

Taxing inheritance

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November 26, 2025

An emotional subject

Inheritance tax

A hated tax but a fair one

The case for taxing inherited assets is strong

**The
Economist**

NOVEMBER 26TH - DECEMBER 1ST 2017

Britain's bleak budget

Zimbabwe after Mugabe

Donald Trump and Big Media

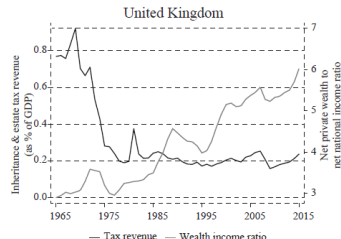
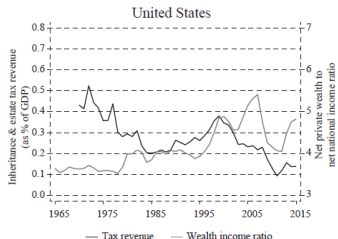
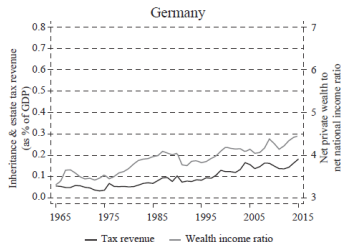
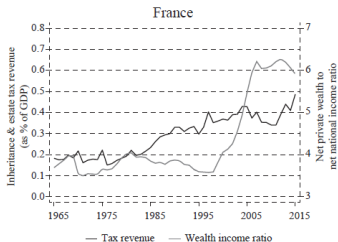
A special report on marriage

The case for taxing death



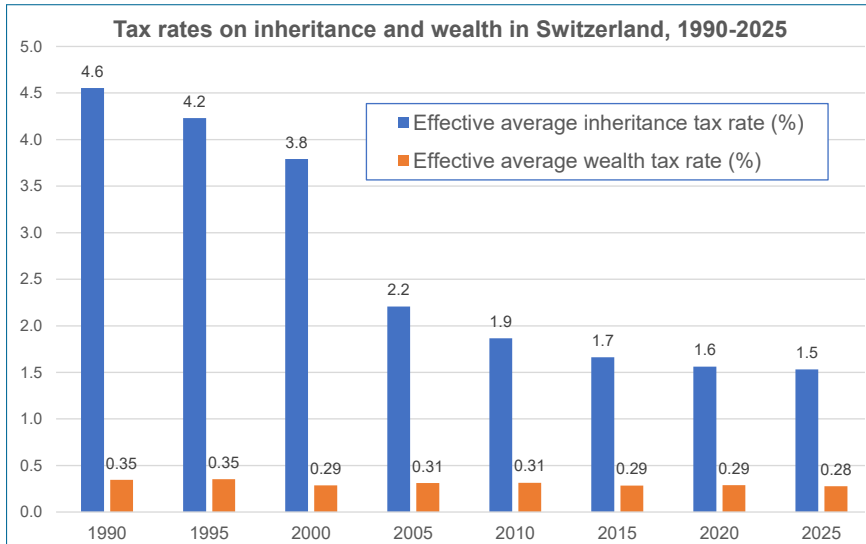
Inheritance taxes have been lowered internationally...

Wealth-income ratio versus inheritance tax revenue (as % of GDP), 1965-2015

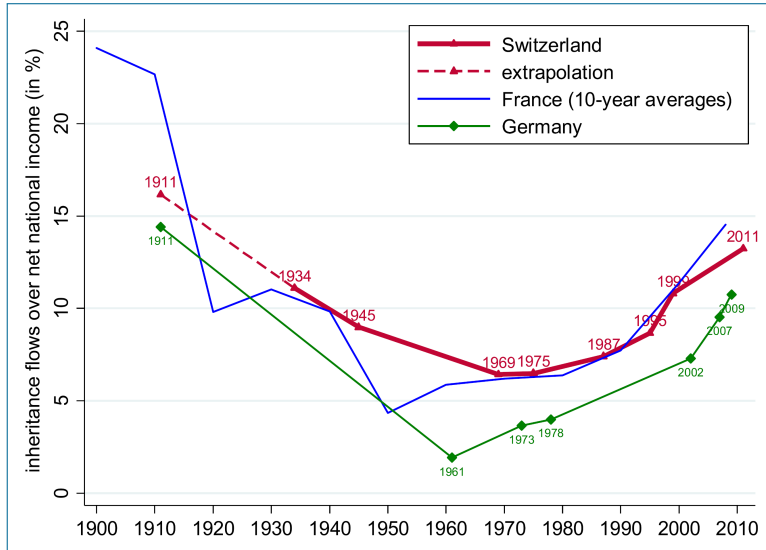


Source: Jestl (2021)

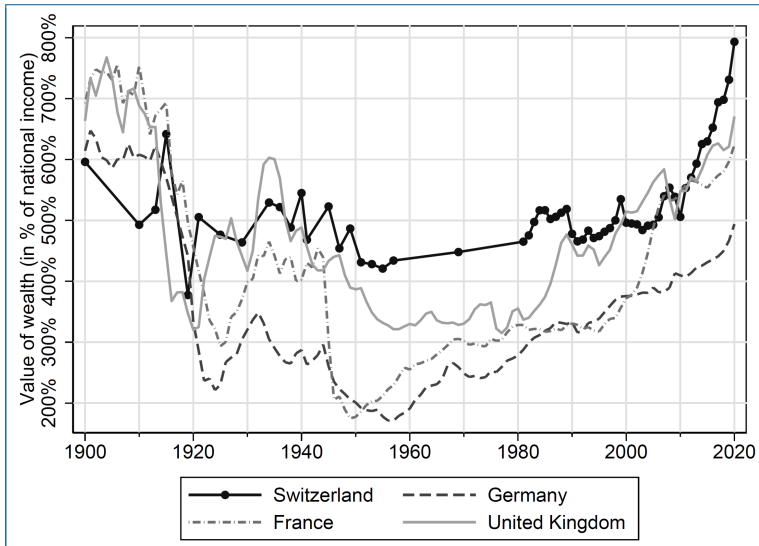
...and also in Switzerland,...



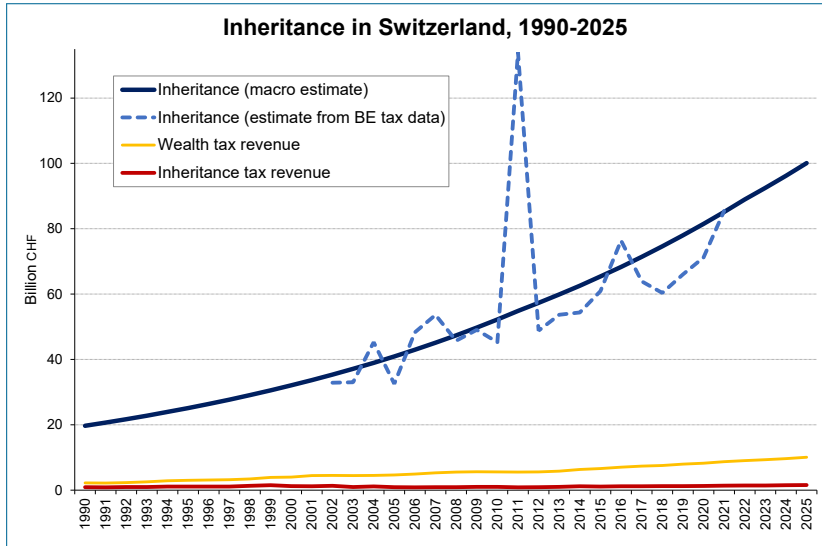
...even though the value of inheritances is rising fast,...



..., 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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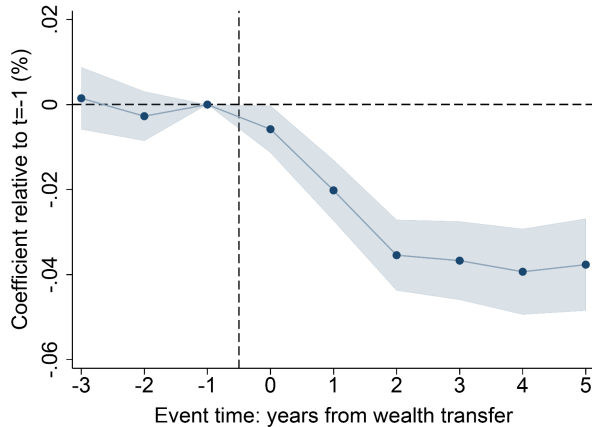
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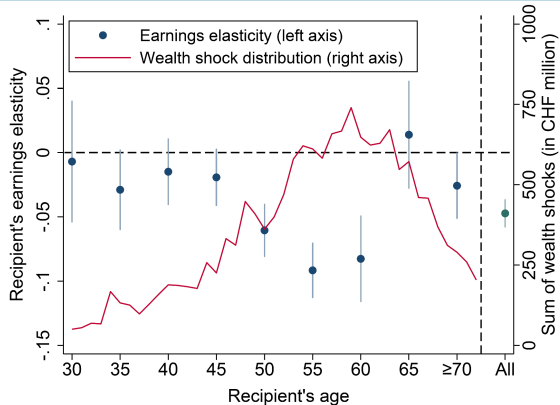
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Larger inheritance $\Rightarrow$ larger drop in labour earnings



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”



Notes: This figure shows age-specific earnings elasticities to wealth shocks, obtained by estimating the DiD equation (1). Each point reflects the estimated elasticity of log labor earnings with respect to log present-value-adjusted wealth shocks, computed separately by age group at the time of receipt (left axis). The estimated values are given in Table 2. The elasticity for “All” corresponds to the pooled estimate across all ages. Each elasticity is estimated over a time interval spanning -3 to 5 years around the realization of the wealth shock. The figure also shows the empirical distribution of wealth transfers (red line; right axis), measured as the sum of wealth shocks received by each age group (in CHF million, pooled over 2002–2019). The sample contains 1,266,430 person-year observations.

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

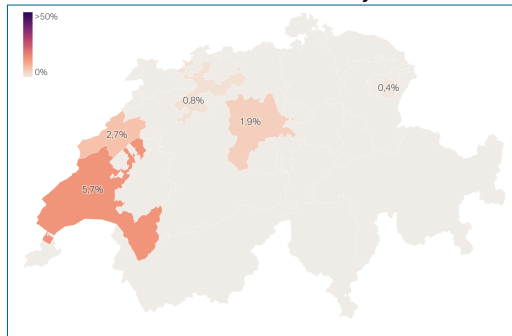
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- ▶ Complete dissipation of inheritance ⇒ **GDP** ↗ **~1.1%**

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

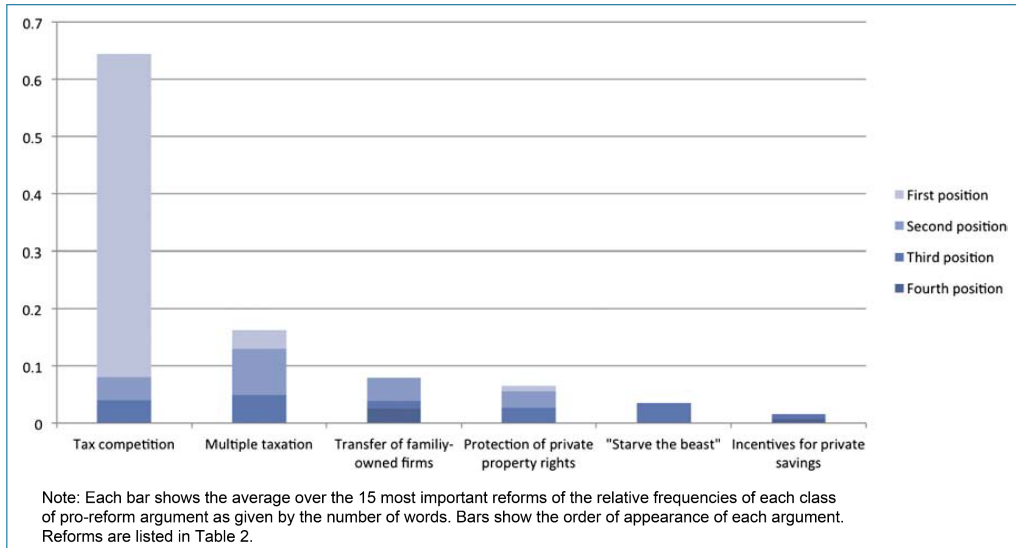


Source: [Swissinfo](#)

Inheritance taxes fell like dominoes

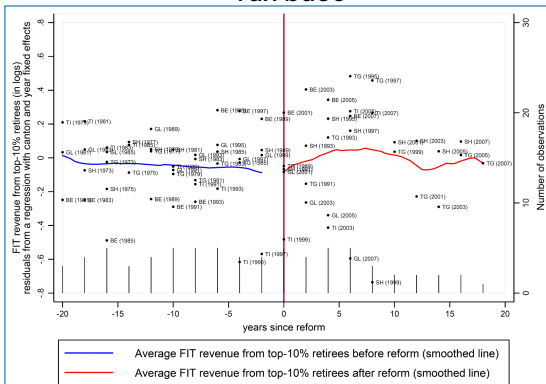
Canton	Year	Change	Main object of reform	Procedure	Decision date	Entry into force	Prevalence of tax comp. arguments	AITR	
								1973	2008
Cantons with major reforms									
Aargau	(AG)	2001	−7.7%	Repeal tax on direct descendants	Referendum	18.04.1999	01.01.2001	2.6	2.4
Appenzell Ausserrhoden	(AR)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

One political argument dominated: taxpayer mobility



No significant effects, even in the long run

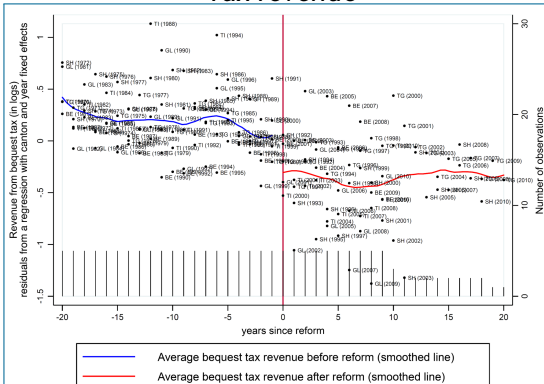
Tax base



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?



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

^a 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.

^b 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 ($t^* = 10 / -e$).

^c 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.

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

^e Steuererhöhungen und -senkungen; abgeleitet vom Schätzwert aus dem kompletten Regressionsmodell (mit Kontrollvariablen) in Spalte (D) von Tabelle 4 in Brülhart & Parchet (2014).

^f Nur Steuererhöhungen; abgeleitet vom Schätzwert aus dem kompletten Regressionsmodell (mit Kontrollvariablen) in Spalte (D) von Tabelle 5 in Brülhart & Parchet (2014).

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

^h 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).

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

^j 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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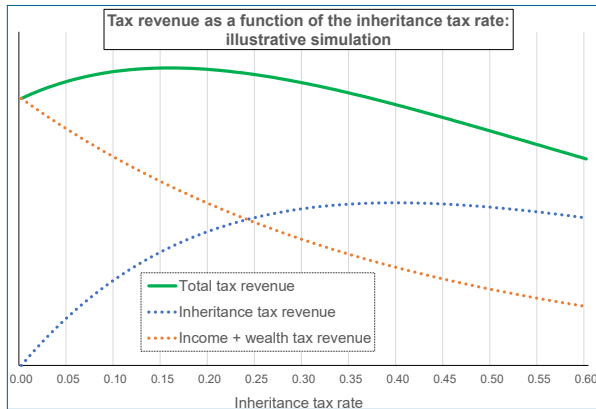
Why consider mobility a problem now, and not then?

Magnitudes:

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

The inheritance-tax Laffer curve

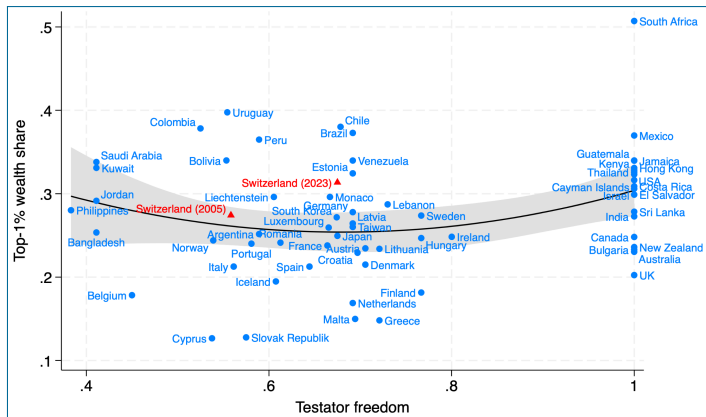
- ▶ Tax revenue relates non-monotonically to the tax rate
- ▶ Mobility lowers the revenue-maximising rate, *ceteris paribus*



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?



Source: Ellul, Pagano & Panunzi (2010), and WID

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 ~ 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

Allocate your estate using the rulers.

Disposable part
Still 25% available from a total of 50% 25.00 %

Statutory heirs

Spouse /
Statutory entitlement 25.00% 25.00 %

Son /
Statutory entitlement 25.00% 25.00 %

Other people/Organisations

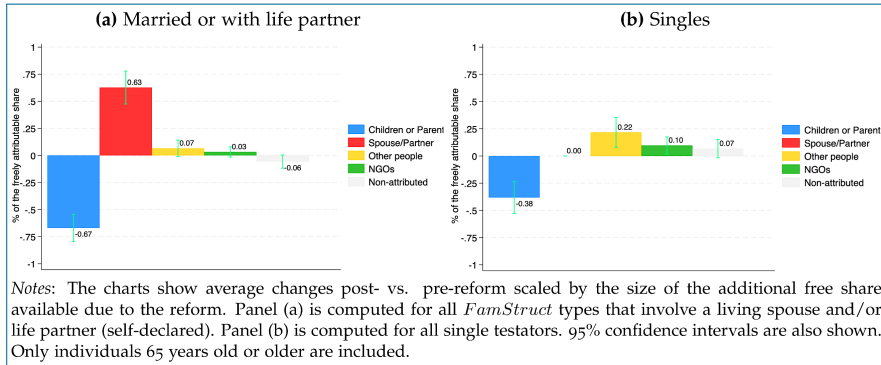
Swissaid CHF % 25.00 %

Another person / CHF % 0.00 %

Distributed estate: 75%

Set heirs to statutory inheritance entitlement Reset to «Intestate succession»

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

Thank you.



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