Wealth taxation emerged in Sweden at the beginning of the twentieth century, after several decades of intense political deliberation. Inheritance tax revenues represented about 0.1% of GDP return on the wealth, this thus represents an equivalent of a tax on capital income between 33% and 100%. However, for lower levels of taxable wealth, the tax was markedly lower. The abolishment of the wealth tax occurred in 2006, as one of the first decisions made by a new right-wing government. Several factors were behind this move. One recurrent criticism was that the special treatment of business equity had made the tax regressive, taxing middle-class wealth (mainly housing) comparatively lightly while charging high rates on business equity. Another common criticism was that the wealth tax spurred tax avoidance and evasion, especially in the form of capital flight to offshore tax havens. It should be noted that even although the wealth tax was abolished, Sweden taxes both property and various forms of capital income, which means that wealth and its returns are still taxed in Sweden.

This article aims to offer a perspective on the Swedish taxation of inheritance and wealth. It begins with a description of the introduction and abolishment of these taxes, spanning over a century of historical and economic development. It subsequently examines the distributional consequences of inherited wealth, looking at both income and wealth inequality, and then discusses what we know about the relationship between wealth taxation, wealth accumulation, and offshore tax evasion. Finally, a concluding discussion summarises the issues covered and highlights questions for further inquiry.

THE RISE AND FALL OF SWEDEN’S INHERITANCE AND WEALTH TAXES

Inheritance taxation has long-standing traditions in all Western economies. In the pre-industrial era, these taxes existed because probate inventories of deceased individuals offered a relatively reliable and easily observable tax base. Later inheritance taxes were primarily motivated by redistribution, linked to the growth of government and emergence of the welfare state. Sweden got its first modern inheritance and gift tax in 1885. Inheritance taxes were at a flat rate of 0.5% at this time, but the tax rate increased over the twentieth century to 5-10% in the interwar era, 2-5% in the 1930s and 1940s and 5-6% in the first postwar decades. Figure 1 shows average effective inheritance tax rates for different size classes of estates held in the form of a closely held corporation.

From the 1970s onwards, exemptions were introduced in the taxation of business equity in non-listed firms. Effective tax rates dropped as a result, especially on large inheritances, and a gap formed between rates on different forms of capital. The historical descriptions of this section draw heavily on Du Rietz, Henrekson and Waldenström (2017). Another common criticism was that the wealth tax spurred tax avoidance and evasion, especially in the form of capital flight to offshore tax havens. It should be noted that even although the wealth tax was abolished, Sweden taxes both property and various forms of capital income, which means that wealth and its returns are still taxed in Sweden.

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The effective tax rates account for all relevant deductions and valuation rules. Therefore, the gap in tax rates vis-a-vis statutory top marginal tax rates can be explained by redistribution, linked to the growth of government and emergence of the welfare state. Sweden got its first modern inheritance and gift tax in 1885. Inheritance taxes were at a flat rate of 0.5% at this time, but the tax rate increased over the twentieth century to 5-10% in the interwar era, 2-5% in the 1930s and 1940s and 5-6% in the first postwar decades. Figure 1 shows average effective inheritance tax rates for different size classes of estates held in the form of a closely held corporation.

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INHERITED WEALTH AND INEQUALITY

The importance of inherited wealth to the overall economy is not negligible. Recent estimates for Sweden by Ohlsson, Rainieri and Waldenström (2014) suggest that a substantial share of private wealth, maybe 50%, is in fact inherited, while the rest has been accumulated by individuals over their life cycle. This fraction is relatively close to what is found for other developed economies. 8 The annual flow of inheritances as share of national income has varied over time, but is approximately one-tenth today in Sweden after having been half of that just thirty years ago. In France, results in Piketty (2011) show that inheritance flows are also increasing, but their relative size is greater than in Sweden.

When it comes to the distributional consequences of inherited wealth, they are often difficult to estimate since that requires high-quality microdata on individuals linked across generations. Such data are available for Sweden, and some recent studies address the role of inheritances for different inequality outcomes. For example, Elinder, Eriksson and Waldenström (2016) use inheritance tax registers for the 2000s to analyse how inheritances are distributed among heirs. Figure 4 shows one of their main findings, namely that average bequest amounts increase the level of labour income and net wealth of heirs. Heirs thus already tend to have a high economic ability and face beneficial economic circumstances. At the same time, inheritances also matter for poorer heirs, and relatively more for less wealthy heirs. In other words, while inheritances magnify the absolute economic differences among heirs, they reduce the relative differences between them. 9

The influence of parental wealth on intergenerational income mobility is studied by Björklund, Roine and Waldenström (2012). Using a large sample of Swedish father-son pairs observed in the 1970s (fathers) and 2000s (sons), they examine the generational correlations for different levels of father income, and whether including capital income into the income measure matters. Figure 5 shows that adding capital income increases income transmission, but only among top-income fathers. Among the very top earners, sons’ incomes are almost perfectly aligned with those of their fathers according to the estimated intergenerational elasticity of 0.9. Seeking explanations to this pattern, the authors reject the notion that education, non-cognitive or cognitive skills are important influences. By contrast, parental wealth accounts for a great deal of this variation: This, in turn, supports the idea that inherited wealth plays a key role in top income mobility.

A related question concerns the role of inheritances for the intergenerational mobility of wealth. Adermon, Lindahl and Waldenström (2018) examine another Swedish multigenerational dataset with observations of both wealth and inheritances. They use different methods to estimate the possible relationships, one based on subtracting the value of past bequests from children’s wealth, and another based on included bequests as a mediating variable in intergenerational wealth regressions. All methods point in the same direction, namely that a considerable share of recorded wealth mobility - perhaps up to half - can be attributed to inheritance and gifts. Figure 6 shows the result from one of the approaches, namely the alignment between parental and child wealth when children’s wealth either includes all inherited wealth or when it does not. There is a clear positive link between the total wealth of parents and their children, but most of it vanishes when the value of inheritances are taken out.

Taken together, these Swedish studies suggest that inherited wealth has clear effects on how important the family background is for a person’s economic life chances. Bequests seem to increase generational correlations, especially at the top of the distribution, while mattering relatively more for less wealthy heirs.

For an individual with a taxable wealth of 10 million SEK, the wealth tax in 2006 was 127,000 SEK. Assuming a lifetime real return of 3%, the net present value of all past inheritances was 467 million SEK. Source: Björklund, Roine and Waldenström (2012).

Inheritance−wealth ratio

To the extent that inheritances affect the distribution, taxation will work to counteract these effects.

WEALTH TAXATION, ACCUMULATION AND OFFSHORE CAPITAL

Our knowledge of the role of the Swedish wealth taxes for wealth accumulation and wealth inequality is limited, largely due to a scarcity of detailed microdata on asset ownership. Two recent studies of Nordic wealth tax data attempt to study the effects of wealth taxation on efficiency and avoidance. Jacobson et al. (2018) analyse wealth taxation in Denmark during the 1980s and 1990s using a relatively rich register database that allows them to examine several aspects of real and avoidance-related effects. They find that the wealth tax had negligible effects on the accumulation behaviour at the top of the distribution. Seim (2017) analyses a similar elasticity of taxable wealth in Sweden, also using administrative data but over a shorter time period and with smaller asset coverage (especially concerning equity in closely held firms and funded pensions). The main finding is that wealth inequality in Sweden had relatively small effects on wealth accumulation, but notable effects on reporting and avoidance behaviour.

A recurrent question when it comes to the abolition of the Swedish wealth tax in 2006 is whether this had any impact on wealth inequality. Unfortunately, answering this question is obstructed by two circumstances, one being that most of individual wealth data ceased to be collected after the tax repeal, and another being the almost simultaneous occurrence of the financial crisis of 2008-2009. Lundberg and Waldenström (2018) use capital income tax and property holdings from tax assessment estimates to summarize Swedish wealth inequality before and after the repeal of the wealth tax. Their main finding is that wealth gaps increased towards the end of the 2000s. A possible explanation for this is that the tax repeal was capitalised in asset values, benefiting the relatively rich. 10 Asset decompositions also show that the poor seemed to empty their bank holdings during the crisis, which widens gaps in financial assets.

Tax-driven capital flight to offshore tax havens has been another, lively debated, aspect of Sweden’s wealth taxation. The discussion has concerned both its order of magnitude and the distributional profile of the hidden offshore wealth. Recent scholarly efforts have shed some light on both of these questions, but it is fair to say that a lot of uncertainty remains. Roine and Waldenström (2009) used two complementary macro-statistical models, one based on calculating the gap in financial savings between national and financial accounts and the other based on differences in tax payments. These sources are uncertain by construction, and they have also been shown to be sensitive to adjustments in the computation of the national accounts and the financial

For an individual with a taxable wealth of 10 million SEK, the wealth tax in 2006 was 127,000 SEK. Assuming a lifetime real return of 3%, the net present value of all future wealth tax payments is 467 million SEK, which would imply a mechanical tax reform effect of an increase by 46% for previously taxed fortunes.
accounts. Their estimate for 2016 is that Swedes hold an equivalent of 130 billion euros in offshore tax havens, which represents about 10% of total domestic financial assets. A study by Alstadsæter, Johannesen and Zucman (2017) makes similar estimates for Sweden, but uses differences in national balance sheets across countries to back out hidden wealth. Their estimate for 2007 is a level of 3% of households’ financial assets, which lies in between the other flow-based estimates.

As for the distributional effects of the offshore wealth, Roine and Waldenström (2008) estimated the impact on the income distribution by adding an assumed return from the offshore wealth to the disclosed domestic incomes of the top income percentile. The result was a 25% increase in the top percentile income share Roine and Waldenström (2009) performed a similar exercise, but for the wealth distribution and found that the top wealth percentile share increased by between 25% and 50%. A more recent estimate was made by Alstadsæter et al. (2017) using information on named tax evaders who were linked to administrative wealth registers in Sweden. This showed that the majority of these individuals did indeed belong to the top wealth groups in Sweden; about 80% of them were in the top 0.01 percentile. While showing the distributional impact of the wealth tax, this also suggests that it had a substantial impact on avoidance behaviour among taxpayers who belong to the top wealth groups in society.

CONCLUDING REMARKS

This chapter discusses the Swedish experiences with taxing inheritance and wealth. It focuses on describing the main features of these taxes and their development over time, as well as their implications for economic efficiency and equity. Although these taxes have not constituted large shares of total tax revenues, their levels of effective tax rates have been quite high in certain periods, which had a notable impact on certain groups in society. This article also discusses the role of inheritances on economic inequality, and finds substantial effects especially on income and wealth mobility across generations. However, in the cross-section, inheritances both magnify the absolute dispersion in the population and reduce the relative differences between top and bottom.

The future of inheritance and wealth taxation in developed economies looks uncertain. In recent years, most countries have dismantled their wealth taxes, and although most countries still tax inheritances, their number is steadily decreasing. Recent theoretical and empirical studies point to a distinctive role of inheritance taxation in an optimal tax system with relatively small distortions, while promoting equality of opportunity. Understanding the role of these taxes may therefore not only require insights into their economic desirability, but also into the determinants of their political feasibility. Thus gaining a deeper understanding of the political forces behind capital taxation is a topic worthy of future research.

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