Table 2. In all countries net wealth is heavily concentrated in the top half of the wealth distribution (80–96 per cent of all resources) and within this in the top 10 and top 5 per cent of households. The latter are found to hold between 21 and 48 per cent of net wealth in these countries, and more than one-third of total net wealth in fifteen of the twenty-two states. This skewed distribution explains the large differences between mean and median net wealth values for all states.

Table 1. Participation rates and composition of wealth among households in euro area countries, 2021

	Participation rate %	Conditional median €'000	Conditional mean €'000
Total real assets	**91.7**	**153.7**	**283.5**
Household main residence	*61.7*	*191.6*	*247.3*
Other real estate	*25.0*	*108.7*	*239.6*
Vehicles	*78.0*	*7.0*	*11.9*
Valuables	*44.9*	*3.0*	*10.6*
Self-employment business	*11.5*	*41.0*	*293.3*
Total financial assets	**98.7**	**15.0**	**66.4**
Deposits	*98.6*	*9.0*	*30.1*
Mutual funds	*12.9*	*18.0*	*59.5*
Bonds	*3.2*	*20.0*	*62.4*
Shares (publicly traded)	*10.9*	*10.0*	*54.7*
Money owed to households	*6.4*	*3.0*	*18.9*
Voluntary pensions/life insurance	*28.4*	*16.0*	*44.8*
Other financial assets	*9.6*	*4.5*	*66.3*
Total Gross Assets	**100.0**	**158.5**	**325.7**
Net Wealth	**100.0**	**123.5**	**292.1**

Notes: Participation rate is the proportion of households holding this asset. Median and mean figures are conditional values, i.e., they are calculated only for those with non-zero values for each asset category. The data is referred to as 2021 by the ECB although it was collected in countries over the (Covid-19 pandemic) period from mid-2020 to mid-2022.
Source: HFCS – wave 2021 (European Central Bank, 2023a: 14, 34).

The HFCS data show that on average across all states 96 per cent of households in the top fifth fully or partially own their home. This compares to an average of 16 per cent in the bottom fifth of the distribution. The lowest quintile ratios, in Slovakia and Lithuania, arise for countries where home ownership rates in the bottom quintile of the net wealth distribution are the highest at 54 per cent and 72 per cent, respectively (ECB, 2023b: 10).

The concentration of household wealth is also captured by the net wealth Gini coefficient, which ranges from forty-five (Slovakia) to seventy-five (Germany). Comparing this to the contemporaneous distribution of disposable income Fig. 1 illustrates the notably higher levels of net wealth inequality within states. On average net wealth inequality is 2.2 times higher than disposable income inequality in HFCS states with the smallest gap in Lithuania and the highest in the Netherlands and Finland. Data across the four waves of the HFCS to date (2010, 2014, 2017 and 2021) suggest that over time there has been limited change in the net wealth Gini coefficient across, and within, all participating countries. The ONS (2022b) find similar for the UK across eight rounds of the Wealth and Assets Survey (Gini of approximately sixty), as do the Australian Bureau of Statistics (2022) for three rounds of the Household Income and Wealth Survey (Gini of approximately sixty-one).

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Table 2. Net wealth and its distribution in 22 European countries, 2021

	Median €'000	Mean €'000	% among top 50%	% among top 10%	% among top 5%	p80/p20 ratio	Net Wealth Gini
Euro area	123.5	292.1	94.0	53.4	39.7	33.1	69.4
Germany	106.7	315.6	96.6	55.5	41.2	61.9	72.7
Estonia	66.2	157.7	92.6	59.0	47.7	11.4	70.9
Austria	127.8	293.0	95.4	51.5	37.1	41.5	69.3
Latvia	31.3	73.0	92.0	55.1	42.8	11.7	68.5
Finland	104.0	215.0	94.6	49.6	35.3	82.5	68.3
Spain	127.7	278.7	92.2	53.2	40.6	19.1	68.0
Netherlands	105.6	219.6	95.7	46.7	31.9	57.7	67.9
France	125.7	277.1	94.0	49.9	35.9	37.3	67.6
Italy	159.0	350.0	91.0	54.6	41.7	10.7	67.1
Ireland	193.7	370.5	92.7	49.8	36.6	44.7	66.6
Portugal	99.6	195.6	91.2	50.9	38.2	18.3	65.5
Luxembourg	717.7	1269.7	91.0	47.9	34.4	21.3	63.8
Cyprus	200.4	345.4	90.5	46.1	32.3	29.0	63.3
Croatia	64.9	116.5	89.7	47.1	34.2	11.6	62.3
Belgium	242.4	408.0	89.8	45.9	33.4	19.6	61.9
Hungary	55.6	105.2	89.0	46.3	33.7	9.7	61.4
Slovenia	118.8	191.7	88.1	44.5	32.1	10.3	59.3
Greece	84.6	132.7	87.9	41.3	28.8	12.7	58.0
Lithuania	53.7	90.8	85.8	46.8	36.6	4.4	58.0
Czechia	97.3	138.9	87.4	39.1	26.8	10.3	56.3
Malta	273.6	413.0	85.6	40.0	27.4	7.1	54.7
Slovakia	97.0	126.2	80.2	32.6	21.5	4.2	45.6

Notes: See notes to Table 1. p80/p20 is the quintile share ratio measuring the share of the top 20 per cent of the net wealth distribution compared to the bottom 20 per cent. The Gini coefficient has been multiplied by 100 so that it runs from 0 (no inequality) to 100 (maximum inequality).
Source: Compiled by authors from HFCS – wave 2021 (European Central Bank, 2023b: 2, 3 and 58).

Design considerations for taxing wealth transfers

Given this scale of household wealth, and the inevitability of large proportions of it transferring between generations in the decades ahead, this section sketches a set of design considerations for the taxation of wealth transfers in high-income countries.[2] First, taxes on wealth transfers appear justified on equity and efficiency grounds and are a potentially meaningful source of government revenue. Drometer *et al.* (2018) found that seventeen of twenty-six OECD countries had inheritance or estate taxes in 2016 while the OECD (2021) find that twenty-four of thirty-six OECD countries taxed inheritances or estates in 2019. However, inheritance, estate, and gift taxes are generally very low and exceeded 1 per cent of total tax revenue in just four countries (Korea, Belgium, France, Japan).

Second, taxes on wealth transfers should be applied to the recipient rather than the donor. Concerns about intergenerational wealth inequality, equality of opportunity, and

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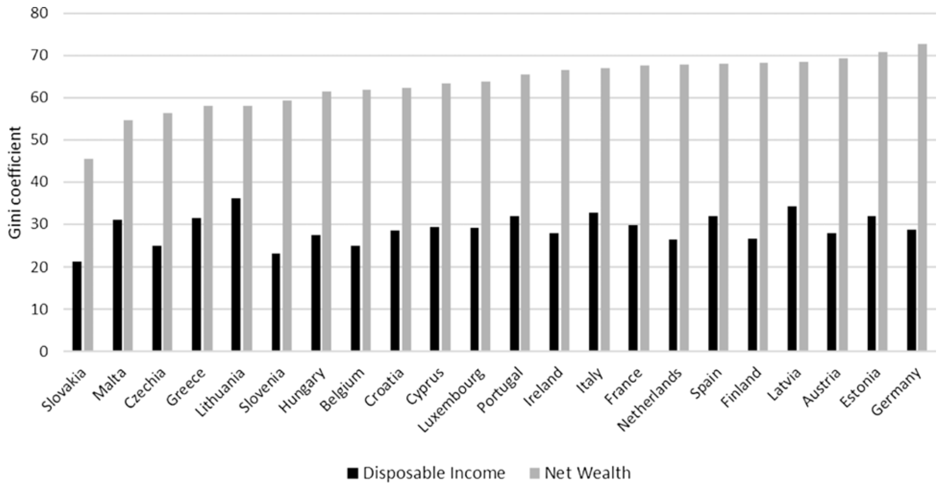

Figure 1. Comparison of Income and Net Wealth Inequality in 22 European Countries, 2021
Source: Compiled by authors from HFCS – wave 2021 (European Central Bank, 2023b: 58) and Eurostat EU-SILC 2022 online database (indicator ilc_di12).

horizontal equity are more appropriately addressed by targeting the recipient (beneficiary) of the transfer. Taxing the recipient allays concerns about double taxation and has political economy advantages in so far as it changes the narrative from a 'death' tax to a 'silver spoon' tax. This adds to the survival prospects of the tax. Taxing the recipient may also encourage donors to spread inheritances more widely. Twenty of the twenty-four OECD countries that tax transfers impose the tax on the recipient (Denmark, Korea, the UK, and US are the exceptions).

Third, gifts should be included within the remit of an estate or inheritance tax. Excluding gifts or providing preferential treatment creates straightforward opportunities for tax avoidance and causes distortions around the timing of wealth transfers. Twenty-three of the twenty-four countries with an inheritance tax also levy a tax on gifts.

Fourth, the tax should apply on a lifetime basis, i.e. aggregating wealth transfers over time rather than treating them one by one. As Sandford *et al.* (1973) argued, taxing gifts and inheritances as separate events without regard to the level of lifetime transfers to an individual can lead to two people being liable for different rates of tax depending on the timing of the transfers. In extremis, there may be no liability at all if each of the individual transfers is below a tax-free threshold. In practicality, a small annual exemption might be necessary on administrative grounds. However, the OECD (2021) notes that most countries treat each inheritance as a separate event.

Horizontal equity suggests further guidelines. For example, there should not be differential rates or thresholds for different groups of people based on their relationship to the donor. In practice, all OECD countries with inheritance taxes apply either different tax rates, exemption thresholds, or both, depending on the recipient's relationship to the donor, with the country average being three to four beneficiary groups. Close family members tend to receive the most favourable tax treatment. Favourable treatment for a surviving spouse or civil partner can be justified as the inheritance will eventually be taxed

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when it passes to the next generation. However, special treatment for children seems incompatible with equity objectives. Exemptions, reliefs, and favourable valuations for different types of assets are also contrary to horizontal equity. Use of tax expenditures means that different recipients will pay different effective tax rates depending on the composition of the assets they receive. This is likely to be regressive with greater benefits accruing to larger inheritances. Preferential treatment for business and agricultural assets is likely to be particularly regressive as these assets tend to be concentrated amongst the wealthiest households and largest inheritances. Preferential treatment is also common for family-owned businesses, for situations where the recipient continues to live in the main inherited residence, and also for life insurance policies. Around half of countries provide exemptions or preferential treatment for private pensions, and around half give special treatment for land used for agriculture or forestry. Financial assets appear to be the only asset class that does not receive special treatment in any country. Where the full abolition of tax expenditures is politically difficult, this suggests that the lifetime use of tax reliefs should be capped so that the benefits for very large inheritances are reduced.

A wide range of tax rates, marginal rate structures and exemption thresholds are applied across the OECD. The OECD's (2021) cross country analysis shows progressive rates ranging from 1 per cent to 80 per cent with a small majority of the countries apply progressive rate schedules in which the marginal rate increases with the size of the inheritance. Tax exemption thresholds vary between groups but are similarly wide ranging and for children varied from €15,000 in Belgium to over ten million Euro in the United States. Effective tax rates tend to be much lower than implicit tax rates on consumption, labour income, or capital income. This is a consequence of the range of generous exemptions, reliefs, and favourable valuations available to inheritances. Interaction effects between inheritance taxes and the rules for other capital taxes can also adversely impact the potential tax yield. Overall, there is no definitively appropriate exemption threshold or tax rate. The desired tax yield, the societal preference for equality of opportunity, and the desired progressivity of the tax structure will inform policy decisions.

Finally, there are administrative and valuation challenges associated with the implementation and reform of inheritance taxes. While taxing transfers through the income tax system is intuitive, and would be consistent with horizontal and vertical equity, the lumpy nature of inheritances could lead to very high marginal rates creating liquidity problems for the recipient. Consequently, a stand-alone system is administratively more practical. Asset valuation also poses administrative challenge (Summers, 2019b) but market valuation should be used where possible, though this can be difficult where there is no active market for the asset in question.[3]

Ireland and inheritance taxes

In this section we focus on one of the eurozone and OECD countries mentioned earlier, Ireland. It serves as an interesting case study given its past experiments with wealth taxation, its recent experiences in wealth accumulation and its policy context. The latter reflects a recent report from a national independent commission which examined the Irish taxation system and concluded there was a medium-term need to materially increase the overall level of taxation in a manner that minimises economic, social, and environmental costs (COTW, 2022: 28). In that context, it also emphasised the relevance of reforms to capital taxes including inheritance tax.

Ireland has experienced a significant increase in net household wealth over recent years with a 238.3 per cent increase between 2012 and 2020 (€436.4 billion) and a 278.7 per cent increase between 2002 and 2020 (€373.2 billion) (CSO, 2022). Housing assets make up the bulk of net housing wealth and were valued at €684.8 billion in 2020 (€295.5 billion in 2012 and €268.7 billion in 2002). Much of this increase is associated with a multi-annual under-supply of housing relative to housing demand; average house prices rose 215.7 per cent between 2012 and 2022 (CSO, 2023a), whereas the consumer price index rose by just 13.6 per cent (CSO, 2023b). Rising house prices detached from economy-wide inflation can be understood as unearned wealth accumulation with both current and intergenerational consequences (Leslie, 2020).

Wealth and inheritance taxation in Ireland

Although Ireland experimented with a net wealth tax in the 1970, with one levied at 1 per cent per annum in place between 1975 and 1978, the holding of net wealth is currently untaxed. The 1970s tax was prompted in part by research showing high levels of wealth concentration with Lyons (1974) finding that 5 per cent of the population owned 72 per cent of total wealth, a distribution more unequal than in the UK or the US. However, that tax was 'conceived, planned, modified, implemented and abandoned' over the course of a few years (Sandford and Morrissey, 1985: 6) with net wealth taxes receiving minimal subsequent attention until the HFCS data emerged.

There are currently two forms of wealth taxation in Ireland, Capital Acquisitions Tax (CAT) is a tax on wealth transfers (acquisitions) while Capital Gains Tax (CGT) is a tax on the appreciation of an asset's market value once realised. CAT includes inheritance tax, gift tax, and a discretionary trust tax. It was introduced in 1976 and is charged on the amount gifted to, or inherited by, the recipient. Rates originally varied between 5 and 50 per cent but have been 33 per cent since December 2012. Net CAT receipts were €605 million in 2022 (0.22 per cent of GNI*), most of which came from inheritances.

CAT has a lifetime tax-free threshold known as a group threshold, which is determined based on the relationship between the person making the gift or leaving the inheritance and the recipient. The tax-free thresholds are occasionally changed in the annual budget, most recently from January 2025. The threshold is €400,000 for a child (Group A), €40,000 for a sibling, niece, nephew, or lineal ancestor or descendent (Group B), and €20,000 for all other groups (Group C). Thus, a gift to a child of €450,000 would incur a CAT charge of €16,500[4] (an effective rate of 3.7 per cent) while the same gift to a non-relative would incur a CAT charge of €141,900 (an effective rate of 31.5 per cent). The COTW (2022) described the scale of the Group A threshold as both inequitable and regressive and note that the Group A threshold amount by itself puts an individual within the wealthiest 40 per cent of wealth holders.

Effective rates should be understood as upper bounds, as a range of exemptions, reliefs, and favourable valuations are available. There is a 'small gift' exemption on the first €3,000 of taxable gifts received during each tax year (so €6,000 per annum if each parent provides a gift) as well as a 'dwelling house' exemption where a person continues to live in a home. There is also an exemption for gifts and inheritances made between spouses.

For businesses, generous agricultural and business property reliefs reduce liability to CAT. These operate by reducing the market value of the relevant assets by 90 per cent so that CAT is calculated on an amount – known as the 'agricultural value' or 'business

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Table 3. Capital acquisitions tax yield in Ireland, 2015–2022

	€m	% GNI*	% Household Net Wealth
2015	400	0.246	0.069
2016	415	0.242	0.067
2017	460	0.250	0.067
2018	523	0.269	0.070
2019	522	0.248	0.066
2020	505	0.216	0.061
2021	582	0.249	0.062
2022	605	0.221	0.058

Source: Calculated by Authors from Revenue Commissioners (2023), CSO (2023c), Central Bank of Ireland (2023).

value' – which is substantially less than the market value (10 per cent). Agricultural property, such as farmland, has benefited from relief since the introduction of CAT in 1976, perhaps reflecting the cultural significance of landholding in Ireland. The holding of land and self-employed businesses comprise a much larger share of the net wealth of the highest wealth decile. The COTW (2022) note that some 40 per cent of households in the top wealth decile report receiving a farm or business, whereas no households in the lowest net wealth decile report doing so. The agricultural relief cost €206 million and the business relief €198 million in 2022, thereby depleting the total yield from €1,100 million to €605 million (40 per cent of the total). Table 3 shows CAT yields. The yield ranged from 0.22 per cent to 0.27 per cent of GNI* and from 0.06 per cent to 0.07 per cent of net household wealth. Group B yielded the largest total amount for the exchequer and had the largest number of cases each year. The prominence of Group B reflects the high exemption threshold and range of exemptions and reliefs available to Group A.

Given that net household wealth exceeded one trillion Euro in 2022 and assuming these assets are transferred once a generation, or every 25–40 years, we can establish an effective tax rate on net wealth transfer in the order of 1.5–2.5 per cent in 2022. For context, Ireland's implicit effective tax rate (ITR) on capital averaged 14 per cent between 2016 and 2020, its ITR on consumption averaged 19.6 per cent and its ITR on labour averaged 32.7 per cent (Eurostat, 2022). Recipients of income from wealth are therefore highly favoured relative to recipients of earned income (capital or labour).

CGT was introduced in 1975 and is charged on the value of the capital gain made on the disposal of an asset. CGT has been 33 per cent since 2012. Gifts of an asset count as a disposal for CGT purposes and may be liable for a gain. However, a number of features of CGT reliefs interact with CAT in a way that undermines the base and depletes the capital tax yield. For example, the 'same event credit' allows for any CGT paid by one individual to be offset against CAT due by another individual from the same asset transfer despite the two tax charges having different purposes (COTW, 2022). Notably, transfers owing to a death are not considered a 'disposal' for CGT purposes. The asset value is considered to have been acquired on a 'step-up' basis at market value but any gain is overlooked (COTW, 2022). Combined with high exemption thresholds and favourable valuations this can lead to a capital gain continuously avoiding tax from generation to generation.

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The current structure also creates an economically distortive lock-in effect whereby assets are held until death even if they could be used more productively.

The presence of various tax reliefs also undermines the comprehensiveness of these capital gains taxes. For businesses and farms, CGT Retirement Relief interacts with CAT Agricultural Relief and the CAT group thresholds to minimise the tax due on intergenerational wealth transfers relating to businesses and farms. Retirement relief gives an exemption to CGT on the disposal of assets to a child irrespective of value. The rationale is to encourage earlier lifetime intergenerational transfers of businesses and farms. Similarly, CGT Principal Private Residence (PPR) Relief interacts with the CAT group thresholds to minimise tax due on intergenerational wealth transfers relating to family homes. There is no limit on the house value that can qualify for PPR relief, meaning that a significant proportion of the gains associated with the aforementioned substantial increases in property values goes untaxed indefinitely. PPR relief also creates an economic distortion as it incentivises investment in owner-occupied housing, thereby increasing house prices, exacerbating wealth inequality and housing affordability issues, and reducing investment in more productive assets.

Overall, CAT provided €605m, less than 1 per cent of overall net exchequer receipts, in 2022 (Department of Finance, 2023). Its system of exemptions, reliefs, and loopholes enables those receiving wealth transfers to minimise or nullify their CAT liability, thereby undermining the principle of horizontal equity between taxpayers, and depleting the potential tax yield. While reviewing the UK's current system of wealth taxation, Summers (2021) described it as 'a mess'; a description that seems equally appropriate for Ireland's current system. Furthermore, as it stands the current system perpetuates, rather than counters, wealth inequalities.

Reforms to enhance fairness

Given Ireland's current system of inheritance taxes, and the tax design considerations outlined earlier, we briefly consider what medium-term changes should arise such that fairness and tax revenue are enhanced. Our proposals build on the aforementioned call from the COTW (2022) to deliver a higher tax yield from sources of wealth and to reduce intergenerational inequality.

Horizontal equity suggests that all wealth recipients should be treated the same rather than differentiated by relationship to the donor. A modest exemption threshold may be reasonable although, such an exemption should not exceed median wealth. For Ireland, this was €193,100 in 2020. There is no obvious justification for having an exemption threshold so high that it automatically places a household in the top half of the wealth distribution. Indexing the threshold to median household wealth would reduce the group A threshold but increase it for group B and group C.

At the same time, there is no justification for retaining the existing range of CAT reliefs and favourable valuations, although a modest annual small gifts exemption could be justified for compliance and administration reasons. A policymaker only factoring in equity, efficiency, and administrative concerns would choose to abolish the favourable treatments for agriculture and business. While effective tax rates would increase for some group A beneficiaries, this could be partially offset by reducing the standard CAT rate (from 33 per cent) while simultaneously introducing a progressive rate structure that ensures vertical equity with larger inheritances taxed at higher marginal rates. In addition, a long-term payment schedule at very low or zero interest rates could be used in order to offset hardship cases, business viability, or liquidity concerns. The final tax yield would be a function of the rates chosen.

Similarly, the CGT reliefs that interact with CAT are difficult to justify on equity grounds. In particular, the transfer of assets on death should be treated as a disposal for CGT purposes.

With regard to the windfall gains from higher property valuations, these are best dealt with through appropriate reforms to the property tax system and through the introduction of a land or site value tax. Ireland introduced a modest Local Property Tax (LPT) in 2013 that applies to residential property although there is no broad-based tax on site values or land (Collins, 2021).[5] The property tax should increase to form a substantially larger share of total revenues through the adjustment of the basic rates upwards and its subsequent indexation to prices. Such a reform would help offset the windfall gains associated with the sharp rise in property prices.

Taken together, these proposals offer a reform programme for Ireland and for other high-income countries. Reforms justified on the basis of their contribution to equity and societal fairness provide one avenue to address persistently high levels of net wealth inequality. They also offer the potential to provide a larger recurring stream of funds to support other policy objectives including the enhancement of public services and the funding of other redistributive policies intended to further counter inequality.

Conclusion

Driven by new data sources and an evolving research literature, assessments of distributional issues have shifted in recent years to engage more extensively with issues related to the level and concentration of wealth and the implications of its transfer between generations. Research demonstrates that in the absence of policy interventions wealth concentration tends to increase over time (Piketty, 2014; D'Arcy and Gardiner, 2017) with inherited wealth playing an important role in facilitating this growing inequality (Piketty and Zucman, 2015; Alvaredo *et al.*, 2017; Nolan *et al.*, 2020; Palomino *et al.*, 2022). This article explores the case for relatively higher and better designed taxes on intergenerational wealth transfers as a means of addressing this inequality while simultaneously providing a larger and recurring source of additional taxation revenue for states.

Using Ireland as a case study, we examine a pathway for an equity and revenue enhancing reform of inheritance taxes, one which draws on horizontal and vertical equity principles and a series of design considerations from other high-income states. Such a shift, we argue, is likely to be equity enhancing within generational cohorts and would be unlikely to have any negative economic implications. Even so, building a widely accepted narrative to support the adoption of these reforms remains a challenge, one familiar to previous attempts internationally (Sandford and Morrissey, 1985; Graetz and Shapiro, 2005; Rowlingson, 2008; Alt *et al.*, 2010; Bastani and Waldenström, 2021; Byrne, 2021; Prabhakar, 2023), but one which deserves greater focus from researchers and policy makers intent on addressing inequality and intergenerational fairness.

Notes

1 GDP and GNI are limited as measures of economic activity in Ireland due to the outsize impact of certain globalisation effects including exports of goods produced under license, foreign profitability of companies re-domiciled to Ireland for tax reasons and the depreciation of Irish-based but foreign owned IP assets and leased aircraft. GNI* is a bespoke measure of economic output used to strip out some of these globalisation effects and obtain a more realistic measure of the economy in Ireland (Department of Finance, 2021).

2 This section draws on Drometer *et al.* (2018) and OECD (2021) regarding cross country approaches and comparisons.

3 See McDonnell (2013) for a further discussion of valuation issues.

4 Calculated as (€450,000 – €400,000) (0.33) = €16,500.

5 See McDonnell (2019) for a wider discussion of the merits of property taxes.

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