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Is a France Where Privilege Trumps Merit Inevitable?

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How inheritances and gifts are taxed is set to become a major issue for French society in the coming years. Not only is the passing of the populous baby-boom generation going to lead to a considerable spike in inheritances, but over the past twenty years private wealth has increased at a much faster rate than income, with the well-off holding the largest share of the pie. Increasing life expectancy only makes it more pressing to find ways of enabling the younger generations to access this wealth.

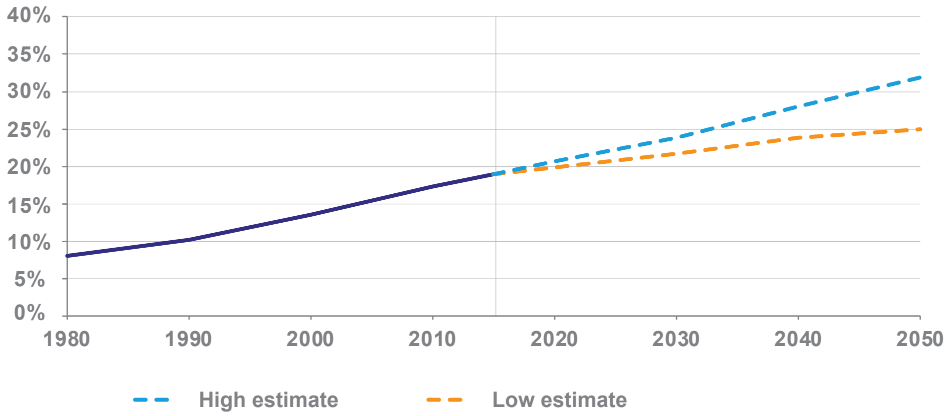
The value of private wealth owned by French households rose significantly from the mid-90s to the mid-2000s. And at the same time the gap in wealth held by different generations widened, reinforcing the dominant position of those over 50. Sluggish growth means these factors are likely to favour the emergence of a society where inherited wealth determines an individual's path more than wealth earned through work.

Taxation can be used to correct for inequality of opportunity and prevent the emergence of a minority privileged class that inherits wealth at an advanced age. Despite the fact that France has had a progressive inheritance tax since the beginning of the 20th century, it hasn't been able to limit private wealth inequality and is ill-adapted to the challenges of the 21st century.

This note proposes thoroughly reforming inheritance taxation and refashioning it from the heir's point of view. Instead of the tax rate being determined by the amount inherited on each death, the state would consider all the inherited wealth an individual receives throughout the course of their lifetime when setting the tax rate. Moreover, to encourage grandparents to make gifts and bequests to their grandchildren, wealth received by relatively young heirs would be taxed at a lower rate than that received by older heirs.

Of course, these measures would only affect individuals born to families with wealth to pass on. To redress this inequality, France could develop an additional system of capital endowments at adulthood, which could be financed by inheritance taxes.

Graph 1 – Annual inheritances and gifts in France
as percentage of available net household income



NB: Average wealth per age increases at the same rate as per capita GDP in the lower estimate and at the same rate as it did between 1992 and 2010 in the higher estimate.

Source: France Stratégie, from the main growth projection of the Pensions Advisory Council (*Conseil d'orientation des retraites*) and the main population projection of the National Statistics Office (Insee).

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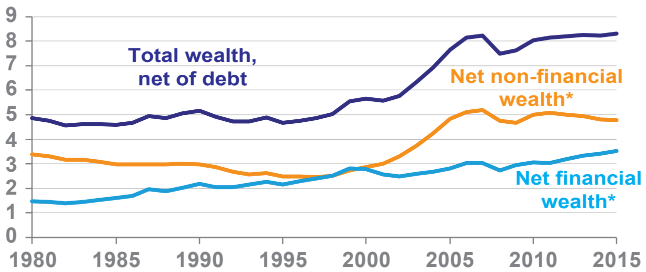
A RISING CHALLENGE

A surge in household wealth

Between 1980 and 2015 the real value of the disposable income of French households rose 77% from €719 billion to €1 275 billion.[1] However, their wealth increased threefold from €3 500 billion to €10 600 billion over the same period. Net wealth now represents 8 years of available household income as opposed to 4.5 years in 1980 (Graph 2).[2] During the 1980s and 90s net wealth grew at the same rate overall as available income, but the strong growth of financial wealth and a relative dip in real estate altered its makeup. Starting in the mid-90s, a surge in real estate prices – which doubled between 1997 and 2008 – led net household wealth to rise much more rapidly than income. Though the 2008 financial crisis brought this trend to a halt, it didn't reverse it: net household wealth has returned to pre-crisis levels since 2010, stabilizing above eight years of disposable income.

Despite the public and academic focus on the recent rapid and extensive rise in real estate values in France, the financialization of wealth has been the dominant trend over the past thirty-five years. In 1980, 30% of household wealth was held in financial assets as opposed to about 42% today. The stock market crashes of 1987 and 2000 and the financial crisis of 2008 did nothing to stop financial wealth from doubling in years of disposable income from 1980 to 2015. On the other hand, real estate wealth – net of long-term debts, essentially mortgages – in years of disposable income increased 50% over the same period (Graph 2).

Graph 2 – Value of household wealth
in years of disposable net income



NB: The wealth represented includes individual entrepreneurs' wealth but not that of non-profit institutions serving households. Household net wealth excludes vehicles, household equipment, artwork and jewellery. Households' net disposable income is net of fixed capital consumption (capital depreciation).

*Long-term debts (mortgages and investment loans) were attributed to non-financial wealth and short-term debts to financial wealth.

Source: France Stratégie, from national accounts from Insee and Banque de France.

While wealth when compared to income has risen in all advanced economies, an increase in the price of assets has placed France among the countries where the wealth-to-income ratio is highest. It is below Japan and Italy but above the UK.[3] Germany, for its part, is one of the countries where private wealth has increased the least: according to the national statistics agency, Statistisches Bundesamt, it went up from 4 years of available net income in 1991 to 6.3 years in 2015. Even though Germany's population of 82 million is about 25% higher than France's population of 66 million, current total household wealth in the two countries is comparable.

According to available estimates, the spike in private wealth in France has caused inheritances and gifts to jump from €60 billion in 1980 to €250 billion today. This represents 19% of disposable household net disposable income, up from 8.5% in 1980. However, the fact that private wealth has remained over the past 35 years much more concentrated than income and is very unevenly spread across the population shows this wealth is handed down in an unequal manner.[4] According to the French Household Finance and Consumption Survey (*Patrimoine 2010*) of the French National Statistics Office (Insee), half of households over 50 have received an inheritance or gift, compared to only 23% of households under 30 (Table 1). The wealth inherited equals between two and six years of current income, depending on the age of the person of reference in the household.

There are also inheritance inequalities within generations. More often than not those that inherit significant amounts of capital are those with high income levels. As the survey confirms, households having received more than €100 000 in inheritances or gifts have current

Table 1 – Frequency and amount of inheritances received, by age

Age of individual	Percentage of households having received inheritance or gift	Average inheritance per household	Average inheritance in years of average current income*
20-29	23 %	€42 000	2,1
30-39	29 %	€75 000	2,5
40-49	35 %	€110 000	3,4
50-59	46 %	€120 000	3,7
60-69	54 %	€150 000	5,3
Over 70	48 %	€130 000	6,2

*Wages and pensions declared by households.
Source: France Stratégie, from *Patrimoine 2010* survey.

1. All amounts in constant euros are calculated using the household consumption expenditure deflator as a price index.
2. French national accounts figures used to estimate net wealth do not include durable goods (e.g. vehicles, household equipment), artwork or jewellery
3. Piketty T. and Zucman G. (2014), "Capital is back: Wealth-income ratios in rich countries 1700-2010", *The Quarterly Journal of Economics*, 129(3), pp. 1255-1310.
4. Arrondel L., Masson A. and Verger D. (2008), "Le patrimoine en France : état des lieux, historique et perspectives", Économie et Statistique, n° 417-418. Insee points to a slight increase in wealth inequality, which has since been offset by a slight decrease: see Insee (2011), "Les inégalités de patrimoine s'accroissent entre 2004 and 2010", *Insee Première*, n° 380, and Insee (2016), "Entre 2010 et 2015, les inégalités de patrimoine se réduisent légèrement", *Insee Première*, n° 1621.

Table 2 – Average current household income*,
by age and amount inherited

Age of individual	Average current income* of households having inherited less than €100 000	Average current income* of households having inherited more than €100 000
20-29	€23 974	€30 715
30-39	€32 347	€40 666
40-49	€35 053	€41 489
50-59	€32 896	€39 648
60-69	€26 860	€35 589
Over 70	€21 400	€28 149

* Wages and pensions declared by households.
Source: France Stratégie, from *Patrimoine 2010* survey.

income (excluding capital) of more than 20 to 30% above that of other households (Table 2).

As mentioned above, this increase in inheritances relative to income risks making inherited wealth more important than merit in determining the paths individuals take in society.

BOX 1 – HOW THE VALUE OF ANNUAL INHERITANCES IS ESTIMATED

Tax records are used to determine taxable inheritances and gifts made annually. But this doesn't include small inheritances and certain non-taxable assets. Two methods are used to estimate the total value of inheritances.[5]

The first consists of taking household net wealth W *and multiplying it by the adult mortality rate* m *and a ratio of the relative wealth of the deceased to that of the living* μ. *For 2015, for example, the result would be 10 575 x 1.19% x 122% = €153 billion. To determine the total gifts, the ratio* v *of declared gifts to declared inheritances is used (0.63). This gives a total of €250 billion roughly.* W *comes from the national accounts provided by Insee and the Banque de France. Les* μ *and* v *ratios are from Goupille (2016).*

The second method consists of taking the government's data and correcting it for non-taxable inheritances and assets. Both methods have provided similar results for France. Piketty (2011) puts the gap between the two methods at anywhere from 5 to 22% in the 1980s and 90s and 5 to 15% in the 2000s. The second method was not used for this note due to a lack of recent government data.

An increase in wealth primarily benefitting those over 60

As can be seen in Graph 3 below, senior citizens' wealth has increased more than other age groups over the past thirty years. In 1986, the median net wealth of thirty-year-olds was 45% higher than those over 70; today it is about three times less. The same trend can be seen for forty-year-olds: while their median net wealth was relatively close to 60 year-olds in 1986, it is only about half today. This latter age group has been the wealthiest cohort since 2010. There are several explanations for this. For one, sexagenarians enjoyed working conditions favourable to accumulating wealth, namely it was much easier for them to enter the job market when they were young. Another explanation is as many owned property before the mid-90s, meaning they fully benefitted from the surge in real estate prices. Finally, as life expectancy has gotten higher, inheritances have been happening later in life, thus benefitting households that are older than in the past. This has led to a relative impoverishment of households under 50.

The question of the age at which an individual receives an inheritance is worth exploring. At 50, in France today it is eight years older than in 1980. Due to inheritances made to living spouses, most people inherit in full ownership after the death of the second parent. The increase in the average age at which individuals inherit has in part been compensated by a rise in the number of gifts since the 1980s. They have made up more than 40% of overall taxable inheritances over the past fifteen years, compared to 22% in 1984, and the government offered tax exemptions to encourage them up until 2011.[6] Moreover, while the age of gift-givers increased from 1984 to 2006, the age of giftees dropped slightly from 39 to 37.

The inheritance boom

Wealth passed down via inheritances is set to increase significantly for purely demographic reasons in the medium term. The number of deaths, which varied between 500 000 and 550 000 from 1980 to 2010, has been rising substantially since 2010. And the trend has only just begun. According to Insee's forecasts, there will be about 650 000 deaths in 2035 and 750 000 after 2050. The adult mortality rate, which had decreased considerably since the 1980s, will increase sharply after 2030.

The sheer number of baby boomers and the fact that they are better off than previous generations means the portion of household wealth passed down in inheritances

5. For a detailed presentation, see Piketty T. (2011), "On the long-run evolution of inheritance: France 1820-2050", *The Quarterly Journal of Economics*, 126(3), pp. 1071-1131; Goupille J. (2016), "*Combien ont coûté les réformes de l'impôt sur les successions et les donations mises en place en France depuis 2000 ?*", *Revue économique*, vol. 67, n° 4, July.
6. Ibid. Exemptions are still in place, namely for family businesses.

each year will continue to grow. The *Patrimoine 2010 survey* found that at the same age the generations born between 1945 and 1964 have 20% more wealth than the generations born between 1935 and 1944. What's more, inheritances will be even higher as the baby boomers had less children on average than previous generations.[7]

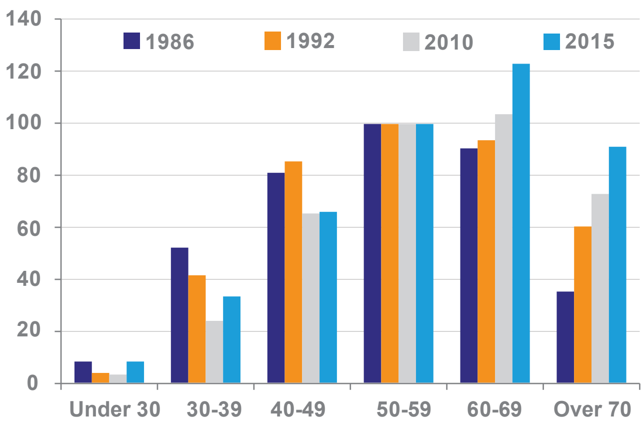
Changing demographics and an increased mortality rate alone will cause the portion of annual inheritances in households' net disposable income to increase 5.5 percentage points, from 19% today to more than 25% in 2050. If average net wealth per age increases at the same pace as from 1990 to 2012[8], inheritances will represent more than 31% of available income in 2050.

Parents' age at death rising to 60 by 2070

As mentioned above, rising life expectancy increases the average at which individuals inherit from their parents. Based on Insee's forecasts, it should rise from 50 today to 55 in 2035 and 60 in 2070. This will inevitably lead to senior citizens saving more as a precautionary measure, which will likely lead to a drop in gifts.

In a context where the wealth held by the elderly continues to grow, and inherited wealth plays a larger role in determining an individual's wealth than income earned through work, taxation can be a way to redistribute wealth between and within generations. It can also be used to encourage gifts and the use of capital for more productive investments. In this respect, France's current complex and century-old tax regime can be improved upon substantially.

Graph 3 – Net median wealth per household



NB. The age is that of the person of reference.

Source: France Stratégie, from the 1986 and 1992 *Actifs financiers* (Financial Assets) surveys and the Insee's *Patrimoine 2010 and 2015* surveys.

A TWO-TIER SYSTEM WITH LIMITED PROGRESSIVE TAXATION AND LITTLE INCENTIVE FOR GIFTS

As with other countries, the French tax system for inheritances and gifts is complex. It was designed in 1901 to limit inequality by taxing larger inheritances at a higher rate. Contrary to English-speaking countries, estates themselves are not taxed but rather the individual amount an heir is bequeathed. Though the maximum rates are high, there are numerous exemptions, namely on certain types of annuities (extremely common in France and known as *assurances-vie*) and family businesses.

The overall structure of inheritance taxation has remained relatively stable over the past thirty years despite continual schedule adjustments. The number of brackets and the rates in place have been unchanged since 1983, with the exception of the rates in the last two brackets, which were raised in July 2011. The amount individuals can bequeath before being taxed – i.e. the allowances – has been both raised and lowered by different governments.

There are, however, two trends worth highlighting. One, allowances on inheritances made to surviving spouses were increased throughout the 2000s, with them becoming fully tax exempt in 2007. This led to a substantial drop in the number of inheritances in the tax base. Under the French civil code married spouses are entitled to 25% of a deceased spouse's estate if they have children and 100% if they are childless. Two, the tax schedules for gifts was steadily aligned with the one for inheritances: exemptions for certain gifts were eliminated in 1999 and then for almost all gifts in 2011. Graph 4 sums up the different schedules currently in place.

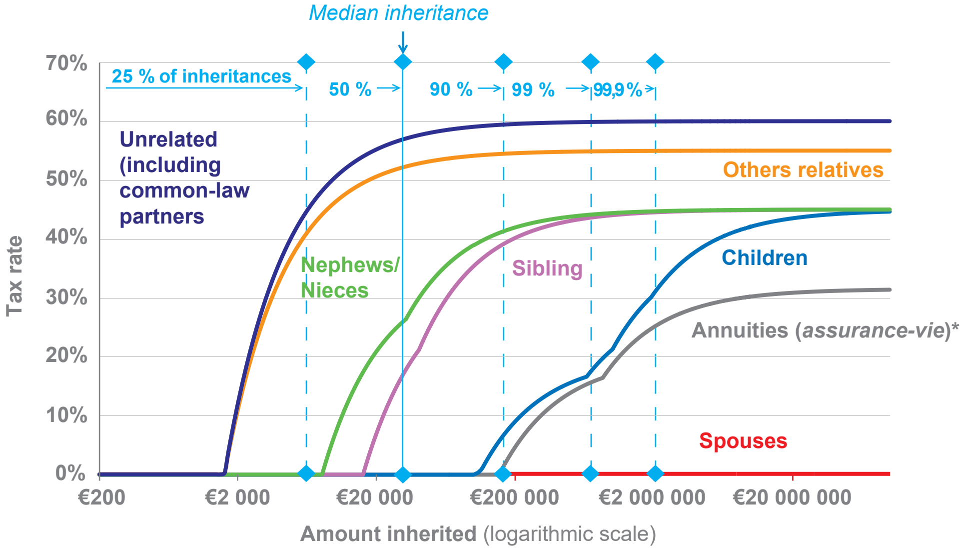
An average tax rate that has changed little since 1980

Inheritance tax receipts increased fivefold in constant euros from 1980 to 2015, reaching €12.5 billion. They went from 0.22% of GDP to 0.56% over the same period. The average effective tax rate for annual inheritances and gifts was close to 5% at the beginning of the 1980S, increasing to around 6% from 1988 to 2000 and then decreasing to under 4% in 2010. It then went back up to 5% by 2015.

Rates for next-of-kin inheritances varied between 2 and 3% over the same period. Inheritances from childless couples were subject to rates around 25% in 2015.

7. According to Insee, women born in 1960 had on average 2.1 children, compared to 2.7 for those born in 1930.
8. The *Actifs financiers 1992* (Financial Assets) survey and the *Patrimoine 2010* (Wealth 2010) survey.

Graph 4 – Tax rate on inheritances, per amount received and relation



*Regardless of the relationship between the deceased and the beneficiary, excluding payments made after 70, which have an allowance of €30 500 per deceased.

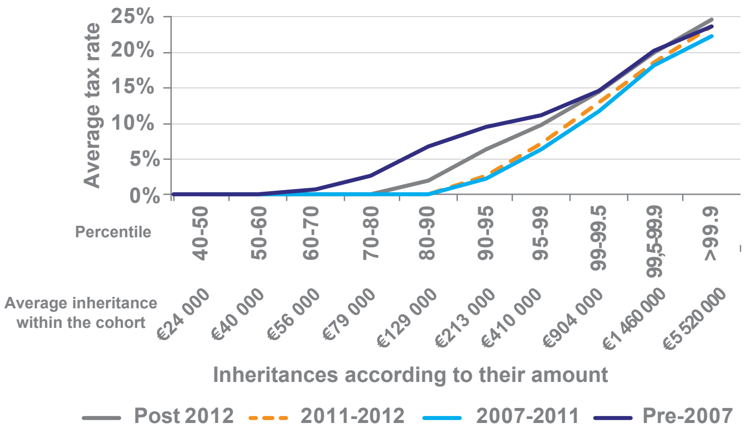
NB: Inheritances are tax exempt if they are less than €1 594 for unrelated and other relatives, €7 967 for nephews and nieces, €15 932 for siblings, €100 000 for children and €152 500 for annuities (*assurances-vie*).

Source: France Stratégie, from the French tax code (*code des impôts*) and the *Patrimoine 2010* survey.

Successive reforms impacting for the most part the upper middle class

Changes in tax rates have first and foremost come from changes in allowances. The system of allowances was put in place in 1955 to avoid high administrative costs for small inheritances and gifts. Over the decades allowances became the main tool for reforming inheritance taxation. Over the past ten years or so, successive governments have modified the allowance three times. It was raised from €45 000 to €50 000 in 2005, then raised to €150 000 and indexed on inflation in 2007. In 2012, it was lowered to €100 000 and the indexation was removed. These changes had a direct impact on the proportion of taxable inheritances, which dropped significantly from 2005 to 2011, before rising again in 2012.

Graph 5 – Simulation of the effect of reforms from 2007 to 2012, according inheritance received



Source: France Stratégie, from *Patrimoine 2010* survey.

A microsimulation carried out for this note shows that since 2007 the reforms carried out have mostly affected the top 30% of inheritances (Graph 5). The 2007 reform lowered the tax rate for the top 20% of inheritances substantially. The 2011 and especially 2012 reforms cancelled out part of this drop, without bringing the rates back to the levels prior to 2007.

Costly exemptions that benefit large inheritances and gifts

Exemptions on family businesses were put in place to avoid penalizing economic activity and encourage long-term savings through certain types of annuities (*assurances-vie*). This has been costly for the French government: without them tax receipts would be more than 20% higher, equivalent to between €2 and €2.5 additional billion. What's more, the amount is increasing each year, namely due to the increase in the amount held in *assurances-vie* (+25% between 2010 and 2016). Because these exemptions mostly benefit large inheritances and gifts, they make inheritance taxation less progressive (Graph 6).

Moreover, the benefits of these exemptions for economic activity are far from certain. The *assurances-vie*, for example, are made up of mostly government bonds, which means they effectively remove a significant portion of savings from the private sector. The 75% tax exemption for family businesses passed on would appear to hinder economic activity and job creation.[9] Taxing businesses when they are handed down would encourage owners to sell them, which is likely beneficial for their development. Though exemptions for small companies – i.e. with sales of €1 to

€2 million – that have a hard time finding a buyer can be justified, taxing businesses larger than this presents a limited risk for the economy.[10]

A two-tier system with low rates for lineal descendants and high rates for everyone else

Inheritances and gifts from couples with no descendants represent more than half of all tax receipts, yet they represent less than 10% of total inheritances and gifts. And though the portion of receipts from inheritances to children has increased slightly since 2012, it is still less than half the total.

Only the top 10% of inheritances and gifts to lineal descendants are taxed on average above 5% today. However, other inheritances and gifts are heavily taxed – even for amounts less than the median – due to low allowances and the importance of the minimal rate. The average rate for childless middle-class individuals (i.e. in the 50-90 percentiles) is much higher than that for the highest inheritances for lineal descendants.

High rates for small non-lineal inheritances is debatable in a progressive tax system, especially if the parents are not wealthy. What's more, the current French system does not allow for varying rates depending on the heir's situation.

No incentive for the middle class to gift

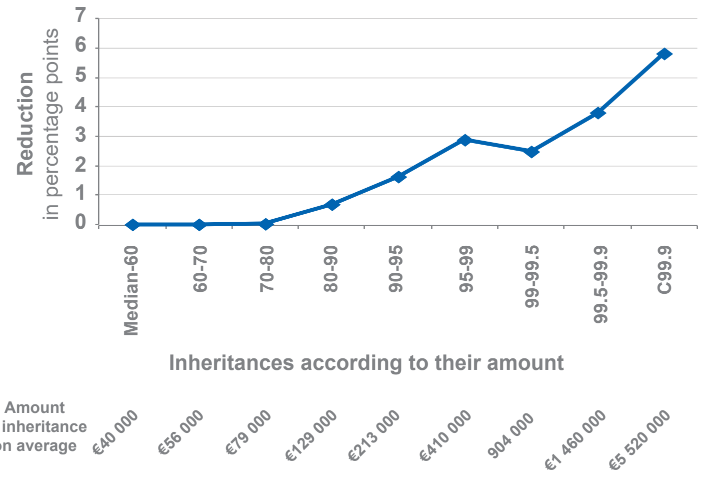
The fact inheritances and gifts benefit from the same allowance does little to encourage anticipated gifts. Roughly 90% of the sums passed on are less than the allowance, which means there is no tax incentive for individuals to gift while they are alive. In 2011, the government did away with a 25 to 50% tax deduction, depending on the age of the gift-giver, for gifts greater than the allowance.

However, those with large estates can use gifts to significantly reduce the tax rates paid provided they stagger them sufficiently. (As of 2012 to benefit from an allowance gifts must be separated by 15 years.) For example, €500 000 is taxed at 15.6% if it is passed on to lineal descendants. But if it is passed on in two sums, the rate drops to 12.6%. In three amounts it falls to 8.5%. Gifts also allow households subject to the wealth tax (*impôt sur la fortune*) to save in taxes. By encouraging families with extensive wealth to pass it on before they die, these mechanisms contribute to reducing inequality in average wealth between generations. Nevertheless, the fact that only large estates benefit from them means they are regressive in practice and increase inequality of opportunity within each generation.

Progressive taxation that is nearsighted

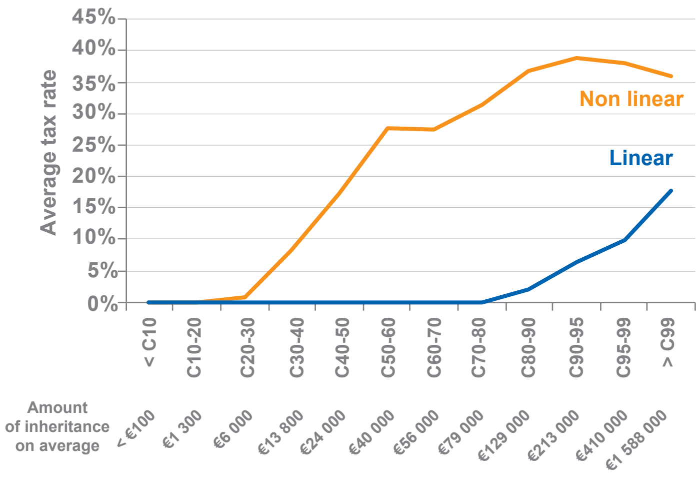
France's inheritance taxation is applied to the sums received by an individual – the state does not look at the overall amount the person has inherited over the years. For one, the government does not take into account amounts gifted more than 15 years in the past. It also overlooks the fact that someone can inherit from several people over the course of their life. The end result is individuals pay different rates for the same amounts inherited or gifted or the same rates for amounts passed on differently. An individual who receives €200 000 from their father and €200 000 from their mother will pay a 9% inheritance

Graph 6 – Percentage tax rate reduction due to exemptions, per percentile of inheritances



Source: France Stratégie, from *Patrimoine 2010* survey.

Graph 7 – Effective tax rate per amount inherited for lineal and non-lineal inheritances



Source: France Stratégie, from *Patrimoine 2010* survey.

9. Philippon T. (2007), *Le capitalisme d'héritiers : la crise française du travail*, Paris, Seuil/La République des idées, March.
10. Bach S. (2015), "Erbschaftsteuer: Firmenprivilegien begrenzen, Steuerbelastungen strecken *DIW Wochenbericht*", No. 7.2015, pp. 111-121.

tax on their €400 000, the same someone who receives €200 000 from their mother and nothing from their father would pay. On the contrary, an individual who receives €400 000 from their father and nothing from their mother will pay 14.5% in tax. In these examples it's the degree of inequality in wealth between the parents that results in different tax rates. These two theoretical cases[11] highlight a fundamental problem in how the state tries to make inheritance taxes progressive. The consequences of this will only become more prevalent as divorces become more common and couples divvy up assets.

ADAPTING TAXATION TO NEW CHALLENGES

Given the value of wealth passed on relative to national income is increasing and is benefitting citizens that are older and older, not to mention the fact that the wealthiest 10% of French citizens own half of household wealth and the wealthiest 1% almost 17%, it is worth reconsidering France's inheritance tax system. Taxing these growing amounts more rationally can help ensure better equality of opportunity, steer capital towards more productive investments or even reduce the amount labour is taxed, which is particularly high in France compared to other developed countries.

The debate surrounding inheritance taxes has focused on how progressive they are and the maximum rates that should be applied. Several recent studies have highlighted the benefits of progressive taxation in terms of efficiency and equity. Farhi and Werning (2010)[12] propose subsidizing small inheritances with a system of negative taxes to encourage giving, whereas Piketty and Saez (2013)[13] advocate highly progressive taxes ranging on average from 50 to 60%. Incidentally, the economic literature concludes that inheritance taxes have limited effect on tax exile[14] and savings[15] compared to income or wealth taxes.

While the question of what rate to apply is important, the right structure of the system and the effectiveness of incentives must be thought through. Certain weaknesses of the current system can be corrected while maintaining its overall structure. Exemptions for several assets could be reviewed, along with the high rates for non-lineal descendants. Exemptions could also be capped or modified depending on the total value of the assets passed on, namely for artworks, forests and businesses. Certain types of annuities (again, widespread in France and known as *assurances-vie*) could also be fully included in inheritances. Lastly, the system of allowances and rates could be reviewed to encourage gifts to the younger generations.[16]

However, these reforms do not resolve the problem of basing the progressiveness of the inheritance tax system on the sole value of the asset passed on without taking into account the beneficiary's previously inherited wealth.

Encourage gifting without increasing inequality within generations

The tax schedule should encourage greater distribution of wealth towards the younger generations while preventing gifting from increasing inequality within generations. Taxes should therefore be lower for younger individuals, but at the same time those who receive large amount of assets should be taxed. A system where the tax rate is calculated looking at what the individual has already inherited, with exemptions for younger heirs, would achieve these two goals. Graph 8 shows such a tax schedule.

The principle of taxing inheritances based on what an individual has already received has been advocated by several major figures, including John Stuart Mill in the 19th century and, more recently, Nobel-winning economist James Meade and the late economist Anthony Atkinson.[17] It is already applied in Ireland, where an inheritance tax gave way to the Capital Acquisitions Tax in 1976. Determining the tax rate based on what an individual has already inherited is a powerful tool to limiting inequalities in inherited wealth among citizens. It also encourages those with wealth to pass it on to individuals who have inherited little. Moreover, those who have inherited little in their lives often tend to be young. But because this effect has yet to be measured empirically, a tax incentive for gifting to young people is worth considering. One solution could be eliminating the existing allowance on amounts passed on and replacing it with a tax reduction for assets received before 40. Those with wealth would have an incentive to gift or bequeath to young individuals. Any tax reductions before 40 would be either fixed or degressive so as not to interfere with the progressive taxation on inheritances.

11. Inequality in wealth between parents is studied little in France due to a lack of data. Trends depend not only on the extent to which social homogamy is the driving force behind couples but also on the different types of marriages and the percentage of divorced couples; see Frémeaux N. et Leturcq M. (2014), "*Plus ou moins mariés : l'évolution du mariage et des régimes matrimoniaux en France*", *Économie et Statistique*, No. 462-463, pp. 125-151.
12. Farhi E. and Werning I. (2010), "Progressive estate taxation", *Quarterly Journal of Economics*, 125(2), pp. 635-673.
13. Piketty T. and Saez E. (2013), "A theory of optimal inheritance taxation", *Econometrica*, 81(5), pp. 1851-1886.
14. Brülhart M. and Parchet R. (2014), "Alleged tax competition: The mysterious death of bequest taxes in Switzerland", *Journal of Public Economics*, Vol. 111, March, pp. 63-78.
15. Glogowsky U. (2016), "Behavioral responses to wealth transfer taxation: Bunching evidence from Germany"; Goupille-Lebret J. and Infante J. (2015), "Behavioral responses to inheritance tax: Evidence from notches in France".
16. See the TAXFINH model in Masson A. (2015), "Comment justifier une augmentation impopulaire des droits de succession", Revue de l'OFCE, No. 139, pp. 267-326.
17. Meade J. (1978), *The Structure and Reform of Direct Taxation*, Allen and Unwin, London; Atkinson A. (2015), *Inequality, What Can Be Done?*, Harvard University Press, May.

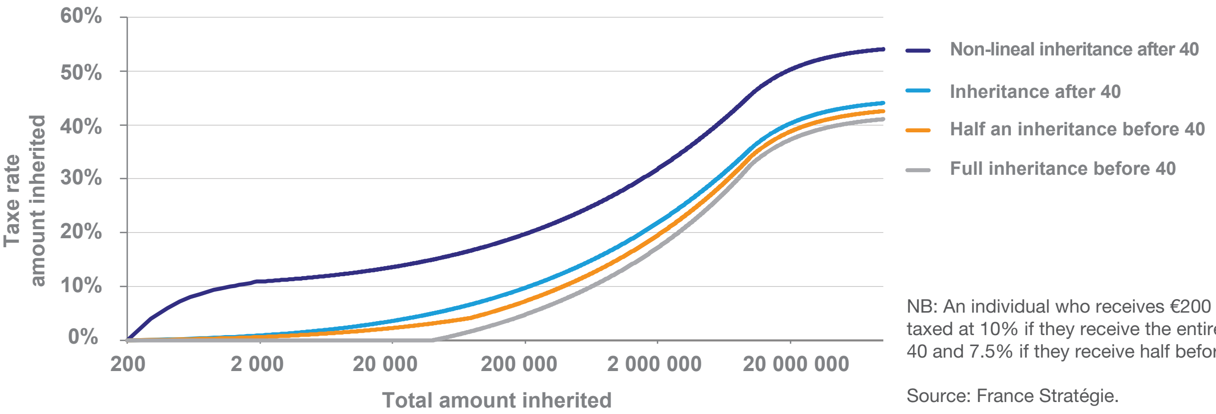
There are several possibilities if the tax schedule is to be reformed taking into account all wealth an individual inherits over the course of their life. If non-lineal inheritances are to continue to be taxed at higher rates, a fixed amount of 10% of the sums passed on could be added. An advantage of this would be the confiscatory rates on small inheritances in the current system would disappear. At the same time, the exemption for inheritance fees for spouses could be maintained but capped beyond a certain amount inherited. France's tax administration could draw on its National Inheritance Database (Base nationale de données patrimoniales) to determine the assets each citizen has inherited.

Subsidize small inheritances or finance a universal endowment?

Of course, encouraging individuals to pass on wealth to young people and limiting large inheritances will do nothing for those born to families with little or no wealth to pass on. There are two ways to improve such individuals' financial situation. The first is the state subsidizing gifts made by people with little wealth to giftees under 40 (e.g. the state would match each euro given). The UK did just this by creating the Child Trust Fund, though the amounts were limited to £250. Such a measure, however, would require the state discriminating between rich and poor families, which could have high administrative costs.

The other solution, put forth by Anthony Atkinson in particular[18], is a universal capital endowment – i.e. a minimum inheritance – that the state would pay to all citizens at adulthood. It could be financed by a raise in inheritance taxes (the endowment could be included in the tax base and reclaimed from those who inherit more than a certain amount in their life). Such a measure would help level out inequality both between and within generations, but questions remain regarding its financing and how the endowments would be used.

Graph 8 – Possible inheritance tax schedule reform



NB: An individual who receives €200 000 would be taxed at 10% if they receive the entire amount after 40 and 7.5% if they receive half before 40.

Source: France Stratégie.

18. Atkinson A. (2015), op. cit.

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