A COMPARISON OF THE CASE FOR THE TAXATION OF WEALTH TRANSFERS WITH WEALTH TRANSFER TAXES AS THEY EXIST TODAY

GERALDINE ROBBINS

University College Galway

ABSTRACT

This paper assesses whether a gap exists between the theory of wealth transfer taxation as documented in the literature and the reality of wealth transfer taxes as developed by economic policy makers. The paper initially outlines the case for the taxation of wealth transfers as argued in the literature. It proceeds to review the findings of several committees on taxation commissioned by governments to advise on economic policy making, and attempts to link their recommendations with those in the literature reviewed. The paper concludes with an assessment of how economic policy makers have strayed from the guidance provided by the literature and the commissions in designing wealth transfer taxes.

INTRODUCTION

In recent years, economic policy makers in several OECD countries have taken decisions to alter the structure of wealth transfer taxation. Many of these changes have elicited little comment. The purpose of this paper is to review these changes in the context of both the theory of wealth transfer taxation and the reports of a number of commissions on taxation.

The objective of the paper is to determine whether the theory and reports of these commissions provide a framework for policy makers in developing wealth transfer taxes. The paper addresses the brief in the following manner: (a) it initially outlines a summary of the literature on the case for the taxation of wealth transfers; (b) this is followed by a review of the reports of three commissions on taxation; and (c) finally the paper outlines the significant changes and trends in wealth transfer taxes in OECD countries, to determine if there is a deviation between policy making and the arguments in the literature.

THE CASE FOR THE TAXATION OF WEALTH TRANSFERS

Wealth transfer taxes are compatible with a broad range of ideological conventions, finding support in both liberal and egalitarian visions of society. Taxes on property left by individuals to their heirs are among the oldest forms of generating tax revenues. In today's society, there are many different defences for wealth transfer taxes. Some of these justifications have their roots in history, others in developments in society.

Protector of Private Wealth

The State has always regarded property transfers by way of gift or inheritance as appropriate objects of taxation for the following reason. In countries in which property is privately owned, the State protects the property rights of the individual and supervises the transfer from one generation to the next (Pechman, 1989). As protector of wealth on behalf of the individual, the State legitimately seeks reward for this custodial role.

Revenue Generation

In the past, it is unlikely that the sovereigns who imposed the earliest property transfer taxes puzzled for long over the case for the taxation of wealth transfers. They required revenue and inheritance tax in its primitive form was a way of obtaining it (Jantscher, 1978). The modern State has many alternatives to wealth transfer taxation.

Social Justice

Mill (1965) contended that inheritances and legacies, exceeding a certain amount, are highly proper subjects for taxation, and that the revenue from them should be as great as it can be made, without giving rise to evasions. Fisher and Fisher (1942) and Kaldor (1955) also insist on the need for an appropriately structured system of wealth transfer taxes in order to control excessive wealth concentrations. Wealth redistribution may be sought because of a social value judgement that excesses in the distribution of private wealth are undesirable (Somerfield, Anderson and Brock, 1972).

The achievement of social justice requires that all elements of the tax system should contribute to the achievement of a more equitable distribution of wealth and income in the community. A proportionate or even a progressive income tax will not achieve this objective since it will have no effect on the redistribution of existing accumulations of wealth. It can only, to a very limited extent, prevent the accumulation of

new concentrations of wealth (White Paper on Capital Taxation, 1974). Wealth accumulated from a transfer and the subsequent income and other benefits it yields is received without any sacrifice of leisure on the part of the recipient. It is clear, therefore, that income taxation is inadequate on its own if the tax structure is designed to meet the test of taxable capacity.

Therefore, in an attempt to achieve social justice, one must consider both egalitarian philosophies and entitlement theories of justice when evaluating the case for a wealth transfer tax.

Equity

Vertical and horizontal equity are two integral parts of the concept of equity in its totality (Musgrave, 1959).

Head (1992) contended that it was in the context of early discussions on the ability-to-pay principle that a sharp distinction began to be drawn between horizontal equity issues relating to the choice of income, consumption, or wealth as the tax base and vertical equity issues relating to the choice of flat or more progressive rate structures.

The tax system is said to embody horizontal equity if the tax system reduces by the same amount the welfare of households that have equal prosperity prior to the imposition of the tax (Mintz, 1991). The horizontal equity objective of capital taxation is based on the proposition that effective equal treatment of those with equal taxable capacities must take wealth ownership into account as well as income.

Vertical equity is achieved if the system taxes more highly those households which have greater welfare prior to imposition of the tax (Mintz, 1991). This second interpretation of equity concentrates on establishing optimal relative shares of income and wealth. It has the implication that government policies should be directed towards a reduction of the differences in relative shares of income and wealth. This leads to the question of the necessary degree of progressivity in the tax rate (Tobin, 1970).

However, vertical equity is perhaps even more difficult to attain than horizontal equity. In the last resort vertical equity is very much a matter of value judgement. Views range from a desire, on grounds of ability to pay, to see the wealthy meet a larger share of the expenses of government, to the belief that governments should pursue a deliberate policy to reduce inequalities in the distribution of wealth.

Wealth transfer taxes have been strongly advocated, in a supporting role, by a long line of respectable public finance authorities, primarily as an instrument for the pursuit of vertical equity or wealth re-distribution (Saunders, 1983).

Wealth transfer taxes ensure that in the long run accumulations of wealth are broken up, either because a proportion passes to the State or because the structure of the tax encourages distribution of wealth over a number of donees.

Economic Considerations

Heavy death taxes may fulfil a useful economic function in forcing enterprises onto the market, where there is a *prima facie* assumption that they will be bought by those most competent to continue them. These are the people who should, in principle, be able to offer the best price (OECD, 1979: OECD, 1986). This argument is supported by the contention that there is nothing in the process of inheritance to ensure that the heir of a business or farm is a competent person to carry it on after the death of its creator.

Many people, including some who are wealthy, support estate taxation because they believe that large inheritances greatly reduce the incentives of the recipients to lead productive and useful lives. Carnegie (1962) wrote that the parent who leaves his son enormous wealth generally deadens the talents and energies of the son, and tempts him to lead a less useful and less worthy life than he otherwise would.

The case today for the taxation of wealth transfers rests mainly on considerations of equity and social justice and not on revenue generation motives. However, particular forms of wealth transfer taxation may find their appropriate justification on other grounds, including encouragement to use wealth for productive purposes.

Having reviewed the literature on the case for a tariff on inheritances and gifts, the reports of three commissions on taxation will be reviewed to assess their contribution to the subject.

MAJOR STUDIES COMMISSIONED TO EXAMINE WEALTH TRANSFER TAXATION SYSTEMS

Major tax reform issues have frequently been referred to the independent expert committee or Royal Commission, since both bodies are less prone

to the politics of short-term sectional self-interest and are more likely to take the broader and more principled approach required in proposing taxation reform.

The Canadian Royal Commission on Taxation

Prior to the establishment of the Commission on Taxation in Ireland in 1980, the Canadian Government had appointed the Canadian Royal Commission on Taxation (1966) to examine and review current tax structures and systems.

In carrying out its evaluation of the Canadian tax system, the Canadian Royal Commission (Carter Commission) had first to agree the objectives of a tax system. Realisation of inherent conflict among several competing objectives – fairness, contribution to growth and stability of the economy, protection of the right and liberty of individuals – led to the need to give the greatest weight to the prime objective, which they agreed in their report was the *equity* objective. Their report stated that the first and most essential purpose of taxation is to share the burden of the State fairly among all individuals and families.

Gift tax in Canada at the time of the study was then imposed on donors of *inter vivos* gifts made by individuals. Property passing on the death of an individual was subject to estate taxation.

The Canadian Royal Commission found the then present system illogical, inequitable and inadequate. They held that any increase in an individual's or family's capacity to command goods and services should be included in the tax base of the family unit, and proposed that all gifts and inheritances should be included in the comprehensive tax base of the recipient.

The UK Meade Committee on Taxation

In the UK in 1975, the Institute for Fiscal Studies set up the Meade Committee on Taxation (1978) with a brief to take a fundamental look at the UK tax structure. For too long, it was felt, tax reforms had been approached *ad hoc*, without regard to their effects on the evolution of the tax structure as a whole. As a result, they believed that many parts of their tax system seemed to lack a rational base.

The UK Meade Committee concluded that one of the first objectives of capital taxes is to recognise that the ownership of wealth confers benefits upon the owner and is therefore a proper subject for tax.

The Meade Committee held that a second set of capital tax objectives is

to promote a more equal distribution of the ownership of wealth. They believed that high rates of taxation on the holding of wealth impede the accumulation of large fortunes and that high rates of taxation on the transfer of wealth impede the inheritance of large fortunes. Additionally they considered that capital taxes may have the effect, not merely of impeding the accumulation or inheritance of large fortunes by surrender of part of them to the State in the form of capital taxes, but also of giving an incentive to owners of wealth to disperse their fortunes more widely by gift or bequest to those with smaller fortunes.

The Meade Committee claimed that there is a third set of objectives for capital taxes, which is very generally in mind when wealth transfer taxes are considered, namely a differentiation in the treatment of inherited wealth as contrasted with wealth accumulated out of the owner's own earnings. Inherited wealth was widely considered to be a proper subject for heavier taxation on grounds both of fairness and of economic incentives. They believed 'the citizen who by his own effort and enterprise has built up a fortune is considered to deserve better tax treatment than the citizen who, merely as a result of the fortune of birth, owns an equal property; and to tax the former more lightly than the latter will put a smaller obstacle in the way of effort and enterprise'.

They saw a strong case for relying wholly on a form of wealth transfer tax based on the accessions principle.

The Irish Commission on Taxation

The Irish Commission on Taxation (1982) carried out an appraisal of gift and inheritance taxes in Ireland and concluded that gift and inheritance taxes may be regarded as taxes on income defined in a comprehensive way or as taxes on the transfer of capital.

The commission's foremost justification for taxing gifts and inheritances was on equity grounds. They argued that wealth transfers increase equality of opportunity and potential competition, and that if all other income is taxed, then wealth transfers are appropriate objects of taxation. They concurred with the Canadian commission and UK committee that receipts from gifts and bequests confer the same command over economic resources as other income.

Their report stated unequivocally that gift and inheritance taxes may be used to prevent an unequal distribution of wealth being passed on tax-free to the next generation. In both of these respects the report concurred with much of the literature on the subject.

Summary of Commissioned Reports

All three commissions and committees argued and agreed that there was a very strong case for the taxation of wealth transfers. The equity objective was seen as the prime objective of a wealth transfer tax by all three forums. In this respect all three reports acknowledged the equity rationale for imposition of wealth transfer taxes as evidenced in the literature.

In proceeding to review existing wealth transfer taxes, one would expect to see components of these taxes reflecting issues outlined in the literature and argued and agreed in these reports.

COMPARISON OF EXISTING WEALTH TRANSFER TAXES WITH THE PRECEDING CASE FOR THE TAXATION OF WEALTH TRANSFERS

This final section outlines the trends in wealth transfer taxes in both European Union (EU) and Organisation for Economic Co-operation and Development (OECD) countries. The purpose of a comparison of existing wealth transfer taxes in these countries is to follow what the theorists have said, with an examination of how (if at all) the objectives of wealth transfer tax systems have been pursued in practice. Are governments and policy makers pursuing wealth transfer taxes for reasons of revenue raising, in pursuit of vertical or horizontal equity or are there economic considerations in evidence?

While a comparison of the wealth transfer tax systems across countries may be useful, such a comparison must be treated with caution because of differences in the countries legal systems, history, social structures, economic organisation and stage of economic development.

The ensuing examination of existing wealth transfer taxes addresses the principal elements and characteristics of these taxes:

- Type of tax and its revenue importance
- Reliefs and exemptions
- Rates of tax
- Implications of the multiplicity of tax rates and exemption thresholds
- Minimum levels of taxable inheritances to which maximum rates of taxation apply
- A review of the most significant changes in wealth transfer taxes in a number of countries.

Type of Wealth Transfer Tax and its Revenue Importance
Taxes on the transfer of wealth are not a new phenomenon. In the majority of OECD countries either estate or inheritance tax has been present for a long time. An estate tax is a tax levied on a transfer of wealth, where the tax base and the rate of tax are governed by the amount transferred by the deceased. An inheritance tax is a tax levied on a wealth transfer where the tax base and the rate of tax are governed by the amount received by the beneficiary. Inheritance tax is the most popular form of wealth transfer tax, existing in 17 of the 23 OECD countries.

All European Union countries tax wealth either during lifetime or after death. However, two OECD countries (Canada and Australia) no longer have a wealth transfer tax.

During the 19th century conservative political forces representing the wealthy resisted the advent of democratic government. Democracy appears to have proven kind to the wealthy. The current distribution of wealth remains highly unequal in most western nations despite the existence of wealth transfer tax structures. Further, wealth transfer taxes seem to be a fading force in the revenue systems of western governments. Most of the wealth transfer taxes now in place are old, established in the late 19th or early 20th centuries, and the proportion of total tax revenue derived from them has declined steadily in OECD countries in recent decades as can be seen from **Table 1**.

Consanguinity Reliefs and Exemptions
In the past 50 years, the introduction of exemptions, reliefs, and artificial trust devices has resulted in the wealth transfer tax burdens on the wealthy often being reduced to minimal proportions, despite the original objectives and intentions of the tax.

Table 2 outlines the consanguinity reliefs and exemptions from inheritance/gift tax granted by the ten EU countries detailed.

The extent of the relief granted varies greatly from country to country. Also within individual countries the extent of the relief granted to the various classes of beneficiaries shows great diversity.

Rates of Taxation
The gift and inheritance tax laws of many member countries of the EU prescribe several different scales of rates for different degrees of relationship with the disponer.

Table 1 Revenue from wealth transfer tax, estate, inheritance and gift taxes on individuals, as a percentage of total tax revenue in 1990 and 1965

Ranking in 1990	Country	1990	1965	Ranking in 1965
1	Japan	1.41	0.71	14
2	Greece	1.26	0.89	12
3	United States	0.96	1.99	5
4	France	0.95	0.56	16
5	Switzerland	0.89	1.13	9
6	Belgium	0.69	1.17	8
7	United Kingdom	0.65	2.62	2
8	Denmark	0.56	0.65	15
9	Netherlands	0.51	1.07	11
10	Portugal	0.50	2.48	3
11	Finland	0.44	0.23	21
12	Spain	0.42	1.09	10
13	Ireland	0.40	1.87	6
14	Germany	0.33	0.22	22
15	Luxembourg	0.31	0.47	17
16	New Zealand	0.29	2.30	4
17	Sweden	0.19	0.39	18
18	Norway	0.15	0.26	19
19	Austria	0.14	0.26	20
20	Italy	0.14	0.85	13
21	Turkey	0.12	0.18	23
22	Canada*	0.00	1.48	7
23	Australia*	0.00	2.73	1
OECD (unweighted) Average		**0.49**	**1.11**	

*Australia (1977) and Canada (1972) abolished their wealth transfer taxes.

Source: Revenue Statistics of OECD Member Countries 1965-1991, Paris, OECD (1992)

Table 2: Personal reliefs and exemptions from Inheritance Tax (1991)

	Country	*Class I £	Class II £	Class III £	Class IV £
1	Belgium	9,962	9,962	Nil	Nil
2	Denmark	855	Nil	Nil	Nil
3	France	33,485	33,485	12,176	1,218
4	Germany	102,366	36,852	4,095	1,130
5	Greece	4,516	4,516	1,505	602
6	Ireland	Exempt	166,350	22,180	11,090
7	Italy	54,490	54,490	27,245	Nil
8	Netherlands	173,700	4,965	Nil	Nil
9	Portugal	2,158	2,158	216	216
10	UK	Exempt	144,192	144,192	144,192

Source: OECD Report (1988) Annex I
Taxation of Net Wealth, Capital Transfers and Capital Gains of Individuals (Paris)

International Bureau of Fiscal Documentation (October 1991) Supplementary Service to European Taxation (Amsterdam)

** See notes 1, 2 and 3.*

As might be expected, the most lightly taxed classes of beneficiaries are invariably the surviving spouse and the children of the deceased. The surviving spouse is exempt from gift/inheritance tax in Norway.

In Belgium the surviving spouse of a childless marriage is treated less favourably than a spouse with minor children. In Turkey, a surviving spouse without children has a threshold twice that of a parent.

These are for the most part relatively minor variations. The general picture is that the immediate family — the surviving spouse and the children of the marriage — are the most favourably treated.

Implications of the Multiplicity of Rate Scales and Exemption Thresholds

The multiplicity of scales produces striking differences in the burden of

Table 3: Rates of wealth transfer tax in listed European Union countries (1991)

	Country	*Class I %	Class II %	Class III %	Class IV %
1	Belgium	3-30	3-30	25-70	30-80
2	Denmark	2-32	2-32	15-90	15-90
3	France	5-40	5-40	55	60
4	Germany	3-35	3-35	20-70	20-70
5	Greece	10-25	10-25	20-56	23-66
6	Ireland	—	20-40	20-40	20-40
7	Italy	3-27	3-27	3-54	6-60
8	Netherlands	5-27	5-27	26-53	41-68
9	Portugal	6-25	4-23	13-45	16-50
10	UK	—	40	40	40

Source: OECD Report (1988) Annex I
Taxation of Net Wealth, Capital Transfers and Capital Gains of Individuals (Paris)

International Bureau of Fiscal Documentation (October 1991)
Supplementary Service to European Taxation (Amsterdam)

** See notes 1 and 3.*

tax on spouses and children, the most favoured class, and on strangers in blood, the most heavily taxed. The commencing tax rate on a stranger's inheritance is often five or six times the rate charged on a child's. In Belgium, for example, the lowest scale runs from 3% to a top rate of 30% on an inheritance or gift taken by a child, while the scale for strangers runs from 30% to 80%.

The scale of differentiation in tax rates in some member countries is somewhat striking when set against the main argument which is put forward in favour of an inheritance-type rather than an estate-type tax. The case for an inheritance-type tax rests mainly on the premise that the charge can take account of the beneficiary's ability to pay. A progressive inheritance tax does, of course, tax a large inheritance more heavily than a small one; but to charge one beneficiary five or six times more than another beneficiary is charged, on an inheritance of the same amount, can hardly be said to pay much regard to their respective taxable

capacities, except on the view that taxable capacity varies according to the beneficiary's blood relationship to the deceased (OECD, 1986).

The view taken in many countries is that it would be unfair to tax a member of the family at the same rates as a non-member since the former's inheritance is usually less 'unexpected'. The inheritance-type tax was chosen by these countries because it makes it possible to differentiate in regard to family property and expectations.

This belief implies that differentiation by reference to relationship is to be justified on grounds of social policy rather than by reference to any tax principle; that it in fact involves a loss of horizontal equity, but that horizontal equity must sometimes give way to wider social considerations.

Minimum Level of Taxable Inheritance to which the Maximum Inheritance Tax Rate Applies (1991)

Table 4 indicates that the highest marginal inheritance tax rate is reached relatively quickly in the case of Class II, III and IV beneficiaries in Ireland.

In France and Italy, the highest marginal rates are only applicable to relatively large wealth transfers taken by beneficiaries, while in Germany only vast wealth sums taken by beneficiaries are taxable at the highest rates.

Significant Changes in Wealth Transfer Taxes

The recent UK experience: The trend in wealth transfer taxes in the UK, as Ireland's main trading partner and land mass, may have special relevance for Ireland. Substantial changes to UK wealth transfer taxation in the *Finance Act 1992* have resulted in a diminution in the importance of wealth transfer taxes for most family businesses. Of greater significance perhaps is the sentiment and resolve expressed by the then UK Chancellor in his Budget Speech in 1992, that 'inheritances and capital are no longer the privilege of the wealthy few'. He stated that over the years to come he would be looking for ways to lighten the burden of wealth transfer taxes in the UK.

Australia: The early 1980s saw the disappearance of the last vestiges of estate and gift taxes in Australia. Up to this point wealth transfer taxes were levied at both State and Federal Government levels. With the existing Australian taxes largely discredited as a result of manifest design deficiencies and under pressure of inter jurisdictional tax competition at the State level, little effort had then been made (1975) by the State or Federal governments to preserve the traditional death tax systems

Table 4: Maximum rates of Inheritance Tax and the amount of inheritance to which they apply to inheritance in excess of £

	Country	*Class I £	Class II £	Class III £	Class IV £
1	Belgium	398,485	398,485	398,485	98,485
2	Denmark	106,814	106,814	106,814	106,814
3	France	1,363,775	1,363,775	18,265	0
4	Germany	40,946,690	40,946,690	40,946,690	40,946,690
5	Greece	45,160	45,160	45,160	45,160
6	Ireland	Exempt	266,360	122,180	111,090
7	Italy	1,362,255	1,362,255	1,362,255	1,362,255
8	Netherlands	496,277	496,277	496,277	496,277
9	Portugal	215,842	215,842	215,842	215,842
10	UK (Stg£)	Exempt	144,136	144,136	144,136

Source: OECD Report (1988) Annex I: Taxation of Net Wealth, Capital Transfers and Capital Gains of Individuals (Paris)

International Bureau of Fiscal Documentation (October 1991) Supplementary Service to European Taxation (Amsterdam)

** See notes 1, 2 and 3.*

through appropriate reform, in spite of constructive proposals from the Asprey Committee (Asprey, 1975).

At the Federal Government level the Liberal Prime Minister announced during the 1977 election that as a result of the hardship that wealth transfer taxes were causing families, small businesses and farms, federal wealth transfer tax would be abolished as well.

Opposition to the reintroduction of wealth taxes in Australia in the form of death duties comes largely from the business community, particularly the rural sector. Given the history of discontent with previous wealth transfer taxes, it is unlikely that we will see the reintroduction of wealth transfer taxes in Australia in the 20th century.

Canada: Wealth transfer taxes had a long tradition in Canada. The first of the states introduced wealth transfer taxes in 1892 with the Canadian Federal Government entering the wealth transfer tax arena in 1941. In

the late 1960s the erosion of support for wealth transfer taxes became clear among the large farming communities on the prairies of the State of Alberta. Inter-state competition for wealth accumulations led to the retirement of wealth transfer taxes in many States by the late 1970s. The Federal Government abolished wealth transfer tax in 1972.

What should be noted throughout the history of wealth transfer taxes in Canada is the manner in which wealth transfer taxes swayed, ebbed and changed with varying political opinion.

> 'If Canada was isolated from the rest of the world, it would be of little importance that it did not levy an estate tax/succession duty in the normal recognisable form of death taxation. But as Canada's neighbour, the United States, does impose such 'normal death taxes', the mismatch has created serious double tax consequences for individuals on both sides of the border' (McKie, 1991).

The Canadian Wealth Transfer Tax system is greatly at odds with the recommendations of the Canadian Royal Commission, and continues to undergo discussion and debate as the players in the political arena change.

The election of the New Democratic party in Ontario in late 1990 served to place the issue of wealth taxes back on the political agenda. They are committed to studying the possibility of re-introducing wealth transfer taxes in Canada.

US and Europe: Wealth transfer taxation has been in marked decline in both the United States and the United Kingdom under conservative governments throughout the 1980s. In the rest of Europe, however, the line has generally been held, with both inheritance and gift tax existing side by side.

Japan: From 1905 through 1949 Japan levied an estate tax. In 1949 an accessions tax was introduced and replaced estate tax. A recipient of transfers by gift or by inheritance or bequest cumulated these two groups of accessions over the years and paid a tax yearly, graduated by the cumulative amount one had received. In 1953 the cumulative feature was abandoned largely because of administrative and compliance difficulties — 'it was almost impossible for the tax officials to determine total lifetime acquisition', and in 1958 a sort of hybrid estate-inheritance tax was imposed (Ishi, 1989).

The abandonment of the accessions feature of Japan's wealth transfer

tax is an interesting development in view of the fact that Ireland is the only EU country to have an accessions-type inheritance and gift tax system. This has been in existence since 1982.

Japan's wealth transfer tax now consists of two levies — a gift tax and an inheritance tax on the donee. Special reliefs are given to particular heirs, notably a large amount of relief to a surviving spouse. Despite the growing burden of this tax in Japan, the only significant change in recent years was a substantial increase in the basic exemption in 1975, with a consequent sharp decrease in the percentage of estates subject to tax.

A most interesting point in this comparison is the fact that Ireland has maintained the accessions feature of its wealth transfer tax structure for 11 years. This results in a degree of vertical equity as later gifts and inheritance are taxed at higher rates. Earlier gifts and inheritances received by an individual have the advantage of an exemption threshold and lower tax rates. All other EU countries only apply varying initial and increasing rates of tax to individual transfers of wealth and in this way ignore vertical equity considerations.

The existence of three different thresholds in Ireland together with the exemption of interspousal transfers results in a loss of horizontal equity. This loss of horizontal equity is a feature of all EU countries wealth transfer taxes.

SUMMARY AND CONCLUSIONS

An examination of the literature confirms that there is a case for the taxation of wealth transfers. The prevailing argument for such taxation rests primarily on equity grounds. Inheritance of economic status undermines both equality of opportunity and equality of result, and wealth transfer taxes can potentially contribute to the alleviation of both. One would then expect to see characteristics of existing wealth transfer tax structures addressing both horizontal and vertical equity issues.

While a body of theory exists to guide economic policy makers charged with taxation policy development, governments have periodically appointed forums to advise on such issues. These appointments have predominately resulted from equity and efficiency considerations and concerns with the rationale underlying existing tax structures. Several

committees and Royal Commissions have been given a brief to examine tax reform issues in the wealth transfer taxation area.

There are many similarities between the body of literature and the recommendations of these committees on the key features of a wealth transfer tax structure. However, many of the conclusions and recommendations of these forums have not been implemented or have been totally disregarded. One then queries why this advice has been ignored? On reflection of the evidence one must conclude that the proposals of these committees and Royal Commissions have not survived the rigours of the political process.

A necessary condition for success in securing meaningful and desirable reform of any tax system is the achievement of a broad consensus involving all the major interest groups and political parties. Evidently it is one thing to secure agreement that the existing system is in need of reform and should be examined by an expert committee. It is unfortunately quite another to secure implementation of the reform programs actually proposed.

From an examination of existing wealth transfer taxes it is obvious that in OECD countries the contribution of wealth transfer taxes to total revenue is minute. Their resulting effect on the distribution of wealth is slight. There is no evidence to suggest that the integration of the European capital market will change either of these characteristics. Perhaps what we might see in the future integrated Europe is the introduction of new distortions between mobile and immobile factors of production.

Among developed countries, the concern with vertical equity has continued to diminish in recent years. Consideration of economic climates and government philosophies suggest an explanation for this waning interest with vertical equity issues, namely:

- Conservatism, which advocates market solutions instead of government intervention
- A keen awareness of international tax competition
- The belief that a high degree of progressivity contributes to tax evasions and avoidances and has disincentive effects for investment and economic growth.

The stable economic growth of the post-war decades has given way to intense international competition, enhanced mobility of capital and globalisation of financial markets. As a result, the inter-regional tax competition that eroded wealth transfer taxes in Australia and Canada beginning in the late 1960's has moved to the international level.

The evidence presented in this paper confirms the existence of a large gap between the 'ideals' of a wealth transfer tax structure and the reality of many countries' existing wealth transfer taxes in the 1990s. It highlights the lack of cognisance given by governments to both the theory of taxation and the constructive proposals of government-appointed commissions. It re-emphasises the premise that economic policy making is influenced more by the ballot box and economic considerations than by equity concerns. The complete abandonment of any attempt to tax transfers of wealth in such countries as Canada and Australia, compounded by the nebulous efforts to tax wealth transfers in other countries, offers increasing support for the thesis of declining public support for egalitarian policies.

NOTES

[1] *Spain and Luxembourg have been omitted from the comparison in* ***Tables 2, 3 and 4*** *as a result of design features in these two wealth transfer taxes which do not conform to the method used to compare the tax structures of other countries. Their exclusion does not alter significantly the findings in this paper.*

[2] *In* ***Tables 2*** *and* ***4*** *the national currency amounts in the source documents have been converted to Irish £ at Central Bank Exchange Rates on 27/06/1993.*

[3] ***Explanation of the term 'Class' in Tables 2, 3 and 4***
The term 'class' as used in the tables indicates the relationship between the disponer and the recipient of the gift or inheritance as follows:
Class I The beneficiary is the spouse of the disponer
Class II The beneficiary is the child of the disponer
Class III The beneficiary is the brother or sister of the disponer
Class IV The beneficiary has no blood relationship with the disponer.

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