Inheritance Tax Revenue Low Despite Surge in Inheritances

By Stefan Bach and Andreas Thiemann

Every year in Germany, an estimated 200 to 300 billion euros is gifted or inherited. Due to the extremely unequal distribution of wealth, these capital transfers are also highly concentrated. Approximately half of all transfers are less worth than 50,000 euros. Transfers of over 500,000 euros were received by one and a half percent of beneficiaries, accounting for one-third of the total transfer volume. The 0.08 percent of cases with transfers of over five million euros received 14 percent of the transfer volume and more than half of corporate transfers, which are currently largely exempt from inheritance tax. Abolishing tax concessions could considerably increase the tax base of inheritance tax in the longer term. This would make it possible to reduce tax rates to a level that avoids placing a greater burden on family businesses.

The surge in inheritances continues. Those born in the 1930s when birth rates were very high are currently bequeathing or gifting their assets. Individuals from this generation who began their careers in the economic boom years generally had several children and were barely affected by the harsh economic climate of the 1970s and 1980s, in particular from the rise in unemployment.[1] For several years now, wealth generated and accumulated in the postwar period has been transferred to subsequent generations.

The total annual assets inherited and gifted in Germany is disputed, since there are no accurate statistics available. Although inheritance tax statistics record high and very high transfers, "normal" inheritances or gifts, such as owner-occupied housing, small businesses, or ordinary financial assets are not taxed in most cases. This is because high personal allowances apply to close relatives, who receive the majority of inheritances and gifts.[2] Transfers between distant relatives or unrelated individuals are, however, more frequently taxed because considerably lower personal allowances apply in these cases.

Household surveys provide another source of information on inheritances and gifts. For instance, in the Socio-Economic Panel (SOEP) study, respondents are asked annually about capital transfers they have received. Certainly, the aggregated volume of 40 to 50 billion euros per annum is a rather conservative estimate.[3] The German survey conducted as part of the Household Finance and Consumption Survey (HFCS) by the central banks of the euro area indicates considerably higher inheritance

1 T. Bönke and H. Lüthen, "Lebenseinkommen von Arbeitnehmern in Deutschland: Ungleichheit verdoppelt sich zwischen den Geburtsjahrgängen 1935 und 1972," *DIW Wochenbericht*, no. 49 (2014).

2 These allowances are 500,000 euros for married and life partners and 400,000 euros for children (Section 16, para. 1 of the German Inheritance Tax Law (*Erbschaftssteuergesetz, ErbStG*)).

3 S. Bach, H. Houben, R. Maiterth, and R. Ochmann "Aufkommens- und Verteilungswirkungen von Reformalternativen für die Erbschaft- und Schenkungsteuer," *Politikberatung kompakt* 83 (2014): 33 et seqq.

and gift flows in the second half of the 2000s.[4] In both surveys, inheritances and gifts are likely to be substantially underestimated since they underreport households with high incomes and assets, the number of respondents is small, and only transfers by individuals outside the household are recorded. Inheritance tax statistics also record transfers between spouses.

Since the total inheritance volume is inadequately recorded in inheritance tax statistics and household surveys, other studies utilize the macroeconomic aggregates of household net wealth[5] and deduce inheritances based on assumptions. Future inheritance flows are estimated using information from household surveys on wealth distribution by age and current mortality probabilities from population statistics. These studies suggest considerably higher transfer flows of between 200 and 300 billion euros per annum.[6] However, underlying macroeconomic net wealth aggregates for households are substantially higher than corresponding wealth aggregates measured in the household surveys. They are disputed in part because they are based on macroeconomic modeling or include assets from non-profit organizations.[7]

In the present study, we are taking the middle ground. The following analyses are based on a consistent micro-based distribution of wealth for German households in 2011. This distribution was created from the HFCS and includes a supplementary estimate for underreported households with very high net wealth. On this basis, we simulate the number of deaths over ten years using current mortality rates. This gives the likely potential inheritance flow in Germany currently and for the coming years. We also estimated the volume of gifts and potential tax bases for inheritance tax.

4 T. Bönke, G. Corneo, and C. Westermeier, "Erbschaft und Eigenleistung im Vermögen der Deutschen: Eine Verteilungsanalyse," *Fachbereich Wirtschaftswissenschaft, Diskussionsbeiträge Economics* 2015/10 (2015): 11 et seqq. However, the estimate error is very high due to the low number of cases.

5 German Bundesbank, Federal Statistical Office, *Sektorale und gesamtwirtschaftliche Vermögensbilanzen 1999–2013* (2014).

6 R. Braun, U. Pfeiffer, and L. Thomschke, *Erben in Deutschland. Volumen, Verteilung und Verwendung in Deutschland bis 2020* (Deutsches Institut für Altersvorsorge GmbH, 2011); R. Braun, *Erben in Deutschland 2015–24: Volumen, Verteilung und Verwendung* (Deutsches Institut für Altersvorsorge GmbH, 2015); C. Schinke, "Inheritance in Germany 1911 to 2009: A Mortality Multiplier Approach," *SOEPpapers* 462 (2012); see also T. Piketty and G. Zucman, "Wealth and Inheritance in the Long Run," in *Handbook of Income Distribution,* vol. 2 (2015), 1339 et seqq.

7 M. Grabka and C. Westermeier, "Real Net Worth of Households in Germany Fell Between 2003 and 2013," *DIW Economic Bulletin,* no. 34 (2015); H. Houben and R. Maiterth, "Erbschaftsteuer als „Reichenbesteuerung" mit Aufkommenspotential?," *Vierteljahrshefte zur Wirtschaftsforschung* 82 (1) (2013): 158 et seqq.

High concentration of wealth leads to greater inequality of inheritances …

We used data from the HFCS to calculate the wealth distribution of households in Germany. The supplementary estimate of households with high and very high wealth is based on the rich list published in *manager magazin* for 2011 and the Pareto distribution (see box). The estimates show that the net wealth of German households in 2011 was 8,600 billion euros. This wealth is very highly concentrated: the richest ten percent of the population own 63 percent of total net wealth, the richest one percent own 32 percent and the richest 0.1 percent own 16 percent of total net wealth. As a result, future wealth transfers are expected to be similarly unequally distributed. Around one-third of total wealth is owned by households with the reference person aged 65 or over. As a result, considerable wealth transfers are expected presently and in the coming years.

We simulated the potential inheritance flow from 2011 to 2020 on the basis of current mortality rates of households with assets in 2011. In doing so, we made the following assumptions:

- Estimated wealth for 2011 will remain constant over the entire period. This assumption disregards any further savings and dissavings for consumption purposes or care expenses. This probably results in a slight underestimation of future inheritance flows because, to date, older people save more than dissave.
- We have disregarded changes in asset valuation since 2011. Market prices for companies have increased considerably in recent years and real estate prices are also rising. In particular, high household wealth, primarily consisting of companies, company shares, or real estate, is likely to have appreciated noticeably since 2011. Asset prices are likely to remain high since the current phase of low interest rates and returns due to high liquidity in the financial markets and the expansionary monetary policies of major central banks will probably continue for some years to come. As a result, we have underestimated current assets and their distribution as well as the inheritance volume.
- The imputed age distribution of estimated households with high and very high assets is uncertain, since it is based on a small number of households with high assets from the HFCS. An alternative imputation of age distribution of individuals with high assets based on the 29th wave of the SOEP for 2012 indicates a slightly higher average age of the wealthiest and therefore a higher inheritance volume for the coming years.

Box

Estimated distribution of wealth in Germany in 2011

In a study on the distribution of wealth in Germany, we combine survey data with information and estimates on households with high and very high assets.[1] The Household Finance and Consumption Survey (HFCS)[2] by the national banks of the euro area, the German section of which was conducted by the Deutsche Bundesbank in 2010/2011, samples wealthy households with a greater selection probability. This gives us a better picture of high income and assets than the 29th wave of the SOEP for 2012. However, there are still only a few households in the HFCS with assets worth tens of millions of euros and none worth hundreds of millions.

We integrate the 200 richest German households into the model dataset, which we derived from the list of the 500 richest Germans in *manager magazin* published in October 2011.[3] Further, we estimate the wealth and distribution of wealth of households with net wealth of three million euros or more using the Pareto distribution. Here, we combine HFCS survey data with the rich list to estimate the alpha coefficients of the Pareto distribution.[4] Then we impute synthetic households—according to the estimated distribution—with net wealth of three million euros up to the 200 richest households on the rich list. The portfolio components of imputed households, in particular real estate, own businesses, corporate shares, financial assets, and other assets, were derived from share estimates based on the sample of households in the HFCS, which have assets worth a minimum of one million euros. For households in the *manager magazin* list, it was assumed that all assets were corporate assets. By expanding the distribution of wealth at the top end, the calculations are then compatible with the macroeconomic asset aggregates of households.[5]

To estimate potential inheritances in the next few years, we simulated the distribution of deaths between 2011 and 2021. To achieve this, we first estimate an age distribution for the synthetic households and the list from *manager magazin*. We use the age distribution of households in the HFCS with minimum assets of 500,000 euros. We distinguish between single and couple households and by gender, here, in order to take account of structural differences. In couple households, assets are split equally between reference person and his or her partner. In households with no partner, the reference person is assigned all the assets. Children or other individuals in the household are disregarded.

Based on the distribution of wealth in 2011, we simulate annual deaths according to the Federal Statistical Office's gender-specific mortality tables,[6] where households moving up were disregarded. Each year, the age is updated by one year and the corresponding survey weight of the household is reduced by the number of deaths in the previous year. This results in an average of around 825,000 deaths per annum in the simulation period from 2011 to 2020. This roughly corresponds to the number of deaths reported by the German Federal Statistical Office.[7] The potential estate and inheritance volume is calculated on the basis of this number of deaths, excluding inheritances worth less than 500 euros.

1 S. Bach, A. Thiemann, and A. Zucco, "The Top Tail of the Wealth Distribution in Germany, France, Spain, and Greece," *DIW Berlin Discussion Paper*, no. 1502 (2015).

2 European Central Bank, *Household Finance and Consumption Network (HFCN)* (2015).

3 manager magazin, "Die 500 reichsten Deutschen," *manager magazin spezial* (October 2011). See also, "Liste der 500 reichsten Deutschen," *Wikipedia*, last modified January 18, 2016.

4 P. Vermeulen, "How fat is the top tail of the wealth distribution?," *European Central Bank, Working Paper Series* 1692 (2014); S. Bach, M. Beznoska, and V. Steiner, "A Wealth Tax on the Rich to Bring Down Public Debt? Revenue and Distributional Effects of a Capital Levy in Germany," *Fiscal Studies* 35 (2014): 67–89; see also "A Wealth Tax on the Rich to Bring down Public Debt?," *DIW Berlin Discussion Paper*, no. 1137 (2011).

5 German Bundesbank, Federal Statistical Office, *Sektorale und gesamtwirtschaftliche Vermögensbilanzen 1999 – 2013* (2014).

6 Federal Statistical Office, *Allgemeine Sterbetafeln für Deutschland – Früheres Bundesgebiet, neue Länder sowie die Bundesländer 2010/2012* (2015).

7 Federal Statistical Office, *Bevölkerung und Erwerbstätigkeit. Zusammenfassende Übersichten. Eheschließungen, Geborene und Gestorbene* (2015).

- Since assets recorded in the HFCS apply to entire households, we have divided these equally between both partners in couple households. For couples in the middle of the distribution, assets are mostly earned jointly and additional wealth is divided equally according to the statutory matrimonial property regime if the marriage ends. Things look very different for particularly wealthy couples with high inherited wealth. In these cases, we have underestimated the variance and concentration of inheritances. Other members of the household, such as adult children or grandparents, are disregarded.

Table 1

Simulation of inheritances and gifts as well as tax revenues of an inheritance flat-tax 2011–2020
Annual average

Acquisitions from … to below … euros	Simulation of Inheritances and gifts					Simulation 10% Inheritance flat-tax[2]	
	Inheritances			Gifts[1]	Total	Tax revenues	Effective tax rate[3]
	Total		Thereof: business assets				
	Taxpayer	Million euros					Percent
below 50,000	881,748	13,616	142	6,808	20,424	0	0.0
50,000–100,000	317,382	22,459	158	11,229	33,688	0	0.0
100,000–200,000	250,040	33,791	462	16,896	50,687	0	0.0
200,000–300,000	58,109	14,516	841	7,258	21,773	0	0.0
300,000-500,000	33,418	12,577	911	6,289	18,866	73	0.4
500,000–2,5 mil.	19,798	19,541	5,470	9,771	29,312	1,743	5.9
2.5 mil.–5 mil.	2,268	7,746	2,670	3,873	11,619	1,026	8.8
5 mil.–10 mil.	743	5,253	2,186	2,626	7,879	743	9.4
10 mil.–20 mil.	285	3,805	1,805	1,902	5,707	554	9.7
20 mil. and more	177	11,710	8,127	5,855	17,565	1,746	9.9
total	**1,563,968**	**145,014**	**22,771**	**72,507**	**217,521**	**5,885**	**2.7**
	In percent						
below 50,000	56.38	9.39	0.62	9.39	9.39	0.00	
50,000–100,000	20.29	15.49	0.70	15.49	15.49	0.00	
100,000–200,000	15.99	23.30	2.03	23.30	23.30	0.00	
200,000–300,000	3.72	10.01	3.69	10.01	10.01	0.00	
300,000–500,000	2.14	8.67	4.00	8.67	8.67	1.24	
500,000–2,5 Mio.	1.27	13.48	24.02	13.48	13.48	29.62	
2.5 mil.–5 mil.	0.15	5.34	11.72	5.34	5.34	17.43	
5 mil.–10 mil.	0.05	3.62	9.60	3.62	3.62	12.63	
10 mil.–20 mil.	0.02	2.62	7.93	2.62	2.62	9.41	
20 mil. and more	0.01	8.08	35.69	8.08	8.08	29.67	
total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	

1 Estimation: 50% of inheritances.
2 Individual tax allowance of 400,000 Euro per taxpayer, 10% tax rate.
3 Tax liability divided by aquisition.

Sources: Household Finance and Consumption Survey (HFCS), manager magazin rich list, own calculation.

According to the simulations, 218 billion euros of inheritances and gifts are transferred per annum.

- We used current mortality rates for the entire population. "Wealthier is healthier" most probably also applies to Germany since socially advantaged individuals with a higher income and assets probably also have a higher life expectancy. We disregarded this effect because there are no precise findings for Germany.[8] As a result, the inheritance volume for the next few years might be slightly overestimated.
- We disregarded the fact that heirs could also die during the period under observation, which would affect the inheritances of surviving spouses in particular. This results in the future inheritance flow being slightly underestimated.

Overall, we expect to noticeably underestimate future inheritance flows as a result of these assumptions.

In order to illustrate the distribution of inheritances, we have assumed that all simulated estates are divided equally between two individuals. There is no reliable in-

8 See also Schinke "Inheritance in Germany," 35 et seqq.

formation concerning the actual distribution of estates apart from inheritance tax statistics. This assumption is reasonable because the individuals in the generation under observation often have several children. Nevertheless, the assumption underestimates the actual variance of inheritances.

The simulations show an annual average for the period 2011 to 2020 of 1.6 million inheritance cases with an inheritance volume of 145 billion euros (see Table 1). The inheritances are as highly concentrated as the wealth: around half are below 50,000 euros, making up less than ten percent of the total inheritance volume. More than three-quarters of inheritances are less than 100,000 euros, which account for almost one-quarter of the total inheritance volume. Each year, only 23,000 individuals receive inheritances of over 500,000 euros—representing 1.5 percent of all heirs. These cases, potentially subject to inheritance tax, account for an inheritance volume of almost 50 billion euros or one-third of the total inheritance flow. The 1,200 cases with inheritances of over five million euros account for only 0.08 percent of all heirs, but they receive 21 billion euros, or 14 percent of the total inheritance volume.

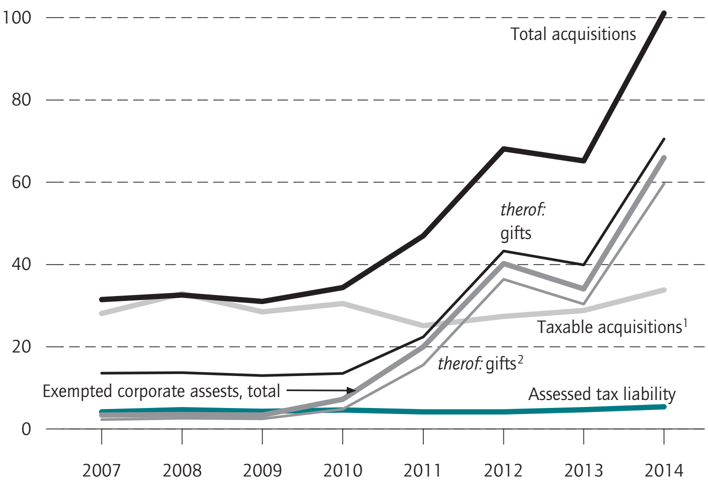
The current inheritance tax reform is concerned with limiting tax concessions for company transfers. We estimate their inheritance volume to be 23 billion euros. These transfers are largely exempt from tax as it currently stands. It is unlikely that much will change under the German government's draft bill. Since the high assets consist largely of companies and corporate assets, the corresponding inheritances are still considerably more concentrated on the high transfers. Around half of company transfers occurred in cases of inheritances worth over five million euros. In these cases, the company's assets account for almost 60 percent of the inheritance volume.

… and gifts

In addition to inheritances, assets are also transferred as gifts during the bequeather's lifetime. There is no reliable information on the extent and distribution of the total volume of gifts in Germany. The inheritance tax statistics show a massive increase in gifts from corporate assets, which occurred in anticipation of the new tax break regulations (see Figure 1). These are likely to decline considerably once the new regulations are in place. In the SOEP study, information about inheritances and gifts are surveyed separately. Between 2004 and 2009, aggregate gifts averaged just under 50 percent of the aggregated inheritances.[9] However, the data source may not be reliable, given the small sample size and low volume.

Figure

Taxable acquisitions, tax exemptions for corporate assets and tax burden of resident tax payers, 2007–2014
Billion euros



1 After deduction of asset-related exemptions and allowances, including former acquisitions from the same person within a ten-year period which are added together, before personal allowances.
2 Tax-free gifts of business assets.

Source: Federal Statistical Office, inheritance and gift tax statistics.

Among wealthier households, gifts should account for a considerably higher proportion, for example, in order to plan the transfer of assets in company successions or to repeatedly make use of personal allowances for inheritance tax. In its current revenue estimates for the long-term effects of the inheritance tax reform of taxable transfers, the German Federal Ministry of Finance (BMF) has assumed a total of 20 billion euros in gifts and 25 billion euros in inheritances.[10] However, in this ratio of gifts to inheritances, the volume of gifts appears to be too high, since the calculations only refer to taxed transfers with high acquisitions.

9 Bach et al., "Aufkommens- und Verteilungswirkungen," 35.

10 German Federal Ministry of Finance, "Bewertung und Quantifizierung verschiedener Steuermodelle sowie verschiedener Auswertungen," letter from Parliamentary State Secretary, Dr. Michael Meister, to Members of the Finance Committee of the Deutscher Bundestag, November 26, 2015, GZ IV C 7- S 3730/15/10001 :010, DOK 2015/1063309, Appendix 3. See also the results of various calculations on the different models for inheritance and gift tax reform. Letter from Parliamentary State Secretary, Dr. Michael Meister, to the Chair of the Financial Committee of the Deutscher Bundestag, December 15, 2015. GZ IV A 6 - Vw 7486/04/10001 :003, DOK 2015/1162101. (Deutscher Bundestag printed paper, 2015) 18 (07), 256, Appendix 3.

For a conservative estimate of the volume of gifts, we have assumed here that gifts account for 50 percent of the inheritance volume during the observation period between 2011 and 2020. This low share can also be explained by the fact that, in our dynamic simulation, we have already taken into consideration gifts to benefactors who die during the period under observation. In the absence of a suitable data source, we further assume that the distribution of gifts and inheritances correspond to each other. We underestimate the concentration of gifts because there have presumably been more of these from individuals from wealthy households.

Under these assumptions, our point estimates for the period from 2011 to 2020 give an average annual volume of inheritances and gifts of 218 billion euros. The 1.5 percent of cases with acquisitions over 500,000 euros, which would potentially be subject to inheritance tax, account for one-third of the total transfer volume, or 72 billion euros. The 0.08 percent of cases with inheritances over five million euros receive 14 percent of the transfer volume, which corresponds to 31 billion euros. It should be emphasized that this is a conservative point estimate. Under plausible assumptions, the total transfer volume could also amount to 250 billion euros and may be even higher if the asset price rises of recent years are taken into account. The current inheritance and gift flows should therefore range between 200 and 300 billion euros.

Abolishing all tax breaks would lead to high additional revenue or a low tax rate

General statements about the potential tax bases for inheritance and gift tax can be made on the basis of our simulation of inheritances and gifts (see Table 1). However, we can only simulate simple taxation concepts and not applicable legislation or the currently debated reform models because there is no detailed information on the distribution of tax-relevant characteristics available. To achieve this, microsimulations need to be performed using individual data from the inheritance tax statistics.[11]

However, a simple flat-tax or low-tariff model can be adequately represented: abolishing all tax breaks, a lower tax rate on acquisitions exceeding a high personal allowance. Here we have assumed a uniform allowance per beneficiary of 400,000 euros, which corresponds to the current allowance for children. Since we have presumed the estate will be divided equally between two beneficiaries, we have simulated a *de facto* estate tax with an allowance of 800,000 euros. We also applied a uniform tax rate of ten percent.

According to our calculations for the period from 2011 to 2020, a simple flat-tax, low-tariff model could achieve an annual revenue from inheritance tax of 5.9 billion euros. This would be slightly more than the annual inheritance tax revenue forecast for the coming years of around five billion euros.[12] Since our estimate here is on the conservative side, the additional revenue might be even higher however. In addition, we have assumed that all beneficiaries receive the allowance for children. In fact, only a small share of taxable inheritance and gifts go to spouses with slightly higher allowances but a considerable proportion to distant relatives or unrelated persons with lower allowances.[13] This would further increase the additional revenue.

More revenue could also be achieved with a progressive tax rate and relieve the burden on beneficiaries of smaller inheritances or gifts.[14] A tax rate of 15 percent appears to be acceptable, including on larger corporate assets, if the tax burden is distributed over a long period and the beneficiaries are allowed to repay the tax burden from current profits.[15] This would prevent strains on liquidity caused by inheritance tax.

With regard to potential revenue for the coming years, it should be noted that in recent years, tax-deductible gifts of corporate assets have increased massively (see Figure 1). Quite obviously, the pull-forward effects from expected restrictions on tax breaks have played a key role here. Between 2009 and 2014, corporate assets of 171 billion euros were transferred tax-free, 149 billion euros of which were gifts. However, inheritance tax revenues and taxable acquisitions after asset-related deductions and exemptions have remained virtually unchanged. Tax losses from tax breaks at the currently applicable tax rate are estimated at 45 billion euros.[16] A minimum taxation of these transfers at 15 percent would have achieved tax revenues of 26 billion euros. The existing law may currently be applied until the new regulation, to be approved in the next few months, comes into force. This taxation potential cannot be applied retrospectively. It is therefore lost for the coming decades. Our estimated revenue ef-

11 See H. Houben and R. Maiterth, "Zurück zum Zehnten: Modelle für die nächste Erbschaft-Steuerreform," *arqus Diskussionsbeitrag* 69 (2009); Bach et al., "Aufkommens- und Verteilungswirkungen," 28 et seqq.

12 Federal Ministry of Finance, *Ergebnisse der 147. Sitzung des Arbeitskreises „Steuerschätzungen" vom 3. bis 5. November 2015 in Nürnberg* (2015).

13 Federal Statistical Office, "Erbschaft- und Schenkungsteuerstatistik" (2016).

14 See also a proposal by Saarland's Minister of Economic Affairs, Anke Rehlinger, *Änderung der Erbschaftsteuer* (2015).

15 H. Noack and W. Wiegard, "Reform der Erbschaftsteuer: Wege zum Abbau der Verschonungsregeln," in *Impulse: Wirtschaft und Politik* (Managerkreis der Friedrich-Ebert-Stiftung, November 2015).

16 Federal Ministry of Finance, *Ergebnisse der 147. Sitzung*, Appendix 4.

Table 2

Taxable acquisitions, deductions and tax burden by the value of acquisitions before deductions[1]
Yearly average 2011–2014

Acquisitions before deductions from … to below … euros	Acquisitions before deductions		Deductions[2]			Personal allowance	Assessed tax liability	Effective tax rate[3]
	Taxpayer	Million euros	Million euros	As percent of acquisitions	1,000 euros per taxpayer	Million euros	Million euros	Percent
below 50,000	66,344	−927	77	−8.3	1	1,969	136	−14.7
50,000–100,000	32,875	2,317	181	7.8	5	1,121	305	13.2
100,000–200,000	24,837	3,494	360	10.3	14	1,525	511	14.6
200,000–300,000	11,933	2,898	409	14.1	34	1,385	337	11.6
300,000-500,000	13,975	5,487	1,015	18.5	73	2,958	434	7.9
500,000–2,5 mil.	17,723	16,424	5,502	33.5	310	5,002	1,394	8.5
2.5 mil.–5 mil.	1,429	4,927	2,670	54.2	1,869	434	426	8.6
5 mil.–10 mil.	633	4,387	2,903	66.2	4,587	194	311	7.1
10 mil.–20 mil.	315	4,282	3,300	77.1	10,485	104	242	5.7
20 mil. and more	311	30,149	28,479	94.5	91,719	81	539	1.8
total	**170,373**	**73,438**	**44,896**	**61.1**	**264**	**14,773**	**4,635**	**6.3**

1 Only first tax assessments with taxable acquisition ≥ 0 euros, resident taxpayers.
2 Deductions of tax exemptions according to Section 13 ErbStG (especially for household effects and other movable items, real estate, collections, charitable donations), tax exemptions for corporate assets according to Section 13a ErbStG, exemption for real estate leased for residential purposes according to Section 13c ErbStG, sum of deductible restrictions on transfers, incidental acquisition costs, and exempted transfers by double taxation agreements.
3 Assessed tax liability divided by acquisition before deductions.

Source: Federal Statistical Office, inheritance and gift tax statistics 2011–2014.

Over half of all transfers larger than 2.5 million euros were tax-free.

fects are therefore only likely to be realized in the longer term, when the pull-forward effects of previous years are no longer relevant.[17]

It should be noted that we have disregarded all tax breaks in our calculation. In addition to high tax breaks for corporate transfers, this also affects tax advantages for collections, rented residential real estate and a tax exemption on the “family home.” However, this transfer volume only amounts to a few billion euros a year.[18] Tax exemptions on donations and foundations for charitable purposes, as well as the option of repeatedly applying personal allowances on gifts every ten years, probably carry more weight.[19] There is no information available on this because these transfers are not usually assessed for inheritance tax.

From 2011 to 2014, more than half of acquisitions from 2.5 million euros onward were tax-free (see Table 2). The tax-free share increases as the acquisition sum rises since it consists primarily of corporate assets. Almost 90 percent of acquisitions of 20 million euros or more during the observation period were tax-exempt. This applies to an annual average of more than 300 taxpayers who received an average of 92 million euros tax-free and results in low effective inheritance tax burdens for large or very large capital transfers. In contrast, the “normal” wealthy are considerably burdened by inheritance tax if their acquisitions exceed the personal allowances for beneficiaries.

Inheritance tax primarily burdens the “sandwich wealth” of “sandwich citizens,”[20] who possess higher net wealth, that is, citizens of the lower and middle upper class. Rich individuals with assets worth tens of millions, on the other hand, have a lower inheritance tax burden be-

17 In its current revenue estimates of the short-term effects of the inheritance tax reform, the Federal Ministry of Finance has assumed that, due to the pull-forward effect, the volume of taxed gifts will only amount to around one billion euros in the coming years and the inheritance volume will fall to 22 billion euros annually. Federal Ministry of Finance, *Ergebnisse der 147. Sitzung*, Appendix 4.

18 Federal Statistical Office, “Erbschaft- und Schenkungsteuerstatistik.”

19 The aggregation of multiple acquisitions within ten years according to Section 14 of the German Inheritance Tax Law (*Erbschaftssteuergesetz*, ErbStG) only relates to the personal relationship of the asset transferor to beneficiaries. This allows one set of parents to use the personal allowance for a child (400,000 euros) twice, that is, giving each child 800,000 euros every ten years tax-free.

20 H.-W. Arndt, “Rechtfertigung der Besteuerung des Vermögens aus steuersystematischer Sicht,” in *Steuern auf Erbschaft und Vermögen,* ed. D. Birk. Publications by the Deutsche Steuerjuristische Gesellschaft e.V., vol. 22 (DStJG, 1999), 33; W. Schön, “Wie viel Erbschaft gehört dem Staat?,” *Frankfurter Allgemeine Zeitung*, March 27, 2015, no. 73 (2015): 18.

cause they make use of tax breaks. Consequently, the inheritance tax is "regressive," meaning that beneficiaries of high transfers pay a substantially lower tax rate than other taxpayers.

Conclusion

An estimated 200 to 300 billion euros a year are currently inherited or gifted in Germany, and this will continue to be the case in the coming years. These asset transfers are highly concentrated due to the very unequal distribution of wealth. Approximately half of all transfers are less than 50,000 euros and make up less than ten percent of the total transfer volume. However, 1.5 percent of beneficiaries received over 500,000 euros, accounting for one-third of the total transfer volume. The 0.08 percent of cases with transfers over five million euros made up 14 percent of the total transfer volume and more than half of corporate transfers currently remain largely exempt from inheritance tax. Abolishing tax breaks would considerably increase the potential revenue from inheritance tax in the longer term.

"After the reform is before the reform" seems to be the motto of repeated inheritance tax reforms in the past two decades in Germany. When wide-ranging tax privileges for company transfers were introduced in 2008 and extended in 2009, it was clear that this reform would fail before the German Federal Constitutional Court.[21] Draft legislation currently being considered by the grand coalition is likely to suffer a similar fate.[22] With its strategy of "minimally invasive reform," the grand coalition has been caught up in a web of conflicting objectives: Effectively reducing exaggerated tax breaks for large enterprises whilst, at the same time, maintaining them in order not to burden the major SMEs and family businesses. The proposed new regulations are also very complex and subject to tax planning.[23]

One way out of this dilemma is a strategy of reducing all tax breaks substantially in order to reduce tax rates. Our analyses show this would have considerable revenue potential. As a result, the tax burden on corporate transfers, in particular, could be limited to 15 percent, for example. In addition, if tax burdens are extended over longer periods of time, beneficiaries could pay them off from current profits. Further, moderate allowances or declining tax exemptions could be granted on corporate transfers in order to relieve small and medium-sized family businesses.[24]

However, this strategy will not remain revenue-neutral in the next few years because the pull-forward effects mean a large proportion of high and very high assets have already been transferred tax-free to the next generation. If, in a few years' time, the inheritance tax reform is thwarted by the German Federal Constitutional Court for a fourth time, then there need to be alternatives which not only take account of the "sandwich wealth" of the lower upper class but also of the rich in a moderately progressive taxation scheme. Possible alternatives might include increases to ongoing corporate and capital income tax or a reintroduction of the wealth tax.

21 The German Council of Economic Experts, "Die Finanzkrise meistern – Wachstumskräfte stärken," *Jahresgutachten 2008/09*, referred to a "screwed up reform proposal," which had the wrong approach and only served particular interests (see subsections 351 and 376).

22 See the "Stellungnahme des Bundesrates zum Entwurf eines Gesetzes zur Anpassung des Erbschaftsteuer-und Schenkungsteuergesetzes an die Rechtsprechung des Bundesverfassungsgerichts," *Bundesrat printed paper no.* 353/15 (resolution), and the statement by experts in favor of a public hearing of the German Bundestag's Finance Committee on draft legislation by the German Federal Government to amend the German Inheritance and Gift Tax Law in accordance with the decision of the German Federal Constitutional Court, *Deutscher Bundestag printed paper* no. 18/5923, Monday, October 12, 2015.

23 K. Kischisch and R. Maiterth, "Einladung zur Steuergestaltung durch den Gesetzentwurf zum ErbStG vom 06.07.2015," *Der Betrieb* 68 (36) (2015): 2033–2040.

24 See proposals by SPD Members of the Finance Committee of the Federal Ministry of Finance, Appendix 1 (2015), 5 et seqq.

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