Introducing bequest
in
Swedish NTA

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Outline

- Swedish rules

- Data

- Reults

- Costa-Rica method

- Conclusion

Swedish succession rules

Swedish succession rules follow the Roman tradition with limited testamentary freedom.

The testator is only allowed to bequeath up to half the estate.

The remaining part is divided among legal heirs according to the default succession rules

If no will the complete estate will follow that default succesion rules

Default succession rules

Relatives in a closer relationship to the deceased inherit before more distant relatives.

The relatives to the deceased are classified into three inheritance classes of legal heirs.

Succesio ordinum.
Each class has to be empty of heirs before continuing to the next.

Jus repraesentationis.
The inheritance is passed on to the heir's descendants if the heir is deceased.

Three inheritance classes

1. The heirs in this class are the direct heirs. These are the deceased's descendants, i.e., children, grandchildren and so on. Children are the first in line to inherit.

2. Consists of the deceased's parents, siblings, and their descendants.

3. The third inheritance class includes grandparents and their children, i.e., aunts and uncles. (First cousins are not legal heirs)

The estate will go to a public fund, The Swedish Inheritance Fund, if there are no legal heirs in any of the three inheritance classes and if there is no surviving spouse.

The spouse

- A surviving spouse does not inherit the deceased if the deceased has children. These children will inherit.

- A surviving spouse has free disposal of the estate for the remainder of her/his life if the deceased and the surviving spouse have common children. (Free disposal cannot be bequathed)

- Common children are defined as direct heirs with a postponed right to inherit.

- Children of the deceased that are not common with the surviving spouse will not have to wait, they inherit when their parent dies.

Taxation

- Parliament decided in December 2003 to repeal the inheritance tax between spouses and cohabitants from January 1, 2004.

- The following December, Parliament decided to repeal the inheritance tax altogether from January 1, 2005.

- Parliament later passed a law on inheritance tax exemption for the period December 17–31, 2004. Due to Asian Tsunami December 26, 2004.

Tax evasion

- Klevmarken (2004) studies Swedish data and finds that the typical Swedish gift amounts to exactly the tax exemption.

- Of those who have received this exact gift amount, a majority has later on inherited amounts that were below the tax exemption for inheritances.

Most heirs did not pay any inheritance taxes

- In 2002, 95.000 people died.

- Their estates were divided into 427,000 inheritance lots.

- Inheritance taxes were levied on 98,000 lots, corresponding to 23%of all lots.

- Therewas a basic exemption of SEK 70,000 for a child inheriting a parent

- For a spouse inheriting the exemption was SEK 280,000.

- There were three tax brackets for the taxable inheritance amount: 10%, 20%, and 30%.

- The top marginal tax rate for children was for inherited amounts in excess of SEK 670,000 (≈USD 100,000). In
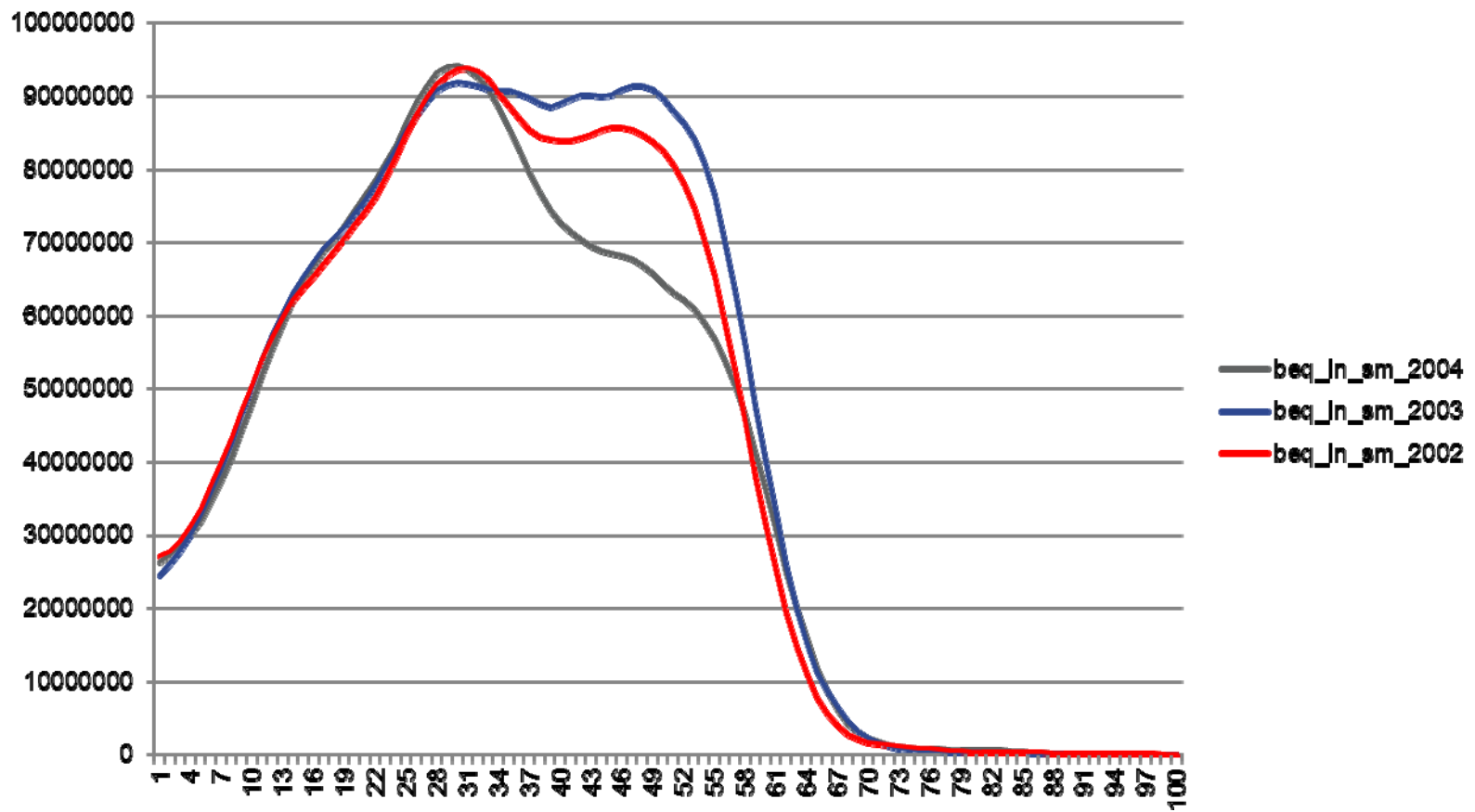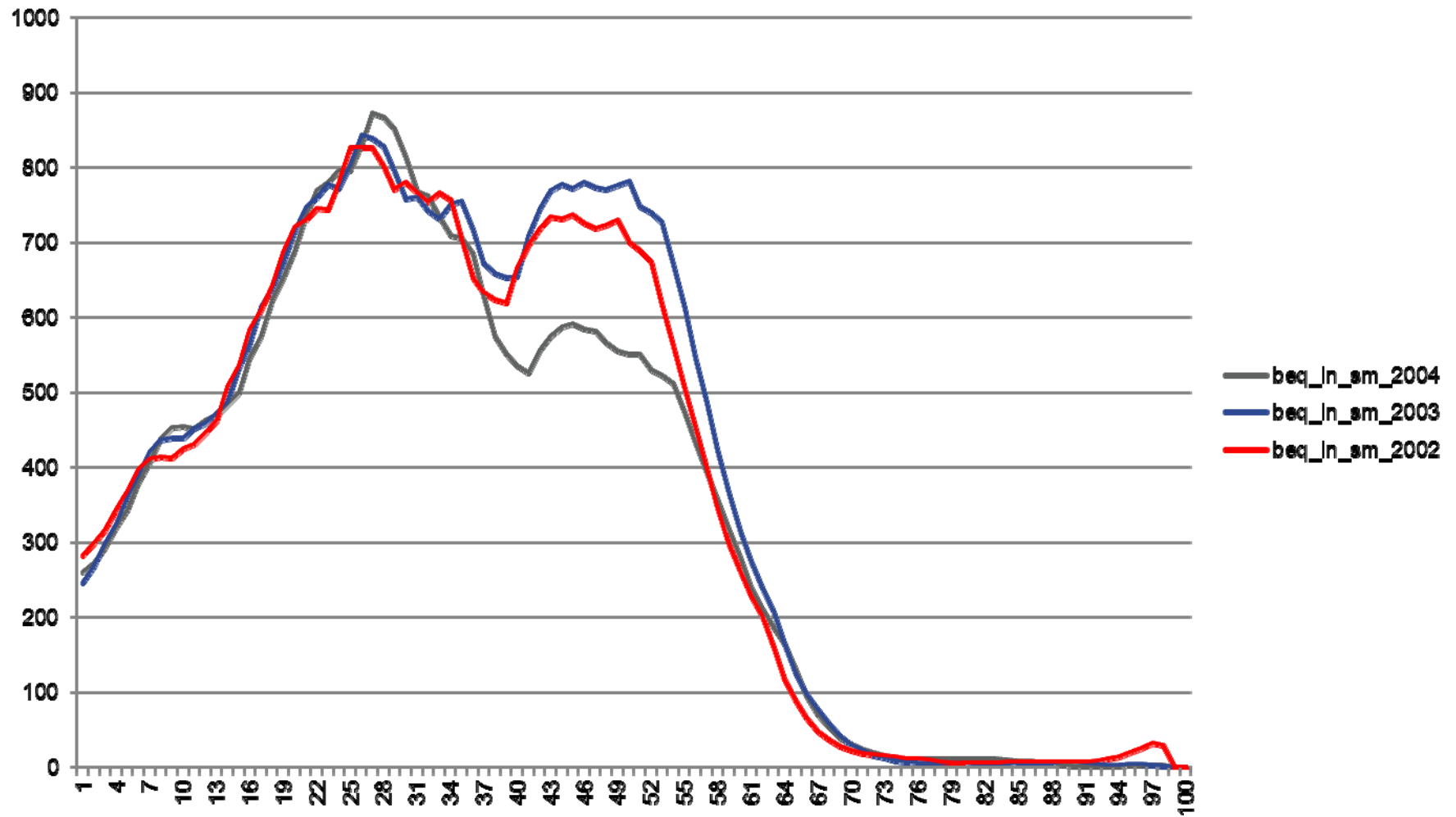
Data

- Years
  - 2001, 2002, 2003, 2004, 2005

- First release

- Record of every estate division
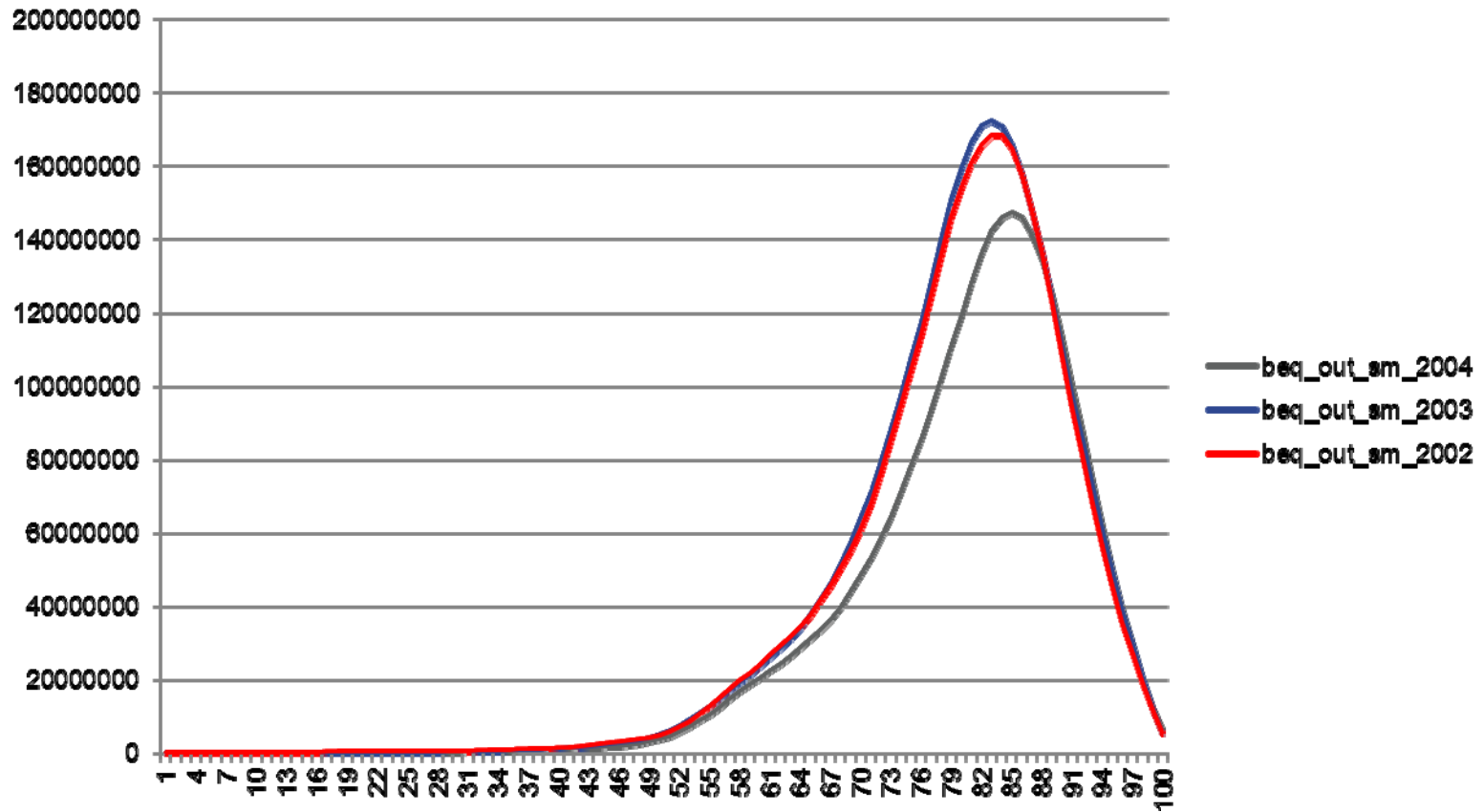
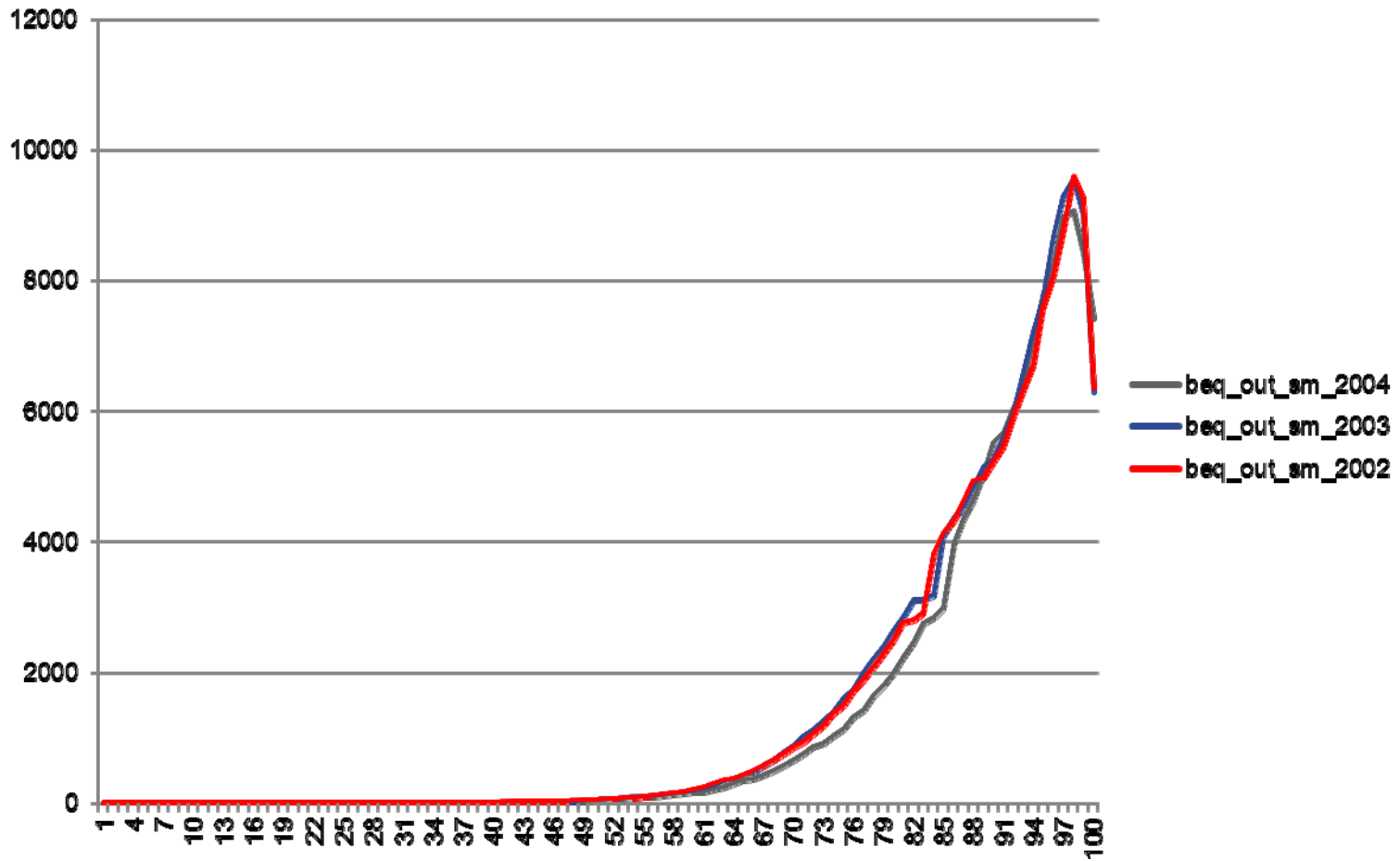- Approx 100.000 dead every year

Bequest in aggregate
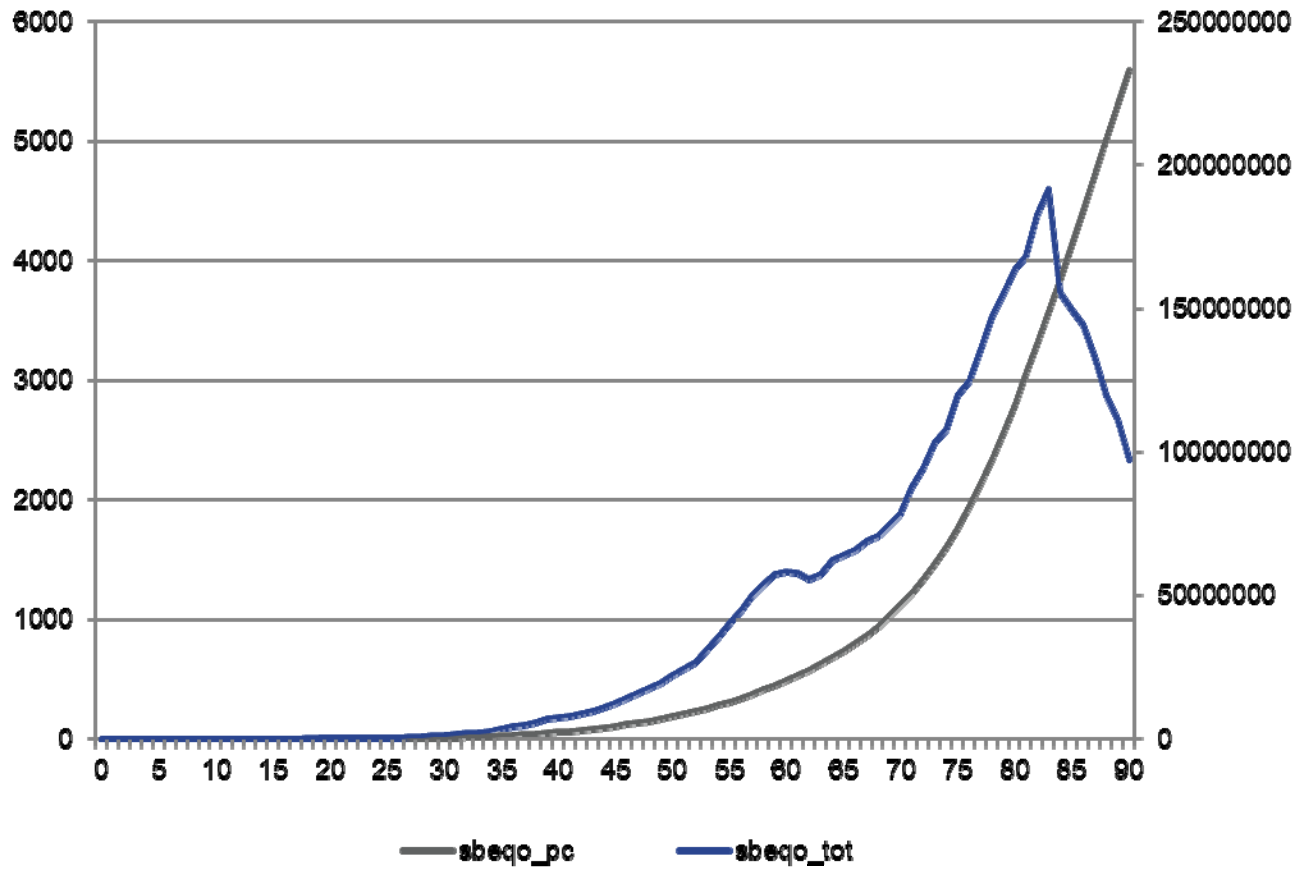
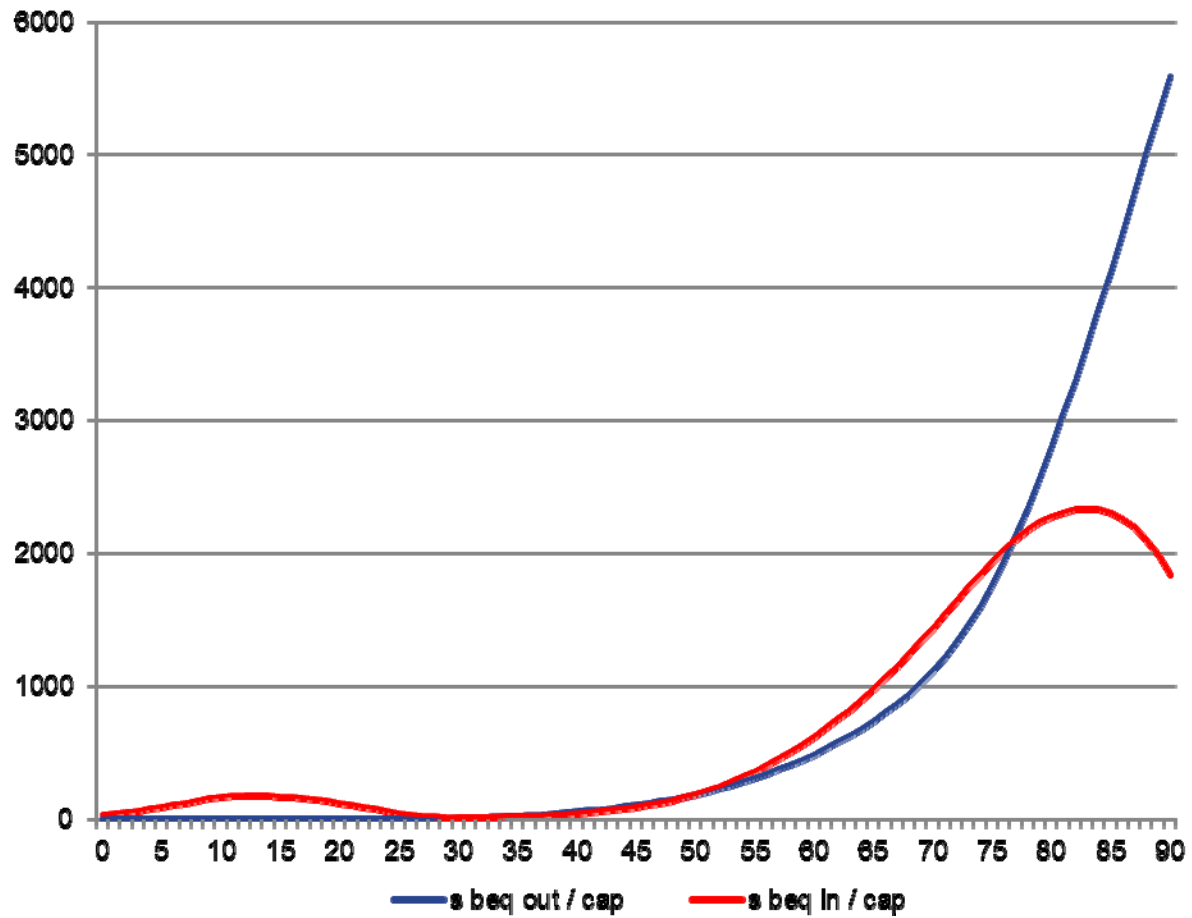# Bequest in per capita

Bequest out aggr

Bequest out per capita

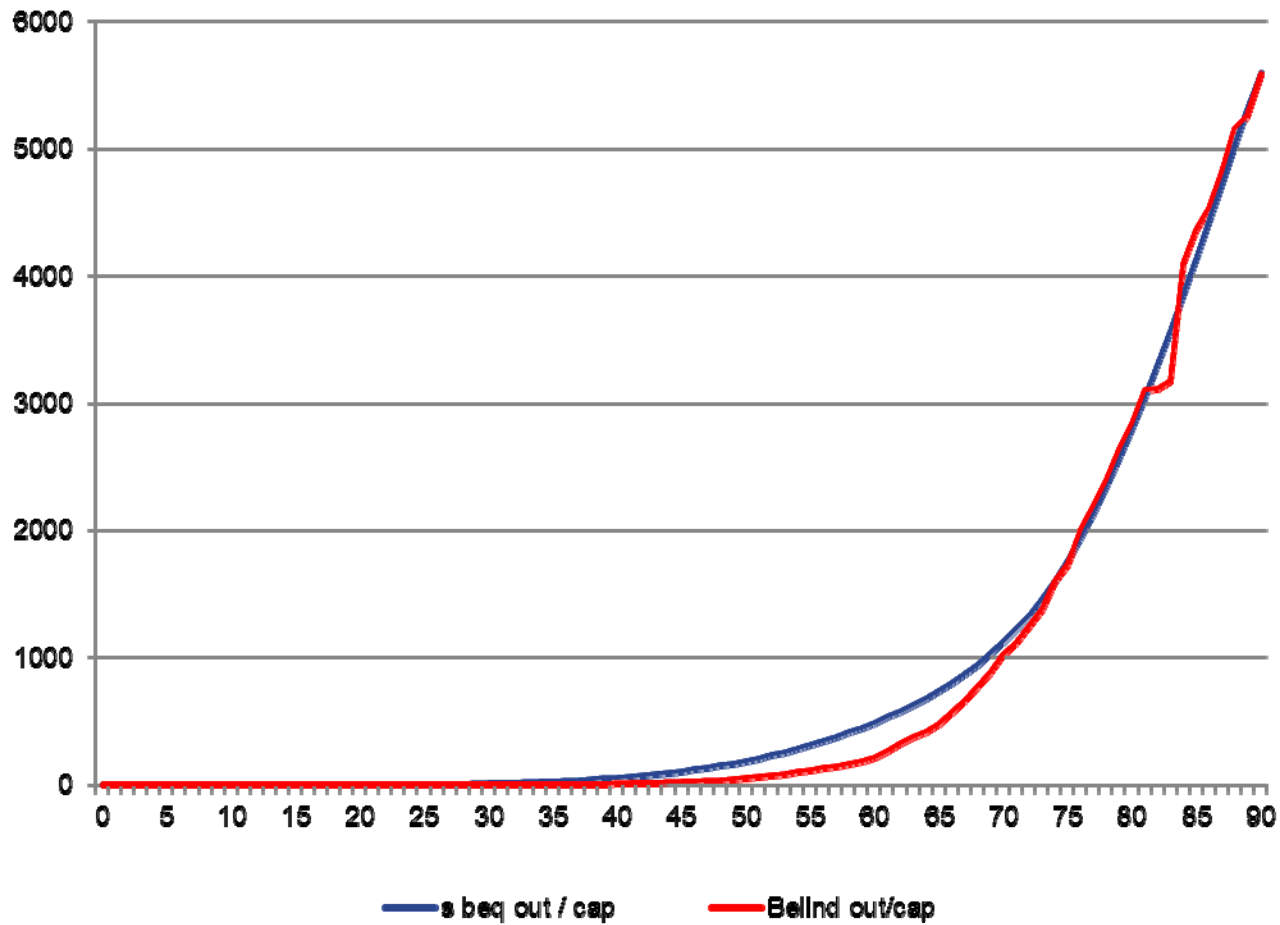# Costa rica method for Sweden, bequest out

Costa rica method for Sweden, bequest per cap
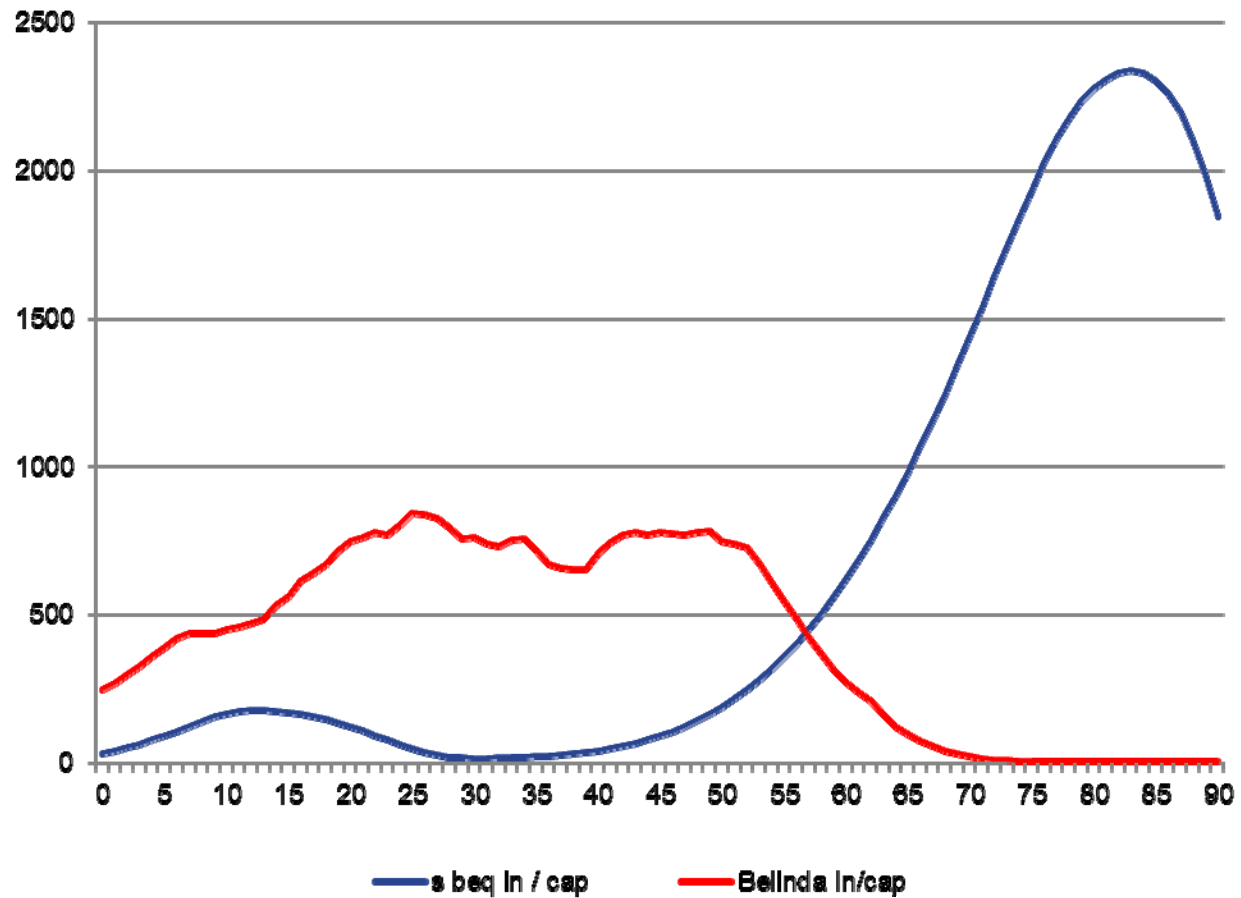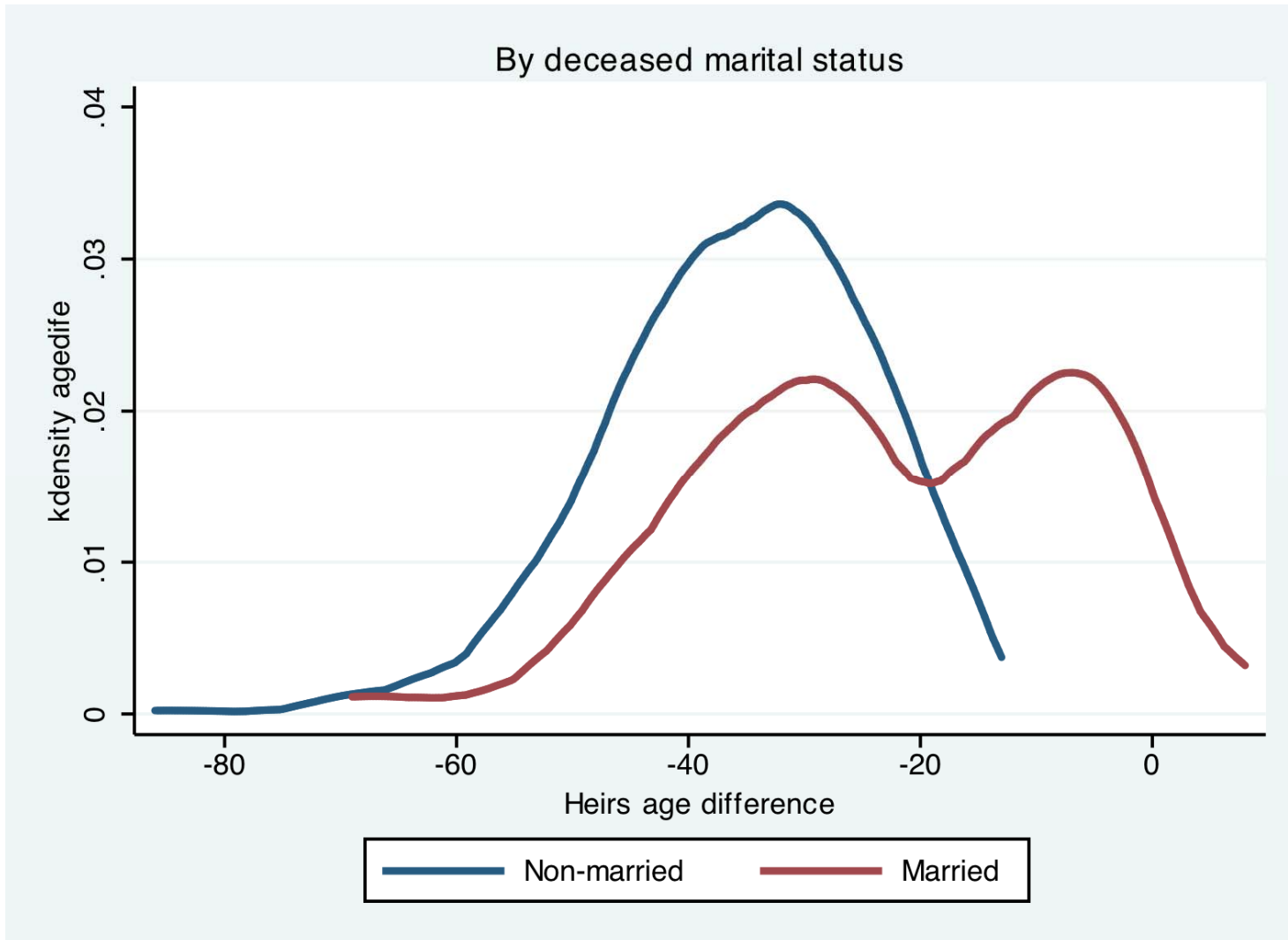
Costa rica method vs Real data, beq out /cap

Costa rica method vs Real data, beq in /cap

Costa-rica case, heirs age distribution

Message

- Bequest out seems possible to get a reasonable estimate with shortcut

- Bequest in is governed by the institutional setting

- Perhaps possible to estimate beq in without good data but with attention to succession rules, and family constilation

Is bequest important?

- For Swedish NTA it has a "no" impact

- Total bequest out of GDP is only 0.18%

- Sweden values are extremly low

International values for bequest percentage of GDP, author callc based on eurostat

US		1,20
Belgium		1,30
France		1,70
Germany		0,43
Italy		0,27
Netherlands		1,07
Spain		0,67
UK		0,70

Is bequest important?

The impact of gifts and gift taxes on inheritance/estate taxes in countries with joint taxation, 2001

	Gift tax	Separate tax exempt gift amount	Type of tax at death	Gift amount added to inheritance/estate when calculating taxable amount	Joint tax exempt amount	Tax credit gift taxes paid	Time period included before death for gifts, years	Note
	$\tau_g > 0$	$g > 0$		$\beta + \gamma$	$\bar{b} + \bar{g}$	$-T_g$		
Collection at death	*No*	–		*Yes*	*Yes*	–	*Lifetime*	
Ireland	No	–	Inheritance	Yes	Yes	–	Lifetime	Gifts since 1988
The UK	No	–	Estate	Yes	If $\gamma > \bar{g}$	–	7	
Continuous collection	*Yes*	*Yes*		*Yes*	*Yes*	*Yes*	*Lifetime*	
Belgium	Yes	Yes	Inheritance	Yes	No	No	3	Only some gift items
Finland	Yes	Yes	Inheritance	No	No	Yes	3	
France	Yes	Yes	Inheritance	Yes	Yes		10	Lifetime until 1992
Germany	Yes	Yes	Inheritance	Yes	No	Yes	10	
Italy	Yes	No	Inheritance	No	Yes		–	Repealed 2002
The Netherlands	Yes	Yes	Inheritance	Yes	No	–	0.5	
Sweden	Yes	Yes	Inheritance	Yes	If $\gamma > \bar{g}$	Yes	10	Repealed 2004
The US (federal)	Yes	Yes	Estate	Yes	If $\gamma > \bar{g}$	Yes	Lifetime	Separate since 2002

Sources: European Tax Handbook, 2001, Arrondel and Laferrère (2001).