Taxing more post-mortem family bequests (French evidence)

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- « Toucher à l'héritage, c'est comme toucher à la famille »

  "Interfering with inheritances is tantamount to interfering with the family"

- Why is wealth transfer taxation so low and more and more unpopular?

- *Taxfinh* policy: Taxing (much) more (large) 'family' inheritances (excluding charitable bequests)

Outline of the presentation

1. A glimpse of the actual French debate on wealth-capital taxation
   - To better introduce our approach which faces a major challenge =>
2. The growing unpopularity of wealth transfer taxation
   - A double puzzle on wealth transfer taxation & lifetime capital taxation
   - Theoretical perplexities
3. Explaining & fighting the historical decline of wealth transfer taxation
   - Possible explanations
   - Attempts at a new, amended wealth transfer tax
4. Motivations of our approach: diagnosis, prime objectives, solutions =>
5. The *Taxfinh* design: not a standard inheritance or estate tax
   - Two inseparable components
   - Subtleties, philosophy, impact, pitfalls
6. Conclusions

1 - French debate on wealth-capital taxation

… in order to better introduce & motivate our own approach leading to the *Taxfinh* design

=> see L. Arrondel & A. Masson (2013) − LAM (2013)

- Quite different views following the same methodological pattern
  - A 'wealth situation' (France-Europe-US-OECD) found 'unbearable': diagnosis
  - Requiring urgent reaction according to the prime objectives pursued
  - ➢ Iconoclastic or utopian propositions based on National State interventions
  - No consensus at all on diagnosis, objectives & propositions
- ➢ 2 striking examples of well-known French economists on the topic
  - ➢ T. Piketty's book (2013)
  - ➢ Ph. Aghion *et al.* book (2014)
- ➢ We shall follow the same methodology for our *Taxfinh* approach (section 4)

1 - Piketty's wealth diagnosis

1. France-Europe very rich: private capital (but public poor)
   - Wealth/income ratio A/Y (even excluding private & public debt) never so high since 100 years (before 1914) ➔ real estate capital gains?
2. Increasing concentration of private wealth or capital

   but rising social security wealth?

   - Lobbying of a little minority of ultra rich?
3. High rate of return to wealth (*r*) increasing with the size of wealth A
   - Capital market 'imperfection' (Harvard university fund as an example)

   debated

4. Bequests have increased much more rapidly than economic growth
   - B = annual flow of (inter-vivos & post-mortem) bequests => Ratio B/GDP
   - In France: B/GDP has roughly doubled from 5% in 1980 to 10% in 2010
     - ➢ Social transfers to the elderly have also doubled in %: an increasing 'ricardian' circuit of transfers
   - In the US: the growth of B/GDP has been lower than in Europe

1 – Pitfall on *h* = ‘inherited’ wealth / total existing wealth

- *h*-measure highly conventional (Kessler-Masson, 1989) but…
  ➔ B/A is a good indicator of *h variations* (in time or space)
  - In France: B/A has increased since 1980, but only 20% since 1980 − less than B/GDP (Piketty, 2013, p. 620): “*le passé dévore l’avenir*”?
  - In the US: B/A is lower than in France
    B/A has decreased since 1989 (Wolff-Gittleman, 2011)
- Self-accumulated wealth: two (non fully separable) components
  - Saving on labor income + ‘new primitive accumulation’ − NPA
    - NPA: from true entrepreneurship to piracy => diverging judgments
  - NPA’s level & growth: higher in the US?
- Piketty: prime objectives (France, Europe, US…)
  - Re-control capital, regulate capitalism (democracy & transparency)
  - Limit wealth concentration & power of the ultra rich: danger of plutocracy
  - Preserve (in a renovated form) the ‘European social model’

1 - Piketty's propositions (Europe first)

- Transparency on stocks, limit international fiscal competition (utopy?)
  - Automatic transmission of information between banks, financial world cadastre
- Annual progressive taxes: income, bequests & wealth (≈ top 3%)
  - Annual wealth tax on individual-total-net wealth at market value: 2% GDP
  - + one-off capital levy (same tax base) to reduce public debt: 20% GDP
    - ✓ … but limited taxes on consumption
- Pitfall (both on efficiency & equity): taxes on wealth ownership…
  - Do not distinguish between rent seeking wealth & productive investments
  - Ignore the origin of wealth (whether inheritance, life chances, or merit/effort)
    - ✓ A rationale for a separate inheritance tax?
- ➢ Taxation of net wealth is a partial answer to these defects
  - ➢ But it does not take into account capital losses (double loss) nor the strong heterogeneity in rates of returns *r*
  - ➢ & tax incidence of the multiple taxes hitting the rich difficult to assess

1 - Aghion = anti-Piketty

- Aghion: (wealth) diagnosis: back to flows
  - Central issue: the rise in income inequality (& the new poverty) since 1980, which is not due to 'Capital' ($r-g$, Piketty), but to technological change
    - In France: wage inequality is moderate for full-time employment…
    - … but high inequality concerning access to employment & against unskilled people… & lack of social & occupational mobility
    - Poor results for too high total tax revenue (45% GDP) & public expenses (57% GDP)
  - No focus on stocks & the rich; no clear rise in wealth inequalities debated
    - Rise of wealth/income ratios essentially due to (latent) real estate gains & housing bubble
    - Capital is overtaxed in France compared to other (Scandinavian) countries debated
- Aghion: prime objectives (neo-Schumpeterian view)
  - New model of 'inclusive' growth based on NPA & private entrepreneurship
  - France: fiscal & social convergence towards Rhineland & Nordic models
    - Limit taxation of productive capital in favor of LT investment, risk-taking behavior & innovations
    - Reduce life chances inequalities, increase social mobility
    - Reforms of education policies & labor market rigidities (flexicurity against insiders)

1 - French debate: no consensus

- Aghion: (wealth) propositions for France
  - Higher consumption tax (VAT of 25%?)
  - Reduce corporate taxes (& perhaps increase taxes on households)
  - Limit total tax revenue
    - Labor income tax: moderately progressive (higher tax returns & social cohesion)
    - Moderate flat tax on capital income (25 to 30%) to limit double taxation & to preserve saving, risk-taking behavior & investment in innovations
  - Favor new primitive accumulation & entrepreneurship
    - Avoid a too high & progressive taxation on wealth & capital
  - Key issues for economic growth: inequalities at the bottom of the social ladder

- Lessons of the debate: no consensus among (French) economists
  - Focus on lifetime capital taxation. Key opposition concerning the role of NPA
  - The tax mix & international fiscal competition play a crucial role in the debate
  - But wealth transfer taxation is not a central issue in academic/political debates

1 - Transition: preliminary remarks on our approach

- Taxfinh: Tax (more) Family Inheritances
  - 'Family' inheritances: exclude charitable gifts & bequests
- We begin by proposing a legal & fiscal reform of wealth transfers
  - Applying to well-off and upper middle-class families: 10 to 20% of population
  - Which does not exclude other elements of taxation on (lifetime) capital or income: we do not consider the optimal tax mix
  - Which may further require other reforms concerning: (1) the Welfare State & its financial sustainability; (2) education, formation & the labor market
- The program could be applied to France alone?
  - or to some countries in the Euro zone…
  - without requiring strong international fiscal cooperation?
- Main challenge: strong & growing unpopularity of wealth transfer tax

2 - The full capital taxation puzzle: two components

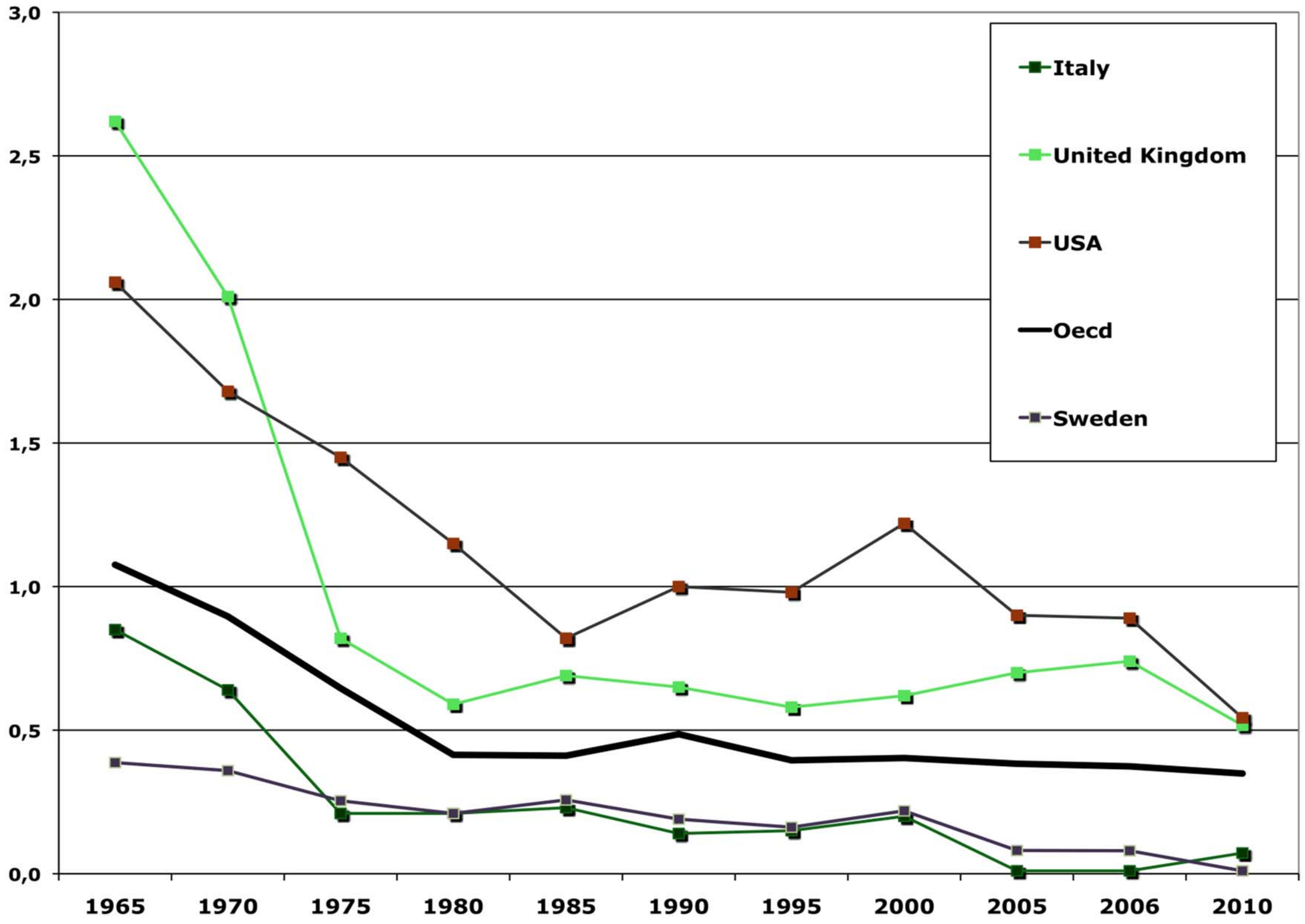
Since the 1960s in most developed countries…

- Revenue of wealth transfer taxation low and declining (% GDP), or even disappearing => see graphs 1
- Revenue of 'lifetime' household wealth or total capital taxation: much higher – 10 to 20 more resp. – and non decreasing (% GDP)
  - Lifetime capital taxation on households and enterprises (=> see graph 2)
    - taxes on capital stock: annual property and wealth taxes
    - taxes on capital income flows: annual corporate profits, rental income, interest, dividends and capital gains
  - Lifetime wealth taxation: taxes on (non professional) household wealth, excluding taxes on corporate profits and capital, and on business (including self-employed) income => see graphs in LAM (2013)

1. Very strong collective preference for lifetime capital/wealth taxation
2. Diverging trends of the two components of capital taxation

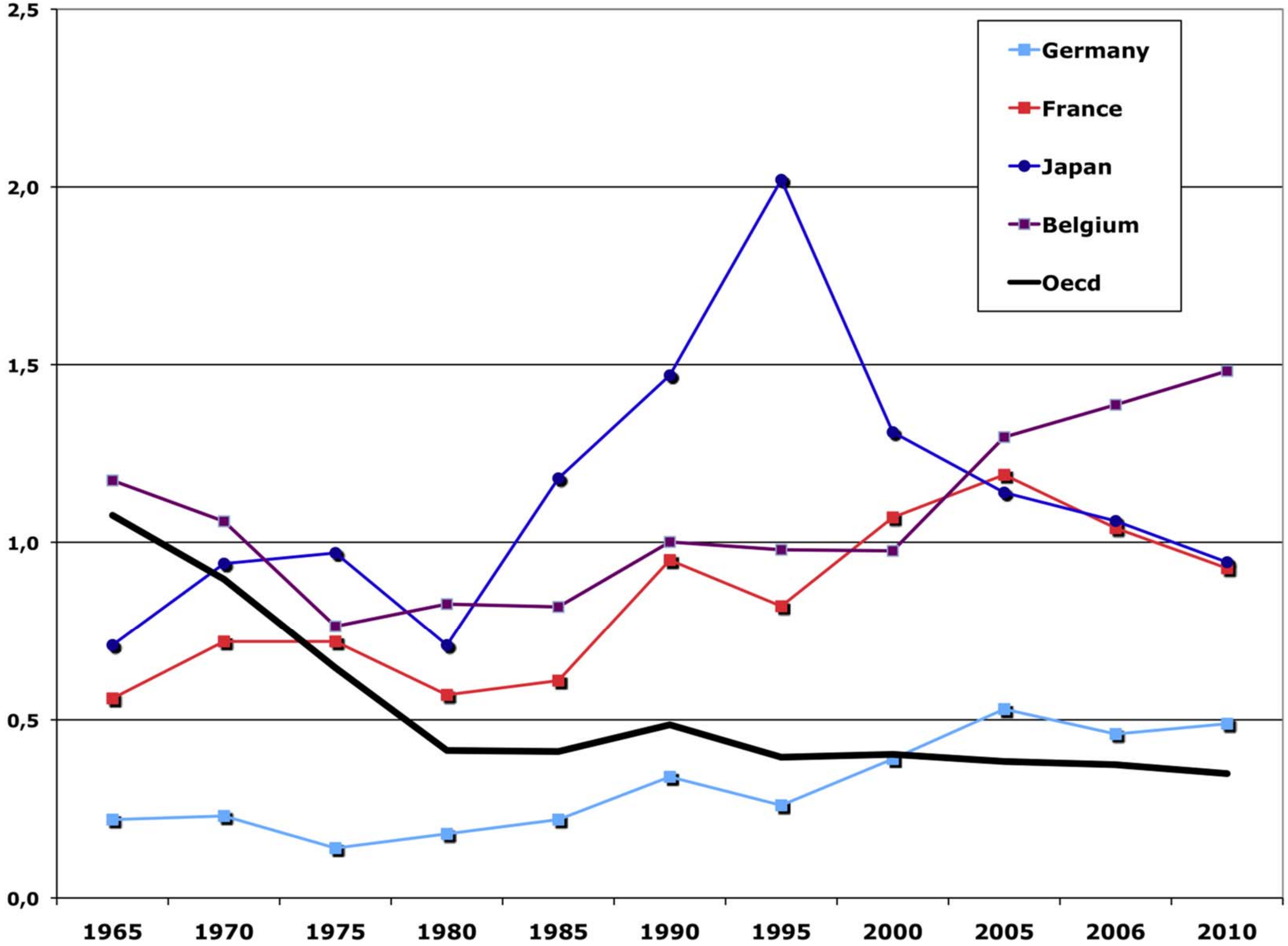
2 - Fig 1a : Estate, inheritance and gift taxes (% of total tax revenue)

A decreasing trend for a majority of countries (OECD)



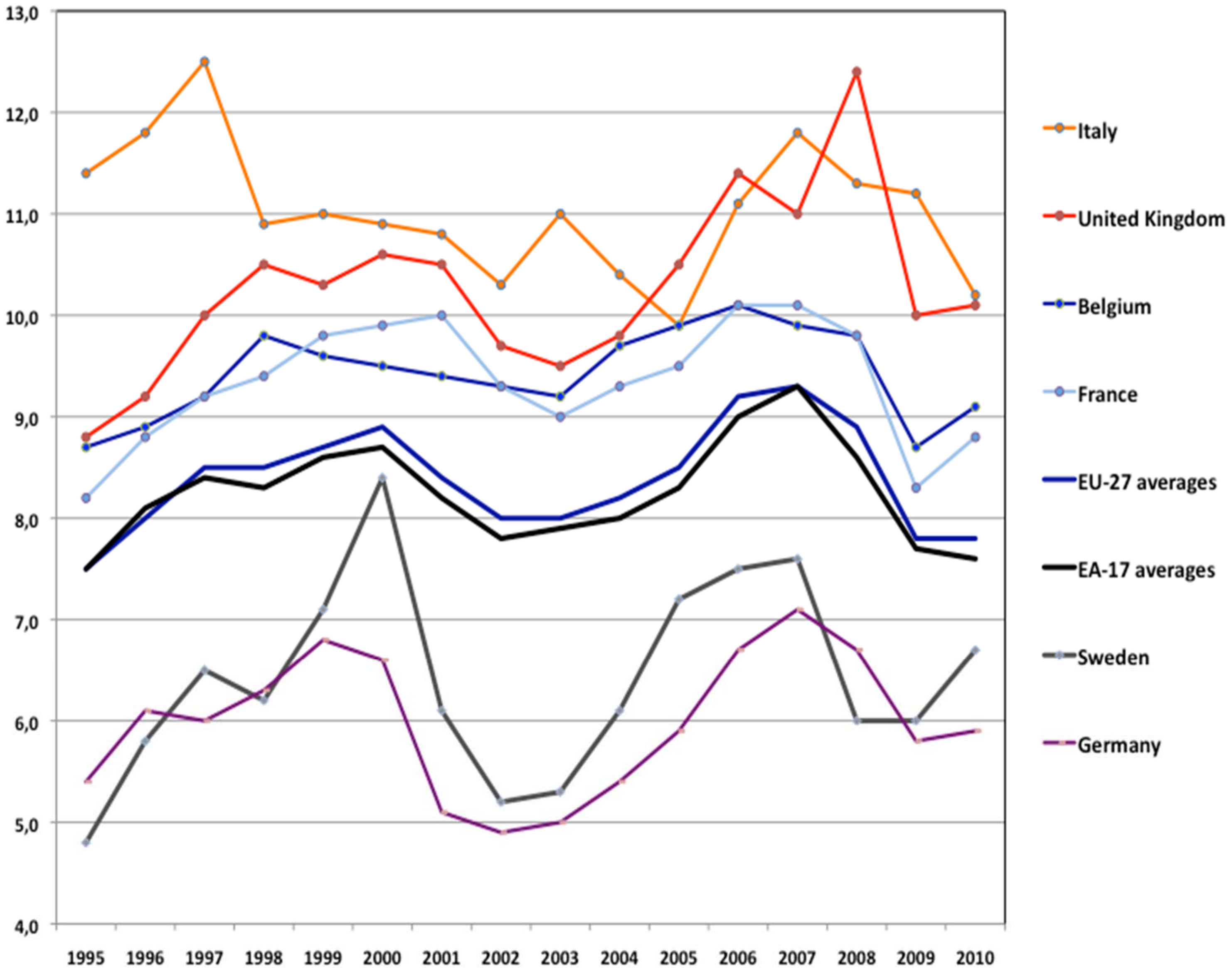
2 - Fig 1b : Estate, inheritance and gift taxes (% of total tax revenue)

Four exceptions with a non decreasing trend (OECD)



2 - Figure 2: Capital taxes (% GDP)

Eurostat



2 - Wealth transfer taxation & lifetime capital taxation

- No more wealth transfer tax in the following countries:
  - Europe-Northern America: Canada (72), Italy(01*), Portugal (03), Sweden (04) Austria (08), Switzerland (national), US (2000 => 2010)
    - Since 1980: 30 American States (*State tax*)
  - Australia (77), New-Zealand (92), Malaysia, India, Hong Kong, Singapore…
- *Past*: revenue of wealth transfer tax much higher in 1910 or in the 1930s
  - As a % of total tax revenue: 1900-1910, 18% in UK, 7-8% in France, 12% in NL
    around 1935: up to 10% in the US
    - See LAM (2013). And very high top marginal rates in UK & US until 1980
  - Steady decline of the above % since the 1930s to 1970 in most countries
- Revenue of lifetime wealth or capital taxation much higher and non decreasing (% GDP: higher in 2007 than in 1995 in most countries)
  - Which does not say that the effective average rate of taxation per euro (say) of wealth or capital has followed the same trend (to the contrary)

2 - Low & falling bequest taxation: theoretical perplexities (1)

Quotations from ‘supporters’ of capital taxation

- Piketty-Saez (2012):
  “The large gap between optimal capital tax theory and practice as one of the most important failures of modern public economics”
  - ‘Capital tax’: whether lifetime capital tax or wealth transfer tax
- Cremer-Pestieau (2012):
  “Our basic goal is to finance government services with a tax that is as efficient, fair and painless as possible. On all counts, it is difficult to imagine a better tax than the estate tax”
- Cremer (2010):
  “Death taxation more than any other generates controversy at all levels: political philosophy, economic theory, political debate and public opinion”
  - opponents => donor’s angle: individual freedom, family values & morality
  - supporters => beneficiary’s angle: social justice, equality of opportunity

2 - Perplexities (2): Cremer (2010) on death taxation

- "…Opponents claim that it is unfair and immoral
  - It adds to the pain suffered by mourning families and it prevents small business from passing from generation to generation. Because of many loopholes, people of equivalent wealth pay different amounts of tax depending on their acumen at tax avoidance. It hits families that were surprised by death (and it is therefore sometimes called a tax on sudden death). It penalizes the frugal and the loving parents who pass wealth on to their children, reducing incentive to save and to invest."
- "Supporters retort that it is of all taxes the most efficient and most equitable
  - They assert that it is highly progressive and counterweight existing wealth concentration. They also argue that it has few disincentive effects since it is payable only at death and that it is fair since it concerns unearned resources. For a number of social philosophers and classical economists, estate or inheritance taxation is the ideal tax."
- "The truth probably lies between these two opposite camps $\boxed{\text{weak!}}$
  - For economists this tax like all the taxes should be judged against the two criteria of equity and efficiency to which one could add that of simplicity and compliance."

2 - Perplexities (3): Kopczuk (2010)

- Altruistic bequests should be subsidized
  - Externality: utility gain both for giver & beneficiary
- Negative conclusions on theoretical & empirical work…
  - “Despite a large body of work on bequest motives, we have little consensus regarding reasons that people have for leaving bequests”.
  - “The optimal estate tax rates at the top of the distribution are likely to be positive but precisely stating this point is an open issue. Optimal [estate] taxation arguments having to do with redistribution for welfarist reasons are not strong”
- Only taxation of very large estates => danger of ‘plutocracy’
  - “On the other hand, if there are negative externalities from wealth concentration [which] has an adverse effect on the political process or constitutes a danger to democracy, i.e. when some individuals are “big” relative to the state, then estate taxation could be part of the optimal tax structure
  - … Determining whether such externalities exist is an ongoing research issue.”

3 - Factors in support of higher lifetime capital taxation

- Tax illusion (irrational beliefs?)
    - "People prefer to pay an annual property tax equal to 1% of their property value (or 25% of their 4% annual return) for 30 years rather than pay 30% of their property value all at once when they inherit the asset" (Piketty-Saez)
        - ➢ Refers to a dynastic family with full intergenerational pooling of resources…
    - Annual wealth tax: you know clearly if not concerned in the few years to come
- Capital market imperfections (Piketty-Saez)
    - Fuzzy frontiers between capital and labor incomes: self-employed & top executives can take advantage of differential tax treatment of labor and capital
    - Random & uninsurable rate of return to wealth over a generation (including latent or realized capital gains) for risk-averse owners
    - ➢ But are these capital market imperfections greater today than fifty years ago? ➔ cannot really explain the decline of wealth transfer taxation
    - A dynamic piece of political economy still missing to explain the tax puzzle…

3 - More efficient lobbying of the rich as they get richer?

- The growing unpopularity of wealth transfer taxation may be due to
  - False beliefs of people overestimating their propensity to bequeath - or the probability of becoming rich one day (Piketty-Saez)
  - Rich trying to manipulate information & beliefs of other people to make them support policies that go against their own interest – in favor of the rich (Stiglitz)
  - Lobbying by the rich against inheritance taxation has become more and more efficient owing to rising wealth inequality and concentration (Stiglitz, 2012)?
    - As the rich get richer, the more they have to lose from planned redistribution reforms and the more resources they have to resist such attempts
    - In 2009: only 1.6 % of US farm businesses paid estate tax
only 1.3% of taxable estates were family businesses
- But why have the strategies of the rich proved so successful for estate taxation, and not so much for other forms of capital taxation?
  - Economists underestimate the particularity of inheritance where family values & intergenerational links (& relationship to own death) play a key role?

3 - Family values & links against wealth transfer taxation

- A "virtue tax"
  - "When you have worked your entire life to build up capital, you should be able to leave it to your children tax free" (N. Sarkozy)
- A "death tax"
  - Double loss + prevents the deceased from "living on" through the bequest
- A tax on family business & a tax on family estate
- Double taxation
  - Parents have already been taxed in their lifetime
- Additional horizontal inequality
  - A "sudden death" tax & a tax on family disharmony

➢ Such arguments explain a strong aversion to family transfer taxation

- But arguments <u>not</u> new, though varying in space & time (Beckert, 2008)

■ Increasing strength since the 1960s or 1970s: why?

3 - Explaining the growing aversion to the inheritance tax … which does not affect (so much) other forms of capital

- Weaker values of social justice
  - Inherited wealth = an unearned windfall gain
  - More efficient lobbying by increasingly powerful rich people (Stiglitz)
  - View of the rich & of wealth: wealth = sign of "success", no matter its origin, inheritance or personal achievement (sociologist Beckert, 2008 & 2012)
- Rising family values & 'morality' (underestimated by economists?)
  - The family appears increasingly as a safe haven against growing insecurity and declining economic growth
  - It reflects waning trust in capital markets, the Welfare State, returns to education, and possibilities for upward social mobility
  - We have no definite empirical proof of this social & cultural change… e.g. it may not apply to Sweden (where family values are presumably limited)
    - Remaining issue in Sweden or even Italy: the lack of free will outside the family?
    - Key issue needing further research, also borrowing from other social sciences

3 - Attempts at a new, amended wealth transfer tax (1)

- Tax bequest according to its origin – inheritance or personal saving
  - Rignano-Nozick: tax more parental inherited wealth than self-accumulated wealth: prevents wealth from cascading from generation to generation
  - ➢ Reconciles family morality with efficient social justice
  - ■ But decomposition impossible at the individual level – at least for tax purposes – owing to complex & idiosyncratic interactions between the two components
- Social inheritance (Meade, Rawls)
  - Ignores family values & intergenerational links (& double taxation issues)!
  - Wealth transfers received considered as an additional income of the beneficiary
  - Combined with complete freedom to bequeath for the parent
  - ➢ To sidestep taxation, parents have to disperse their wealth among a sufficient number of beneficiaries with limited *ex ante* income (hence 'social' inheritance)
    - ➢ May avoid taxing too much self-accumulated wealth due to merit and effort
  - ■ Nice try, but smoothing required & too much against family values?

3 - Attempts at a new, amended wealth transfer tax (2)

- Taxing capital gains on death (or transmission) Boadway *et al.* (2010)
  - In Canada. Not exclusive of an inheritance tax
  - Mitigates the 'double taxation' issue? Avoid double loss, when capital losses
  - ➢ (Capital gains – inflation). Take into account the duration of ownership
- Taxfinh: Two inseparable components
  1. Tax (much) more wealth transfers on death; little change (or increase) on gifts
     - No incentives to gifts but strong disincentives to the transmission on death
  2. Increase for parents the range of legal ways to sidestep the inheritance tax
     - Increased right to give their wealth to the family or to charitable organizations
     - Increased possibilities to consume their wealth during the old days (e.g. 'viager')
  - What is the rationale of such a combination?
     - A new & 'unbearable' wealth situation (in France), first due to population aging
     - ➢ Our wealth diagnosis & prime objectives (see section 1) before our propositions

4 - Our approach (1): wealth diagnosis (in France)

1. Full property of parental wealth is obtained much later than before
   - In our late fifties, owing to an unprecedented sharp increase in life expectancy combined with the parallel increase in the right of the surviving spouse
     - When it was at age 40 in the 1960's

Different view from Piketty (2013, p. 620)

2. Annual flow of bequests has increased much more rapidly than economic growth (GDP), and is becoming more & more unequal
   - France: rising ratio *h* of inherited wealth to total existing wealth
   - ➔ An ideal tax base for an unearned income

= Piketty's results & view

✓ Lifetime gifts (in France): historical increase (until 2012)

- ✓ A luxury good (apart from farmers & self-employed)
- ✓ Positive responses to tax advantages of gifts relative to *post-mortem* transfers
- ✓ By easing liquidity constraints, early transfers facilitate the children's plans to buy housing; | start up a business => donee: probability x1,5; & more < 35 | heir & financial help: no sign. effect |
  - ✓ Insee wealth (recall) data of 2004 & 2010: LAM (2013); Arrondel-Garbinti-Masson (2014)

4 - Our approach (2): wealth diagnosis (France, continued)

- Despite the rise of *inter-vivos* transfers bestowed by the elderly…

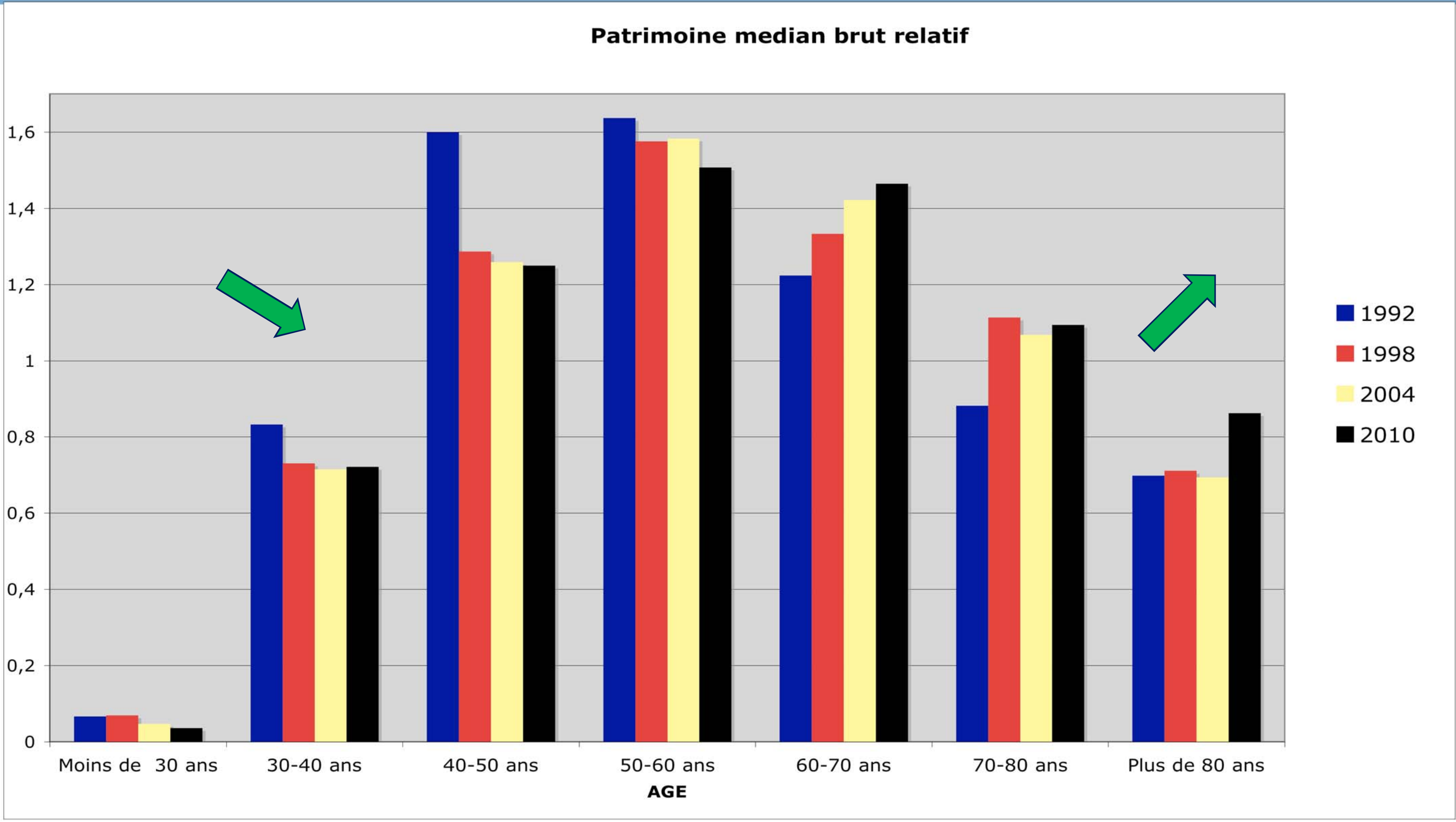
3. A strong & increasing concentration of wealth among the elderly
   - On repeated cross-sections (1986 to 2010), relative position of the elderly continuously rises at the expense of younger, liquidity-constrained households
     - Rate of home ownership, median or mean financial, gross or net wealth: see graph 3 (example)
   - A self-reproducing age-disequilibrium ➔ increase downward mobility of wealth

4. A tense relationship ('crispation') of French seniors with their wealth
   - French seniors 'over-save' despite a 'generous' social protection at old age?
   - Saving motives: long-term precaution (against an uncertain social protection?) & retirement needs (over a longer period) come before (2^{nd}) bequest motives
   - Savings = low-risk reserve, kept by old parents from age 60 to 90 & becoming more and more a rent before being transmitted to 60 years old children…
     - Wealth kept by the elderly who do not want to invest in long-term & risky productive capital

- Pending Issues: (1) expectations relative to the uncertain (gloomy?) future of the Welfare State & (2) tense relations between old & young generations

4 - Figure 3: Median relative gross wealth by age (France)

1992 to 2010



Source: enquêtes actifs financiers Insee 1986, 1992 et patrimoine 1998, 2004 et 2010

4 - Our approach (3): prime objectives (France *et al.*)

1. Change the relation to wealth ownership of households & families
   - People should not aim at becoming the richest in the cemetery
     « *la propriété individuelle commence et finit avec l'individu* » (Durkheim)
   - Avoid that family inheritance becomes too much the key safe haven against the vagaries of markets, the uncertainty of the Welfare State, a blocked society…
     - Without compromising the creation of new wealth − whether entrepreneurship or piracy, whether it is presumed to 'trickle down' or not
     - While limiting the perverse effects of international fiscal competition
2. Unlock an unfavorable wealth situation (see diagnoses 1 to 4)
   - More & more rent-seeking wealth concentrated among the elderly
   - Liquidity-constrained young households, blocked in their professional, family, housing & financial projects
   - Rising weight of inheritance & inequality between heirs & non heirs…
   - Does not allow boosting (seniors') consumption, financing of 'silver economy', orienting savings towards risky & long-term productive-innovating investments

4 - Our approach (4): prime objectives (continued)

3. Not so much 'take from the rich' as change wealth behavior of the top 10 to 20% families owning 2/3 to 3/4 of total wealth
   - By giving appropriate incentives concerning as well savings over the life-cycle (facing a lengthened retirement period) as transmission behavior
   - Hoping to establish new 'norms' of wealth behaviors within the population

- Taxfinh should be considered as…
  - Not exclusive of a wealth tax or taxation of capital gains on death
  - Not a 'standard' inheritance tax => does not suffer from the same limitations
- & first motivated by the current wealth situation (France & elsewhere)
  - If death at 70, inheritance at 40 + if bequest weight (B/GDP or B/A) were limited + if wealth inequalities were moderate…
  - ➢ we would be back in the tracks of the usual debates on wealth taxation &…
  - ➢ arguments in favor of Taxfinh would surely be less compelling & convincing

5 - Taxfinh design (1): first component

- Taxfinh 1: Taxing (much) more (large) family inheritances
  - Higher top marginal tax rates on inheritances + lower exemption levels
  - Taxation of gifts not reduced, may be a little increased: relative tax advantage of gifts comes only from the strong disincentives to the transmission on death
  - ➢ But the current 15-year limit to lifetime gifts in France should be reduced
- French case (no free will): increase freedom to bequeath (FB), but only 'outside' the family
  - 'Domestic' wealth: children's reserve maintained, no additional FB
  - More FB & tax advantage to (controlled) charitable gifts & bequests
    - to duly registered charity works & foundations
    - ➢ Advantage charitable gifts over post-mortem bequests?
  - FB increased on lifetime gifts of family business
    - Transmission of professional assets on death: no tax advantage, no additional FB
    - Ease the choice of a donee more competent or more motivated than own children

5 - Taxfinh design (2): second component

- Taxfinh 2: multiply the legal ways to sidestep the new inheritance tax

  Right to inheritance reduced in favor of increased…

  - Right to give (to family or society) &...
  - Possibility to consume one's wealth over the (more numerous) old days

- Increase & improve the ways to make wealth at retirement more liquid or easier to mobilize

  a) Immediate life annuity (drawn from financial wealth), LTC insurance…

  b) New 'viager': sell housing while keeping the usufructs & receiving in exchange a 'bouquet' (capital) & (possibly) life annuities

     - The buyer should be an institution able to diversify risk both on longevity & real estate value
     - The bouquet could be at once transmitted to children (with tax incentives)

  c) Reverse mortgage, but only when senior dependent (of limited life expectancy)

timing

a) senior robust (age 60-70) => increase consumption reserves for a longer retirement period
b) senior frail (age 70-80) => cost of home care, health shocks…
c) senior dependent (age > 80) => reverse mortgage both reversible & quickly obtained

5 - Taxfinh design (3): subtleties & philosophy

- Transition period: gradual & credible implementation (over 10 years?)
  - At 90 years old, there is no way to adapt to the Taxfinh reform
  - But the program will have an immediate impact on younger parents (e.g. Baby-boomers), encouraged to prepare the transfer of their property soon enough
    - Owing notably to the (say) ten-year limit for lifetime gifts (not to be taxed on death)
- Philosophy 1: the rise of the inheritance tax will little affect families…
  - With strong family altruism: (early) gifts to (grand-) children, LTC insurance
  - And/or with strong social altruism: charitable gifts & bequests
  - And/or who prepare well in advance the transfer of their property (possibly by increasing own consumption or children's consumption)
- Philosophy 2: Taxfinh is efficient whether…
  - People respond to incentives aiming to remedy a suboptimal wealth situation, while avoiding over-saving at old age & family inheritances coming too late
  - It brings additional tax revenues, which may be quite sizeable (0.5% GDP?)

5 - Taxfinh design (4): effects & performance

- Indeed, effects of Taxfinh cannot be precisely assessed beforehand

  1) How far will it increase and speed up the circulation of wealth to successive generations through *inter vivos* transfers?
  2) How far will it increase consumption of wealth at old age?
  3) To what extent will it foster charitable gifts & bequests?
  4) What proportion of additional tax revenues will it bring in?

  ➢ The importance of these four potential effects are likely to vary along the wealth ladder, from upper middle classes to the rich

- Taxfinh far superior to a standard inheritance tax

  Offering multiple ways to sidestep the increased inheritance tax should…

  ➢ decreases disincentives effects & 'avoision' (avoidance & evasion), including at the international level

  ➢ makes Taxfinh more popular & equitable since the additional inheritance tax is only paid by those who "deserve" it − being too short-sighted or 'selfish'

5 - Taxfinh design (5): pitfalls

- Transition period of Taxfinh: a credible policy over 10 years…
  - Concerning an unpopular tax: need some pedagogy about Taxfinh philosophy
- Need to prepare the transfer of one's wealth well in advance…
  - In order to avoid taxation on death = not an enjoyable perspective
- Early, sudden death (*a priori* of both spouses…)
  - Introduce age controls
- Advantaging lifetime gifts, a luxury good?
  - Taxes on gifts are not reduced
  - Much heavier taxation on all wealth transfers is clearly utopian
  - Only gifts resulting in transfer of full property (e.g. not only of bare ownership with reserve of usufructs) should not be taxed – more heavily – on death
- Family home: affective or symbolic 'endowment effect'
  - Introduce specific facilities?

5 - Taxfinh design (6): pitfalls (continued)

- Taxfinh reinforces horizontal inequality between (wealthy) families
  - True, but the reform aims at introducing new norms of wealth ownership
  - It is not the role of the State to insure the children of well-off families against the lack of altruism or foresight on the part of their parents
- What about the danger that seniors donors become needy later on?
  - But increased possibilities to consume one's wealth during old days
  - A progressive inheritance tax allows to keep a wealth buffer in case of emergencies
  - Taxfinh is to be considered as a part of a global fiscal & social policy (that should maintain public transfers to the old)
- Disincentives effects
  - Reduced by the multiple ways offered to sidestep the heavier inheritance tax
  - Wealthy households without children save as much as other households
  - International fiscal competition (*i.e.* mobile tax bases) may not be that important
    - See Brülhart & Parchet (2011) on the bequest tax in Swiss "cantons"

Conclusions

- In the debate between lifetime capital vs. wealth transfer taxation
  - Taxfinh is in favor of the latter, but is not exclusive of an annual wealth tax or a taxation of capital gains (on death)
  - Taxfinh is much more than a heavier inheritance tax, multiplying the ways to sidestep this tax, whose disincentives effects & unpopularity are thus reduced
  - Taxfinh does not simply “take from the rich”, but lets families decide for themselves: a liberating taxation?
  - Is first motivated by the current, new & lasting, wealth situation, which is clearly inefficient & inequitable in a number of countries such as France…
    - Prompting to increase downward mobility of wealth & reduce over-saving at old age
- Taxfinh aims at diffusing new norms of wealth ownership
  - Concerning, in the face of increased longevity, both life-cycle savings & transmission behavior − as well as entrepreneurship
  - Our views are not that new. In his *Gospel of Wealth*, Andrew Carnegie was much more radical, writing: “the man who dies rich dies disgraced”

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