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Inheritance Taxation in Sweden, 1885–2004: The Role of Ideology, Family Firms and Tax Avoidance[*]

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Abstract: This paper studies the evolution of Swedish inheritance taxation since the late nineteenth century to its abolition in 2004. Our contribution is twofold. First, we compute the annual effective inheritance tax rates for different sizes of bequests, if the inherited assets were family firm equity or not, accounting for all relevant exemptions, deductions and valuation discounts. Second, we attempt to explain changes in inheritance taxation over time. Ideology appears to be the main driver of the sharp tax increases of the 1930s through the 1960s. Wartime economies with higher pressures on the people induced politicians to raise inheritance taxes on the wealthy, primarily during the First World War. We also document increased opportunities for tax planning for the wealthy, most notably a series of tax cuts on inherited family firms in the 1970s. This rise in avoidance opportunities for the rich while middle-class heirs face growing inheritance tax rates undermined the legitimacy of the tax and led to its repeal.

Keywords: Gift tax; Inheritance tax; Estate tax; Tax avoidance; Excess burden; Entrepreneurship; Ownership transfers of family firms.

JEL-*codes*: H20; K34; D31.

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1. Introduction

The evolution of inheritance, gift and estate taxation across different economic systems engenders important questions regarding the trade-offs between egalitarian ambitions and incentive effects in the welfare state. Inheritance taxes are among the most direct fiscal instruments for equal opportunity in every new generation. Simultaneously, however, they may dampen incentives to accumulate wealth and induce tax evasion and avoidance behaviors. Ultimately, whether such taxes positively or negatively contribute to societal development over the short and long run is thus an empirical question.

This study offers two contributions to the literature on inheritance taxation. Most studies of long-run trends in inheritance taxation base their analysis on statutory top marginal tax rates, i.e., the highest possible marginal rate paid by heirs regardless of the amount of inheritance required to reach that rate. In contrast, we present a new long-run series of *effective average inheritance tax rates* computed on the basis of the full spectrum of institutional factors affecting the actual final tax payment. Furthermore, we present these rates for differently sized inheritances from an average middle-class heir to an extreme upper-class heir and for different types of inherited assets: family firm equity and non-firm wealth. Our series are annual, and they span from 1885 to 2004, covering a period from the early stages of industrialization to the near present, i.e., until 2004, when the inheritance tax was abolished.

A second contribution of our study is an analysis of the main driving forces that underlie the changes in inheritance taxation in Sweden, from the increases during the interwar and immediate post-war periods to the gradual dismantling beginning in the 1970s and the final repeal in 2004. We propose four main explanations for the observed patterns. First, the expansion of the tax in the 1930s and late 1940s appears to be primarily related to an ideology of redistribution and the reign of Social-Democratic governments since 1932. However, the Social Democrats did not form a one-party government based on solid Parliamentary support until after the end of the Second World War. We argue that the delay in this political development effectively curbed the extent of inheritance tax increases. Second, the role of mass mobilization during the two world wars, which Scheve and Stasavage (2012) have identified as an important determinant for the significant increases in inheritance tax rates in many countries, also appears to have mattered in Sweden and thus complements the ideology channel.

Third, our estimates indicate an increasing degree of tax avoidance and evasion during the post-war era, a problem noted by the contemporary legislators who acted to halt additional tax increases and who eventually began reducing effective tax levels from the 1970s and onwards. Fourth, the demise of the Swedish inheritance tax seems to result from a loss of legitimacy among broad layers of the population in the latter part of the twentieth century. Soaring house prices in combination with the inflation-induced bracket creep during the 1990s doubled the inheritance tax rate, which was paid by almost one-third of all adult heirs. Meanwhile, because of new legislation in the late 1990s, the tax burden at the top end of the distribution was effectively reduced. These events undermined the legitimacy of the inheritance tax for Swedish taxpayers and eventually caused its abolition.

Research on trends in Swedish inheritance taxation is of interest beyond the specific historical experiences in Sweden. The recent work on the long-run evolution of inheritance flows in France by Piketty (2011) and Piketty, Postel-Vinay and Rosenthal (2013) and the related study of inheritance flows in Sweden from the early nineteenth century to the present by Ohlsson, Roine and Waldenström (2014) have shown that the significance of inheritance to society has dramatically changed over time. These studies have also shown that this change has largely resulted from macroeconomic factors such as the relationship between private wealth accumulation and income growth.

What has received less attention is the role of institutional developments in this process, particularly the evolution of a political democracy and the taxation of inheritance and wealth. In a historical overview of the political debates surrounding inheritance taxation in Germany, France and the United States, Beckert (2008) emphasizes the importance of studying national institutions to fully understand the evolution of inheritance taxation. Over the period studied, Sweden developed the world's most extensive welfare state with a strong egalitarian emphasis (Esping-Andersen, 1990). Examining inheritance taxation from a historical perspective is crucial not only to understand the achievements of the Swedish welfare state but also to gain further insight into the society in which it gained popular support. According to some scholars, the Swedish tax system became increasingly hostile towards entrepreneurship and business ownership during the post-war period.[1] If these scholars are correct, what was the role of inheritance taxation in this development, particularly with regard to the transfer of family firms

[1] See, e.g., Henrekson and Jakobsson (2005) or Lindbeck (1997).

to the next generation?

Previous research has not extensively studied the endogeneity of inheritance flows regarding inheritance taxation. However, the recent study Piketty and Saez (2013) shows that the elasticity of bequests to the tax rate is related to the use of standard tax avoidance technologies, the concentration of bequests and the importance of small inheritances in society. Although addressing all these dimensions is beyond the scope of our analysis, we specifically investigate the extent of tax avoidance opportunities and their potential effect on observed inheritance flows in the case of Sweden.

Section 2 provides an overview of the rules and tax rates that determined inheritance taxation in Sweden over the entire period of study. Section 3 then presents a calculation of the effective inheritance tax rates for different sizes of estates containing either personal net wealth or family business equity. Section 4 presents additional facts and speculation regarding the main determinants of the evolution of inheritance taxation in Sweden, and Section 5 concludes.

2. Inheritance, gift and estate taxation in Sweden

This section presents the basic principles, including tax schedules, deductions, exemptions and valuation rules that have determined Swedish inheritance, gift and estate taxation since the emergence of modern inheritance taxation in 1884 until its final abolition in 2004.[2] This information is required to calculate the effective inheritance tax rates presented and analyzed in the remainder of the study.

Taxation of a deceased person's assets in Sweden has predominantly been implemented in the form of an inheritance tax on the legacies received by the estate's beneficiaries. Internationally, this method is the most common form of taxation of intergenerational transfers, and it differs from estate taxation, where the wealth of the deceased is taxed.[3] The starting point for calculating inheritance tax is the remainder of a deceased person's estate after outstanding debts and, if the deceased was married, the spouse's right to marital property are settled. The remainder is allocated to the heirs and beneficiaries under the will, and as a final step, the in-

[2] Various kinds of duties and fees on estates, inheritances and wills had existed earlier, but only for small and specific parts of the tax base and population strata. See Du Rietz, Henrekson and Waldenström (2015) for an exhaustive description of these rules and regulations.
[3] For more extensive overviews of inheritance, gift and estate taxes, see, e.g., Gale and Slemrod (2001), Boadway, Chamberlain and Emmerson (2010) and Kopczuk (2013).

heritance tax is calculated for each heir. Assets included in the taxable estate are real and financial assets, including consumer durables and most private insurances, remaining after debts. The tax exempt spousal property removed from the taxable estate has typically amounted to half of the estate. Since 1960, at least four price basic amounts have been calculated.[4]

The division of the estate into taxable inheritance lots is based on legal rules of inheritance order across different classes of heirs and stipulations in the deceased's will, if one exists. For example, if there are three children, the estate is divided into three equal parts unless an existing will stipulates differently. If an heir abstains from his or her inheritance, the individual heir's share of the estate is passed on to his or her children.

Gift taxation is an integral part of any inheritance tax system. If every gift were considered independent of earlier acquisitions, large tax gains could be accomplished simply by dividing gifts into smaller instalments, or *inter vivos* gifts (literally meaning gifts between the living), that are allocated over time. To counteract tax avoidance, specific summation rules were introduced early on in the Swedish inheritance and gift tax ordinance, stipulating that gifts and bequests from the same donor should be added to inheritance lots and taxed jointly.

2.1 Valuation of assets and liabilities

A central part of inheritance taxation is the calculation of the value of the tax base. The starting point for the valuation of the assets and liabilities of estate inventories is their market value at the time of death of the deceased. However, several special valuation rules have been applied on different asset classes in the Swedish inheritance tax code, and several important changes in the valuation principles that determine the final tax burden have been made over time.

Real estate was typically recorded at its tax-assessed value in the year preceding death. Other personal property was taxed at market value, and businesses were valued at their sales value estimated by trustees. However, some asset classes were listed at only a fraction of their market value. For example, shares registered on the main listings at the Stockholm Stock Ex-

[4] The price basic amount is calculated based on changes in the general price level. Many transfer payments, tax rates, entitlements etc. are determined by the price basic amount. In 2004, the price basic amount was SEK 39,300, and an average annual worker salary was SEK 262,200. The non-taxed spouse's marital property that year thus amounted to 60 percent of the average annual salary.

change were listed at 80 per cent of their full market value from 1997 to 2004, 75 per cent from 1978 to 1996 and 100 per cent before 1978. Unlisted shares were assessed at only 30 per cent of their quoted or book value beginning in 1978. Forest holdings were listed at half their market value throughout the period under study. Small firm inventories and stock-in-trade have also occasionally been valued below market prices (see more below).

Insurance policies represent a specific and relatively problematic asset class in inheritance taxation. If a deceased person leaves behind insurance without beneficiaries, the value of the insurance, or the insurance disbursements, is simply included in the estate inventory. The same principle normally applies to insurance possessed by a surviving spouse. However, insurance with beneficiaries, who are actually included in most insurance contracts, is typically tax exempt, complying with marriage codes (Englund 1975). Some variations nevertheless exist in the rules governing the treatment of insurance acquisitions both over time and across certain insurance types.[5]

Certain forms of business assets received substantial tax and valuation relief in the latter part of the twentieth century. This relief represents an important dimension in Swedish inheritance taxation, particularly concerning its changes over time. The corporate tax code had long contained some relief in the valuation of a firm's machinery, inventories, and stocks-in-trade (Du Rietz, Johansson and Stenkula 2015). However, in the 1970s, a series of wide-ranging reliefs for the inheritance of closely held (private) companies were introduced. These reliefs applied to both gifts and bequests irrespective of whether companies were sole proprietorships (*enskild firma*), partnerships (*handelsbolag*) or privately held joint-stock companies. That is, these new generous valuation rules applied to the net assets of all firms *not* listed on the stock exchange.

Specifically, in 1971, a small conditional tax concession of 10 per cent of the inheritance tax on the recipient's lot was introduced. More important, from 1974 onwards, heirs had an option to undervalue stocks-in-trade and inventories. These new valuation rules stipulated that the lowest of either the acquisition cost or replacement value should be used as a basis for taxation. An additional 5 per cent was then deducted for obsolescence, and finally, the re-

[5] The main rule after the 1914 inheritance and gift taxation ordinance was that beneficiary acquisitions were taxed as inheritance; however, before this time, they were partly included. Individual private pension insurance was exempted from taxation.

maining value was written down to 40 per cent.[6] Lastly, in 1978, the valuation relief for private businesses was extended even further: unlisted firms were then valued at 30 per cent of the booked net equity value (assets less liabilities).

The primary political motivation for the valuation reliefs of the 1970s was to facilitate the intergenerational transfer of family firms. The timing was not accidental but directly related to reforms in the early 1970s that prohibited business owners from borrowing from their own firms.[7] These reforms rendered the payment of inheritance tax expensive for cash-constrained heirs who had to either pay themselves dividends taxed at the marginal income tax rate or sell off parts of the firm's assets or shares to finance the tax payment, thus also necessitating that they pay capital gains tax.[8]

2.2 Tax rate schedules

Tax rate schedules, taxable limits and exemptions, bequest brackets, and the scope of deductions are important components of inheritance taxation. In Sweden, the inheritance tax always depended on consanguinity, i.e., the relationship between the deceased and their heirs, with the spouse and children normally paying a lower tax than other relatives or non-relatives.[9] With the 1884 stamp ordinance, all previous variants of estate taxes, including stamp duties and inheritance lot taxes, were merged into a single tax in the form of a stamp on the total estate value. Initially, the tax rate was basically flat at approximately one-half per cent, but in 1895, a progressive tax schedule was introduced.

The Swedish statutory tax rates changed dramatically between 1885 and 2004. Figure 1 depicts the statutory marginal tax rate schedules for immediate family heirs (spouses and chil-

[6] Englund (1975, p. 62). In the tax rate computations below, we have interpreted the deliberate underestimation of stocks-in-trade and inventories from 1974 to 1977 to be an assessment at 40 per cent of equity.

[7] SOU 1998:116.

[8] The disallowance of borrowing from one's own firm had dramatic effects. Until 1973, firm owners were allowed to borrow from their own firm, even at a zero interest rate. Because the average inflation rate was approximately 7 per cent in the early 1970s, the real rate of interest on such loans was strongly negative. In contrast, if an heir to a family firm needed to withdraw funds from his/her firm in 1974, such funds were first subject to corporate taxation of 54 per cent and then a marginal tax rate of 74 per cent. To obtain one SEK net of tax in order to meet inheritance tax obligations, the firm then needed a before-tax profit of $1/(1 – 0.54)(1 – 0.74) = 8.36$ SEK.

[9] Heirs were divided into three (sometimes four) classes. Class I, which had the lowest tax rate, included the surviving spouse, children and their descendants. Class III comprised juridical persons, such as public utilities, private non-profit foundations and associations, some of which were tax exempt. Class II, strictly speaking, encompassed all other heirs, i.e., heirs not belonging to Classes I and III. In practice, all other heirs were parents, brothers, sister and cousins. Gifts to public authorities and religious communities and foundations promoting research, education, culture or sports were tax exempt.

dren) over the distribution of bequests (expressed as multiples of the average annual incomes of Swedish production workers) in six selected years (where each year is representative of the period in question). Considerable variation exists in both the level and progression in the inheritance tax schedule, with the overall trend being increased levels and progression through 1991. Tax rates were practically flat and very low until the late 1910s, were raised somewhat in 1918 and 1920 until the drastic increase in 1933. The largest progressivity appears in the post-war era until the reform in 1992, when the schedule was made basically flat again, but the tax rates was relatively high, and exemptions were limited.

[Figure 1 about here]

The sharp increase in tax rates occurring from 1914 to 1940 is explained by the reforms in 1918 and 1933 (and to a small extent by the 1920 reform). The Social Democrats gained governmental power in 1932. A bill to introduce an estate tax with the inheritance tax was rejected by Parliament, and instead, the existing inheritance and gift taxes were raised (SOU 1957:48, p. 23).

An estate tax was added to the existing inheritance tax in 1948. The two taxes were combined so that the estate was taxed first and the tax payment was then deducted from the estate before the inheritance lots were distributed and taxed.[10] The estate tax was levied on the total net value of the estate after the deduction of certain tax exempt items, such as marital property (half of the estate in the case of a surviving spouse) and a tax free amount.

In 1959, the estate tax was abolished, and inheritance tax rates were sharply increased. The top tax rate for children and spouses increased to 60 per cent (65 per cent for Classes II and IV). The new tax schedules applied until 1970.

The 1970s and 1980s observed further increases in the inheritance tax rates, as also reflected in Figure 1. The earlier taxable limits (*bottenbelopp*) were changed to general deductible exemptions (*grundavdrag)*, and the number of brackets was reduced, which resulted in a small

[10] A highly progressive income tax schedule was also introduced in 1948 (Du Rietz et al. 2015), and a new wealth tax schedule more than doubled the statutory wealth tax rates (Du Rietz and Henrekson 2015).

tax increase.[11] These raises in statutory rates were accompanied by alleviations in the valuation of some assets. For example, in 1971, relief in the valuation of private (unlisted) firm assets in the estates was introduced, and from 1978 onwards, the taxable net worth of private firms (assets less liabilities) was further reduced to no more than 30 per cent of the book value of firm equity.

The first reduction in tax rates was enacted in 1987. Specifically, the number of inheritance tax brackets was reduced, and tax rates were adjusted downwards. In 1991, tax bracket boundaries were adjusted upwards in response to the (partly inflation-driven) sharp increase in property values.

In 1992, inheritance tax rates were greatly reduced, and bracket boundaries were adjusted upwards. The tax reduction was motivated the very high level of inheritance tax in Sweden compared with other countries and the perceived need to reduce the taxation of capital more generally (SOU 2002:52, p. 18). Figure 1 shows that the top marginal tax rate was halved to 30 per cent. The basic exemptions had also been increased several times. The inheritance tax was removed for bequests to spouses in 2003 and fully abolished in 2004.[12]

Capital gains taxes also rose if heirs did not possess sufficient cash to pay the inheritance tax and if they sold off assets to finance the tax payment. If the deceased had owned the inherited assets (family firms or other non-corporate assets) for five years or more, capital gains were tax free until 1966. From 1967 to 1975, 10 per cent of the capital gains was added to the heirs' personal income tax base and taxed at the marginal income tax rate. Further, the taxable share of long-term capital gains increased to 40 per cent during 1976–90, and after the tax reform in 1990–1991, all capital gains were taxable at a flat rate of approximately 20–30 per cent depending on the type of asset (dwelling or financial assets).

3. Effective inheritance tax rates, 1885–2004

How much inheritance tax have heirs in Sweden paid since the end of the nineteenth century

[11] If the inheritance lot was below the taxable limit, no inheritance tax was paid. If the inheritance lot exceeded the taxable limit, the entire lot was taxed.

[12] The tax was abolished effective from 17 December 2004, not 1 January 2005, which was originally decided by Parliament. This was motivated by a concern for the heirs of the Swedish victims of the tsunami catastrophe in the Indian Ocean on 26 December 2004. More than 500 Swedes, most of them on vacation in Thailand, were killed in the disaster.

to the present? Did tax payments differ across different sizes of bequests and different types of inheritance? This section answers these questions by presenting calculations of the effective average inheritance tax rates for each year during 1885–2004.

We calculate tax rates for different bequest sizes in two synthetically constructed estate types: an individual non-family firm fortune, denoted E, and an entrepreneurial firm inherited by the younger generation in the family, denoted E^f. Associated with each of these two estates are the taxable bequests received by the heirs, B and B^f. Taxable bequests typically differ from estates owing to the basic exemptions, deductions and valuation discounts described in the previous section. Taxable bequests also differ from estates because the number of heirs n is usually larger than one, indicating that $B = \tilde{E}/n$, where $\tilde{E}$ is the estate net of exemptions, deductions and valuation discounts. Tax rates are computed for the case of two child heirs ($n = 2$), each inheriting an equal share of the remainder of the estate with no surviving spouse.[13] The *effective average inheritance tax rate*, τ_{Bt}, is then defined as the total payment in year t of inheritance, with gift and estate taxes as a percentage of the original estate, i.e.,

$$\tau_{Bt} = \frac{\tau_{It} B}{E} \tag{1}$$

For an inherited family firm estate, the effective average inheritance tax rate becomes

$$\tau_{B^f t} = \frac{\tau_{It} B^f}{E^f}, \tag{2}$$

where τ_{It} denotes year-specific inheritance tax schedules presented in the previous sections. During 1948–59, heirs also paid estate taxes, and the estate tax payment $\tau_{Et}E$ was deducted from the taxable bequest. In the case of non-family firm wealth, this deduction implies the following effective inheritance tax:

$$\tau_{Bt} = \frac{\tau_{It}(B - \tau_{Et}E) + \tau_{Et}E}{E}, \text{ if } t = 1948, \dots, 1959. \tag{3}$$

[13] This assumption implies that the heirs are not subject to the full progressivity of the inheritance tax, τ_I, because heirs or testators not belonging to the immediate family typically paid higher taxes.

In addition to these taxes, an additional tax related to inheritance taxation was capital gains taxation. Such taxation applied when heirs of family businesses had to sell off part of the company to be able to pay the inheritance tax.[14]

Note that if bequests were previously transferred as gifts, the tax was usually not reduced because the basic exemption was lower; thus, the tax rates were identical. Gift taxation could also not easily be reduced by transferring ownership of a company through a combination of inheritance and multiple gifts owing to the summation rules discussed above. However, the inheritance tax was not immediately payable. Rather, it could be paid in instalments over a period of 10 years.

We calculate the effective inheritance tax rates for individual fortunes and family firms for four different sizes of estates: super-large, large, medium, and small:[15]

- *Super-large estate*: This estate is established at a level corresponding to 1,000 times the average worker's annual salary. In 2004, this level corresponds to an estate worth SEK 266 million (approximately EUR 30 million).
- *Large estate*: This estate corresponds to 100 times the average worker's salary, which resulted in a value of SEK 26.6 million in 2004 (approximately EUR 3 million).
- *Medium estate*: This estate is established at 10 times the average worker's annual salary, which amounted to SEK 2.66 million in 2004 (approximately EUR 300,000).
- *Small estate*: This 'middle-class' estate is established at the level of the average taxable wealth in Sweden in 2004 (SEK 622,000 or roughly EUR 70,000), corresponding to 2.5 times an average worker's annual income. We compute the inheritance tax rates

[14] In practice, selling off shares or assets may not always have been possible, and heirs had alternative ways to finance their tax payments, e.g., to pay out extra dividends, take salaries or take loans. In extreme cases, the comprehensive inheritance tax, including the direct inheritance tax plus indirect inheritance taxes in the form of extra income tax and social security fees, could be high enough to exceed the total firm equity. We denote KG as the amount of realised capital gains received on assets held for more than five years (which was typically the case with family firms). KG was taxed as income beginning in 1967 (at variable income tax rates, τ_{Yt}). We then add $\tau_{Yt}KG$ to the numerator in equation (2). Before 1966, KG was tax exempt, and between 1967 and 1975, one-tenth of KG was added to labour income and taxed according to labour tax schedules, τ_{Yt}, typically at a marginal tax rate of approximately 75–85 per cent for high incomes. Between 1976 and 1990, four-tenths of KG was taxable at the labour tax schedule. After the tax reform in 1991, 100 per cent of KG was taxable at a flat tax rate, typically 30 per cent. The effective inheritance tax rate, including capital gains tax, was then $\tau_{Bt} = (\tau_{It}B + \tau_{Yt}KG)/E$.

[15] Note that these names refer more to the relative size of firms rather than individual fortunes; a small family firm estate corresponds to an individual net wealth at the 95th percentile in the Swedish personal wealth distribution.

only for non-family firm wealth in this category.

Figure 2 presents the evolution of the effective inheritance tax rates, τ_B and τ_{Bf}. A clear inverse U-shaped pattern is evident over the period, and five distinct phases can be distinguished. Effective tax rates were very low before the First World War and then raised in a second phase that lasted until the early 1930s. The inheritance tax reform of 1933, when statutory tax rates were sharply increased, introduced a third phase. A fourth phase began with the tax reform of 1948, when an estate tax was also introduced and used in combination with the inheritance and gift taxes. In the 1950s and 1960s, the inheritance tax continued to increase, primarily because of an inflation-driven bracket creep in the nominal tax schedule. Effective tax rates then decreased in the 1970s for family firm bequests because of the extensive valuation relief for unlisted corporate assets described in the previous section. Inheritances of non-firm assets remained largely unchanged throughout the 1970s. A fifth phase began in 1992, when the government dramatically reduced the statutory tax rate schedules, which ranged from 10 to 60 per cent (with many brackets), to only three brackets that ranged from 10 to 30 per cent. Irrespective of their size, this policy reduced the effective tax rate to single-digit percentage points for inherited family firms. Tax rates then remained at this low level until the repeal of the inheritance tax in December 2004.

[Figure 2 about here]

The evidence in Figure 2 also clearly shows the distinction in the tax treatment between heirs of family firms (and other private, i.e., unlisted, corporate wealth) and heirs of other assets since the 1970s. In 1973, heirs of super-large estates paid an effective inheritance tax of approximately 60 per cent regardless of the type of estate. In the next year, 1974, an heir of a similar non-corporate fortune paid 62 per cent, whereas an heir of an equally valuable family firm paid a mere 24.7 per cent—a horizontal tax wedge of 37 percentage points generated virtually overnight.[16] Although such differential treatment has been well known among tax lawyers, some politicians, and certainly family firm owners in Sweden, it has received little attention in the academic economics literature on inheritance taxation. Indeed, we have found no previous investigations of this horizontal inequity in the inheritance tax or its effect on related phenomena, such as wealth accumulation or tax avoidance activities.

[16] Thus, the top statutory rate in Sweden is a good proxy for the effective tax rate on the largest estates for all types of assets until 1973 and for non-corporate wealth for the entire period.

Finally, the importance of realized capital gains taxation is reported in Table 1. In general, this additional tax burden does not change the overall pattern of the inheritance tax over time or across different bequest sizes and types. At most, when applied to the heirs of large and super-large estates in the 1970s and 1980s, the capital gains tax raised the effective inheritance tax by one-tenth.

[Table 1 about here]

4. Accounting for inheritance tax changes in Sweden

What were the main determinants of the dramatic changes in Swedish inheritance taxation during the twentieth century? In particular, what factors explain the sharply increased tax schedules in the inter-war and early post-war periods and the equally sharp tax cuts, first, for family firm heirs in the 1970s and, then, for all other large bequests in the early 1990s? This section presents facts and speculation regarding the main factors that could account for these tax increases. Specifically, we discuss the role of ideology in comparison with more tangible economic or geopolitical factors in shaping inheritance taxation. We also relate the inheritance tax to avoidance behavior, a topic that has received considerable attention in the public debate regarding inheritance taxation since the nineteenth century. Furthermore, we evaluate whether the alleged motives for high inheritance tax rates produced the desired outcome and why the inheritance tax lost its legitimacy and political support.

4.1 Understanding the tax raises from the late 1910s to the 1970s

We noted in the previous section that effective inheritance tax rates were historically low in Sweden until the late 1910s and that they thereafter increased in a stepwise fashion until 1971. Was this trend in inheritance tax policy exceptional or consistent with a common international trend in inheritance taxation? Studying the evolution of inheritance tax rates in 19 countries from the eve of industrialization to 2000, Scheve and Stasavage (2012) show that inheritance taxes were invariably very low in all countries before 1900.[17] Notwithstanding large cross-country differences in the top marginal rate, inheritance taxation sharply increased in all 19 countries in the twentieth century. Table 2 shows that Sweden belongs to a group of only six

[17] The inheritance tax was arguably low in all countries except the U.K. and New Zealand, where the top inheritance tax rates in 1900 were eight and five per cent, respectively.

countries in which the top inheritance tax rate exceeded 60 per cent for an extended period of time (40 years or more).[18] This high rate can be compared with the far lower inheritance tax rates in the seven countries in Scheve and Stasavage's data set that were attacked or occupied by Nazi Germany or the Soviet Union during the Second World War. In 1950, the average top rate in these seven countries was a mere 20 per cent compared with the average of 77 per cent for the four countries in Table 2.

[Table 2 about here]

Scheve and Stasavage test two alternative explanations for the significant inheritance tax increases occurring in the twentieth century: (i) the extension of suffrage and redistributional pressures arising with it and (ii) political conditions created by mass mobilization in connection with the two world wars when the broader population demanded increased pecuniary sacrifices by the rich while the people sacrificed their bodies in the wars. Scheve and Stasavage find no evidence of the importance of extended suffrage but strong support for the mass mobilization hypothesis.

Regarding the situation in Sweden, the effect of wartime events and the ensuing large-scale mobilization appear to have influenced the taxation of high wealth and inheritances, but this tendency is not as stark as that found elsewhere. One possible reason is that Swedish government spending did not increase directly after either world war, which stands in contrast with the upward displacement of government spending in the U.K., particularly after the First World War.[19] Another reason concerns the timing of the major hikes in inheritance taxation. The 1918 increase occurred during the First World War; however, Sweden's two largest tax increases in 1933 and 1948 are not immediately temporally tied to the two world wars.

An examination of the views of Swedish politicians during the world wars, as reflected in the writings and debates in contemporary Parliamentary print, offers partial support to the link between inheritance taxation and the increased wartime needs and sacrifices of the broader public, as suggested by Scheve and Stasavage. Motivated by the need to finance greater defense spending, the government proposed an increase in inheritance and gift tax rates in

[18] The other Anglo-Saxon countries also had comparatively high top inheritance tax rates by the early 1950s: Australia, 28 per cent; Canada, 54 per cent; Ireland, 54 per cent; and New Zealand, 56 per cent.
[19] Durevall and Henrekson (2011); Peacock and Wiseman (1961).

1917.[20] The raise was intended for large inheritances, and the government conjectured that income from inheritance taxation would then increase by 25 per cent. During the Second World War, income and wealth tax progressivity was sharply increased, once again motivated by the need to offset the worsened wartime conditions for the population. However, the inheritance tax remained unchanged, and in fact, it was explicitly excluded from these tax increases because it was unclear whether the state actually needed the additional revenue and it was not deemed possible to arrive at a proper assessment given the exceptional wartime conditions.[21]

In other words, mass mobilization appears to be one explanation for the tax increases in Sweden, but it cannot explain the largest tax increases that occurred either between the wars or well after the Second World War in the late 1940s through 1960s. Two additional possible explanations that relate directly to Sweden's economy and political institutions can be put forward. One explanation concerns the role of ideology and the politics of government. The electoral successes of the Social-Democratic Party in the early 1930s also involved a broad public debate in Sweden concerning inequality and the (un)fairness of the wealth distribution and inheritance flows. Leading Social Democrats were well aware that a high inheritance tax could impair the incentives of entrepreneurship and firm formation. However, consistent with the late Schumpeter in *Capitalism, Socialism and Democracy* (Schumpeter 1942), many Social Democratic intellectuals believed that the large industrial corporation was the major unit of production (Wigforss, 1956), and that an inexorable movement in capitalist societies towards progressively larger companies was occurring. If these beliefs were true, individual entrepreneurship and new firm formation would wane in importance. The leading Social Democrat, Ernst Wigforss, Minister of Finance during 1925–26 and 1932–49, even maintained that in the long run, large industrial corporations should be converted into "social enterprises without owners." In these enterprises, individuals could still be shareholders, but the shareholders were no longer residual claimants. Moreover, in such enterprises, wages should be established in wage negotiations, dividends should be related to the level of interest rates in capital markets, and all excess profits should remain with the companies (see also Johansson and Magnusson, 1998, pp. 115–116).

Digging deeper into the ideological domains of Swedish Social Democracy, Wigforss even authored a critical report on wealth inequality and inheritance taxation in 1928. In his report,

[20] Prop. 1917:167.
[21] See SOU 1957:48, pp. 21ff.

Wigforss stated that (Wigforss 1928, p. 6) “the inheritance tax can be extended and reformed to become a means by which large fortunes are curtailed, at least to the extent that these fortunes do not emanate from the industriousness and thrift of their owners”. Wigforss also asserted that as a means of redistribution, the inheritance tax is more likely to enjoy popular support than (highly) progressive income and wealth taxes. The alleged reason was simple: inherited wealth is not acquired through one’s own socially valuable actions, and therefore, it is less legitimate. Wigforss (1928, p. 9) explicitly stated that “the current wealth distribution cannot be seriously defended, notwithstanding how much one emphasizes the importance of incentives for thrift, diligence and entrepreneurship”. Wigforss further maintained (p. 28) that the British inheritance tax rate of 40 per cent in the 1920s on large inheritances was insufficiently high to whittle away the large fortunes and eliminate the cleavage between rich and poor”.

Wigforss acknowledged that sharply increases in the inheritance tax would dampen the incentives of saving and entrepreneurship. However, Wigforss identified compensatory mechanisms that could offset these effects. Specifically, the incentives for firms to finance investments through retained earnings could be strengthened. Wigforss wanted to create the possibility of paying an inheritance tax on large fortunes with in-kind assets (stocks, bonds, and real estate). This proposal, Wigforss asserted, would provide an avenue for the increased public ownership of production and collective capital formation that he advocated.

Social-Democratic intellectuals, with Wigforss being the most prominent, had thus argued forcibly in favor of a high inheritance tax throughout the 1920s and early 1930s. They tended to favor a scheme used in Italy and Germany for a few years after the First World War, where the inheritance (or estate) tax was higher if the deceased had inherited his wealth than if he had acquired it in his own lifetime. When the Social Democrats then formed a minority government (based on 41.7 per cent of the votes), they tried to introduce an estate tax that would have raised the combined estate and inheritance tax to British levels. This bill was rejected, and the government had to settle for a less radical—but nonetheless doubling—increase in the inheritance tax rate in 1933.[22] The Social Democrats thus wanted and tried to increase the tax up to British levels in the 1930s, but they were unable to do so owing to insufficient Parlia-

[22] Prop. 1933:34. The tax was effective as of July 1, 1933. The proposed top marginal estate tax rate was 21 per cent. The Social-Democratic government attempted once more to introduce a less stringent estate tax in the following year. This time, it was renamed a stamp duty of up to 7 per cent of the value of the estate. This bill was also rejected by Parliament.

mentary support.

After the Second World War, the situation was very different. In 1940, the Social Democrats received 54 per cent of the votes, but Sweden had a bi-partisan (multi-party) government throughout the war. Thus, during the war, no room remained for them to exploit their position to pursue any ideological goals (even if they were demanded by the electorate). In 1944, the Social Democrats received 47 per cent of the votes (which gave them exactly 50 per cent of the seats in Parliament), and given that the Communist Party received more than 10 per cent, a solid left-wing majority arose and persisted after the 1948 election, when the Social Democrats continued as a one-party government based on 46 per cent of the votes.

Immediately after the Second World War, a government commission on state taxation began to work, and they published their final report in late 1946.[23] In this report, the commission maintained that wealth holders should contribute *ex post* to make up for the extraordinary costs incurred during the war. The commission discussed various ways that such a tax could be implemented and stressed that no harmful economic effects should arise from the taxation. When motivating the enactment of a separate estate tax in 1947 that became effective in 1948 (before the 1948 election), Wigforss stressed that an estate tax was better than a wealth tax because, he argued, an estate tax would not have detrimental incentive effects (i.e., it would neither drain firms of liquidity nor lower incentives for entrepreneurs to accumulate assets). He saw such a tax as a delayed wealth tax.

The estate tax—and the resulting sharp increase in the inheritance tax—was fiercely contested by the opposition, and numerous motions in both 1948 and 1949 demanded that the estate tax be abolished and that the amounts already paid be refunded. All the motions were voted down.[24] Effective in 1948, the outcome was a top combined estate and inheritance tax rate of 60 per cent. The top rate was thus raised by a factor of 15—from 4 to 60 per cent—in 30 years.

In sum, the mass mobilization hypothesis of Scheve and Stasavage (2012) seems to have bearing on inheritance taxation in Sweden, as evidenced primarily by the 1918 raise but also by the parliamentary discussions during the 1940s. The evolution of inheritance taxation in

[23] SOU 1946:79.
[24] SOU 1957:48.

Sweden through the 1960s, however, shows that mass mobilization is not the full story in this non-belligerent country. The largest tax changes were in fact enacted either between or after the world wars, and contemporary politicians also explicitly stated that the wartime events did not affect inheritance tax policy. Therefore, in this section, we have presented evidence in support of a view that ideological motives for redistribution and long-term vertical equity, deeply rooted in the Social-Democratic Party and temporally associated with changes in its political influence, better explain the dramatic increases in inheritance taxation from the early 1930s through the 1960s in Sweden than mass mobilization. Notably, this ideology is also closely aligned with the notion of maximizing welfare of groups in the bottom of the distribution, at least to the extent that the public sentiment towards high inheritance inequalities is sufficiently negative while the impact of the tax on wealth accumulation is sufficiently small.[25]

4.2 Tax avoidance

Tax avoidance and the effectiveness of the inheritance tax is another potentially important factor to address in an examination of its evolution over time. Figure 3 displays the evolution of revenue from the inheritance, gift and estate taxes, i.e., $\tau_B B$, divided by either total tax revenue or national income. The share of inheritance tax in total tax revenue hovered at about 2 per cent in the inter-war era and 1 per cent in the 1940s and then decreased steadily until the 1990s to a level of approximately 0.2 per cent—a reduction of over 90 per cent. This level is low not only in absolute terms but also in comparison with international levels: by the end of the 1990s, the inheritance tax as a share of total tax revenue was 0.7 per cent in Germany, 1.4 per cent in the U.S. and 1.8 per cent in France.[26] The share of inheritance tax revenue in national income was much lower, approximately one-fifth of 1 per cent in the inter-war and early post-war decades. Subsequently, the inheritance tax revenue fell by approximately half by the end of the century, i.e., a decrease of 50 per cent, and the drop was not as severe as the decrease in the share of inheritance tax revenue in total tax revenue. Thus, although the overall fiscal significance of inheritance tax revenue was never large in Sweden, it fell rapidly during the post-war period.

[Figure 3 about here]

[25] Piketty and Saez (2013).
[26] See Beckert (2008, p. 273).

Regarding the evolution of the actual tax base, a recent investigation by Ohlsson, Roine and Waldenström (2014) shows that the amount of inheritances (and gifts) flowing from the deceased to the living in Sweden was approximately 12 per cent of the national income just before the First World War. This flow then fell steadily during the inter-war period to a level below 5 per cent in approximately 1950, nearly the same level as Piketty (2011) found in France for this period. Generally, the tax revenue data and estimates of inheritance flows do not suggest that inheritance tax revenue was ever considered an important source of government revenue per se. This finding is consistent with Beckert's findings regarding the historical evolution of inheritance taxation in France, Germany and the U.S.

Tax avoidance or tax evasion represents a distortion that should engender a lower tax rate according to standard optimal tax models. A few studies on Sweden document the behavioral responses to inheritance and gift taxes. Eliason and Ohlsson (2013) find that heirs seem willing to misreport the dates of death of their parents to reduce expected inheritance tax payments. Ohlsson (2011) finds a strong expansion of gifts recorded just before the introduction of the estate tax in Sweden in 1948, a pattern that clearly reflects avoidance behavior.[27]

The trends in inheritance tax avoidance in Sweden have, to our knowledge, not been studied previously, and in this paper, we can only speculate about these trends on the basis of both qualitative and partly anecdotal evidence and a quantitative exercise that relates observed tax revenue to newly estimated inheritance flows.

The qualitative evidence suggests that both avoidance opportunities and actual avoidance behavior increased along with the increase in effective inheritance tax rates in the 1930s and 1940s. Policy makers at the time seem to have noticed this pattern, particularly during the estate tax regime in 1948–58 when it soon became clear that the estate tax did not raise as much revenue as had been originally estimated.[28] The study by Ohlsson (2011) shows how the amount of gifts exploded just before the estate tax was introduced in 1948. In the 1950s, the establishment of tax exempt family foundations, holding companies and limited partnerships became another well-known measure to avoid the estate tax.[29]

[27] See also Kopczuk (2013) for a recent overview.
[28] SOU 1957:48, p. 10.
[29] SOU 1957:48, p. 10; Feldt (2012) documents in some detail the drastic plans considered and measures eventually taken by the Johnson dynasty to avoid being severely affected by the combined effect of the estate and in-

Life insurance policies with a designated beneficiary constituted another response to minimize inheritance tax receipts. Disbursements from life insurance were exempted from inheritance (and estate) taxation, and if the insurance premium was not deducted from current income, disbursements were tax exempt for the beneficiary.[30] Debt expansion was also used by wealthy business owners to avoid taxes, as any debt was fully deductible from the (tax-assessed) value of the assets. In particular, diversification into real estate offered a typical way to reduce the inheritance tax.[31] After the deregulation of credit markets in the 1980s, opportunities for the elimination of the inheritance tax through the acquisition of highly leveraged assets with a reduced tax-assessed value increased greatly. Although we have not managed to find systematic evidence regarding the use of this and similar avoidance strategies, numerous reports in the business press, particularly during the 1970s and 1980s, note the use of such strategies.

An extreme way to avoid paying taxes was to move either one's wealth or oneself (with capital) out of the country. Numerous examples show how the wealthiest and most successful entrepreneurs and business owners chose to emigrate.[32] In a study of all permissions granted by the Riksbank to transfer assets abroad in connection with emigration during 1965–84, Lindkvist (1990) documents 30,000 permissions to emigrants during this time. From interviews with people emigrating during 1975–84, Lindkvist also finds that Swedish taxation, including inheritance taxation, was a major consideration in the emigration decision for most respondents. When Sweden lifted all foreign exchange controls in 1989, effectively allowing anyone to transfer assets to tax havens either by using illicit means or by taking residence in another country, a notable increase in tax-driven capital flight appears to have occurred.[33]

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heritance tax in case of the passing of Axel Ax:son Johnson (1876–1958), the patriarch and sole owner of the industry group.

[30] Johansson (1963) and Johansson and Werding (1970) calculate the required rate of return under conservative assumptions for business owners. The required rate of return became unrealistically high relative to industry returns at the time (typically 20 per cent in 1970 compared with average actual returns of six per cent).

[31] Additionally, real estate was a frequently used way to reduce the wealth tax, which was arguably even more important (Du Rietz and Henrekson 2015).

[32] Ruben Rausing, the founder of Tetra Pak, emigrated in 1969, and his two sons followed in 1982. Ingvar Kamprad (the founder of Ikea) and Erling Persson (the founder of H&M) emigrated in 1973 and 1982, respectively. A more recent example is Fredrik Lundberg, who moved to Switzerland in 1985 and lived there until 1993.

[33] Roine and Waldenström (2009) attempt to estimate the size of tax-driven capital flight by accumulating statistical errors and omissions in the balance-of-payments statistics. They find that these errors regularly indicated increased outflows during the 1990s and 2000s, landing at a number near one-fifth of one year's national income.

Quantitatively assessing the trends in inheritance tax avoidance or evasion in Sweden is difficult. One channel of potential information is offered by relating actual taxes paid with two variants of the underlying tax base: a "fiscal inheritance flow", reported to tax authorities on inheritance tax returns, and an "economic inheritance flow", a theoretically computed inheritance flow based on data on the aggregate stock of private wealth, adult mortality and the lifecycle profile of wealth.[34] The left panel of Figure 4 shows the ratio of inheritance tax revenue to each of these tax bases. During the entire period, the "fiscal flow" ratio, i.e., the revenue to taxed inheritances, exceeds the "economic flow" ratio, i.e., the revenue to macro-estimated inheritances.

Does the difference between the "fiscal flow" and "economic flow" tax rates reflect tax avoidance? We cannot be certain about such a conclusion because other data differences exist between the two sources, e.g., asset composition and valuation procedures.[35] However, the incentives to avoid taxation should increase in the statutory tax rate. The right panel of Figure 4 shows that the difference in effective tax rates between large and small bequests strongly correlates with the difference between the "fiscal flow" and "economic flow" tax rates. When the incentive to avoid inheritance taxation was high for individuals inheriting a significant amount (i.e., a large difference between the tax on large and small bequests), we also observe a substantial difference between the amounts of reported inheritances and the amounts estimated based on other statistical and demographic data. This result suggests that avoidance behavior may well have increased substantially in the post-war era and remained high until the repeal of the inheritance tax in the early 2000s.

[Figure 4 about here]

4.3 Overshooting and loss of legitimacy

The legitimacy of taxes among taxpayers is sometimes at odds with the optimal tax profile. Stable tax bases may be economically efficient, but the possibility to tax them also requires political support and a general acceptance of the tax. Exactly what determines political support for a tax varies from case to case, but horizontal and vertical fairness perceptions and tax

[34] Data on these two flows come from Ohlsson et al. (2014). See also Appendix Table A3, where all tax bases and tax rates are reported. Note that we observe only 'fiscal flow' inheritance in several years in relation to surveys by the authorities of the inheritance tax system.

[35] Ohlsson et al. (2014) note that the tax-reported inheritance flow misses several important components, including the unpaid collective insurance savings of the deceased, such as occupational pension funds.

visibility can be important.[36] In this section, we examine the dimensions of the legitimacy of the Swedish inheritance tax as an additional factor in understanding its change over time and, in particular, its demise at the end of the twentieth century.

Figure 5 shows two important trends. The solid line shows the basic exemption level for tax eligibility as a share of a worker's annual salary, which indicates how much of bequests were affected by the tax in real economic terms. Although the exemption level remained low throughout the period, a secular decline occurred with the lowest levels reached from the 1970s onwards. The dashed line in the figure, in contrast, shows the wealth level required to be subject to the top rate as a multiple of a worker's annual salary. This level is recurrently very high when tax rates were sharply increased, but in this case, there is also a secular decline, largely as a result of bracket creep. In 1992, a sharp break occurred when the tax policy was reformed to also apply the highest inheritance tax rate to modest size fortunes. In the last year of the tax, the exemption level was merely one-quarter of an annual production worker's income (SEK 70,000), and the top marginal rate was reached at an inherited amount of just over twice the annual income of a production worker. The basic exemption level of SEK 70,000 in Sweden in 2004 can be compared with the basic exemptions in other countries. In the U.S., the basic exemption level was 150 times larger, at USD 1.5 million (SEK 10.5 million), with only the top two percentiles in the estate distribution paying any tax compared with approximately one-quarter of all heirs in Sweden.[37] In France, the basic exemption was EUR 300,000 (SEK 2.7 million), and in the U.K., GBP 263,000 (SEK 3.4 million), with both countries having exemption levels more than one order of magnitude greater than Sweden (38 and 48 times greater, respectively).

[Figure 5 about here]

Figure 6 shows that fairly modest inheritances were also hit by a high wealth tax rate. As shown, the threshold for paying a 30 per cent inheritance tax at the margin more or less continuously declined from 1959 until the repeal of the tax. For the last three decades of the tax, the threshold was consistently below four times and occasionally even below two times an average production worker's annual income. Thus, over time, exemptions were reduced, and

[36] For example, Cabral and Hoxby (2012) find that property taxes were more unpopular than income taxes, which are typically paid by employers, simply because it was paid by households.
[37] SOU 2004:66, Table 2.3.

the inheritances that were affected by high effective inheritance taxation became small. Consequently, members of the broad middle class, who by no means considered themselves wealthy, were increasingly eligible to pay inheritance tax.

[Figure 6 about here]

Safety valves were increasingly built into the system from the 1970s onwards with the intention to mitigate, or even completely eliminate, the inheritance tax on large fortunes. As shown in Figure 2, in the 1970s, heirs of unlisted business equity were granted a series of reliefs that substantially reduced their effective inheritance tax rate. With the valuation rebate of 70 per cent of the book value combined with the lower top marginal tax rate of 30 per cent from 1992, the effective tax rate for someone inheriting a family business never exceeded 9 per cent (30% of firm value × 30% tax rate) regardless of the size of the bequest.

In a theoretical model (loosely tested against Swedish and Danish data), Roine (2006) suggests that such tax policy results from a political equilibrium consisting of a coalition between the poor and the super-wealthy, where the latter receive tax avoidance possibilities and, in return, favor the increased taxation of people of more modest wealth and income. This model is suggestive in that it may explain why a norm was created that made politicians adhere to an inheritance tax system that became increasingly onerous for the middle class. The system was not reformed until the tax had lost its legitimacy altogether.

A major motivation for the substantial reliefs in the valuation of assets in private firms was the situation created from the prohibition of borrowing from one's own firm to pay the tax: not only did the tax become extremely cumbersome (sometimes 10 kronor or more of before-tax profit was required to pay one krona of inheritance tax), but selling the firm instead became extremely advantageous. Capital gains taxation was still favorable (zero until 1966 and a maximum of 8 per cent of the sales value until 1976), but the sale of the firm had to be effected before the death of the owner-entrepreneur. Thus, many entrepreneurs sold their firms pre-emptively to avoid inheritance taxation, and the firms tended to be sold to tax-favored investment companies.[38] Moreover, in many cases, the former owners emigrated to a low-tax country. This situation was considered a problem, motivating the reliefs instituted in 1974 and

[38] See Petersson (2001); Henrekson and Jakobsson (2005); Högfeldt (2005).

in 1978.[39]

In addition, politicians clearly had a very different view of the inheritance tax levied on traded assets. In this regard, the Social-Democratic Minister of Finance, Gunnar Sträng, clearly stated that these firms would not be harmed if the heirs had to divest to pay their inheritance tax.[40] Naturally, this policy was even more applicable to other financial assets, such as bank deposits and bonds, and to real estate.

Another example of increased opportunities for the super-wealthy to avoid inheritance taxation was the deregulation of credit markets, the removal of foreign exchange controls in 1989 and EU membership in the mid-1990s.

In addition to these trends, the 1980s and 1990s in Sweden also witnessed a number of publicized incidents that exposed problems with the inheritance tax, typically showing how heirs had to pay tax rates that were considerably higher than the relevant statutory rates. Arguably, the most publicized case was the estate of Sally Kistner, the wealthy widow of the founder of the pharmaceutical company Astra and the company's largest individual shareholder. As the Astra stock price fell just before the estate was transferred, the value of the assets fell short of the tax obligations, leading to tax rates above 100 per cent. Consequently, the estate filed for bankruptcy.[41] When Fredrik Lundberg—currently one of Sweden's wealthiest and most powerful industrial owners—migrated to Switzerland in 1985, he explicitly referred to the Kistner case as a motivation for his move.[42]

A population survey of attitudes towards taxes in Sweden conducted in 2004 shows that close to two-thirds of the respondents, including a majority of left-leaning persons, wanted inheritance and gift taxes to be either reduced or removed altogether (Hammar, Jagers and Nordblom 2008). Popular support for the inheritance tax was thus weak at this point, possibly because of the developments just described. Indeed, in the government bill to repeal the tax, the first two arguments mentioned were the increased problems for heirs to pay rising inheritance tax owing to increased property values and the increased incidence of stock owners delisting

[39] Prop. 1974:98; Prop. 1977/8:40.
[40] Prop. 1974:98, p. 60.
[41] Tulin (1984).
[42] Cited from Engman, (2013), who, in turn, cites a 1985 interview with Lundberg in the Swedish business magazine *Veckans Affärer*.

their shares to avoid the tax.[43]

How can Sweden's repeal of the inheritance and gift taxes in 2004 be explained? The trend discussed above of an increasing inheritance tax burden on heirs receiving low or moderate bequests and increasing opportunities to avoid the tax among the very wealthiest generated an overshooting in taxation and reduced the legitimacy of the inheritance tax. The precise timing of the repeal may be related to two specific events. First, deregulation had increased the price of real estate and engendered a booming housing and stock market.[44] As a result, a growing percentage of middle-class heirs had to pay inheritance tax. For example, in the mid-1980s, the marginal inheritance tax rate was 18 per cent on an inheritance equal to the annual income of an average worker. Second, key legislative changes in the late 1990s combined with increasingly innovative strategies further enabled wealthy heirs to avoid the inheritance tax.

The most important feature of the tax system that could be exploited to reduce or eliminate the inheritance (and gift) tax was the fact that debt was valued at 100 per cent, while not only family firms, but also several other assets, notably condominiums and shares listed on the unofficial O-list had an assessed value far below their market value:[45] 30 per cent for the O-listed stock and even less for condominiums. Following the deregulation of credit markets in the 1980s people could start exploiting this asymmetry. Wealth could readily be transferred by selling such assets to descendants at the assessed value rather than the market value even accepting payment in the form of a promissory note at a rate of interest of less than a third of the market rate. Second, following the abolition of exchange controls in 1989–1993 (Reiter, 2003), it became much easier to avoid taxation on assets owned in Sweden or received from somebody in Sweden by emigrating. Most importantly, the bilateral tax treaties between Sweden and the U.K. and Switzerland, respectively, entailed that no tax was levied on inheritances and gifts received from Sweden by Swedish immigrants to those two countries.

Thus, although family firm owners were favorably treated since the 1970s, new laws combined with more efficient avoidance strategies during the 1990s enabled people with the highest wealth to avoid paying inheritance tax. In other words, while broad layers of the popula-

[43] Prop. 2004/05:25, p. 21.
[44] See chapters 2, 3 and 6 in Edvinsson, Jacobson and Waldenström (2014).
[45] For this reason, no new firms that went public chose the official so-called A-list when they went public and soon many of the largest and most well-known firms began to move change from the A- to the O-list. H&M, the most highly valued firm on the Stockholm Stock Exchange, was never on the A-list and just before the inheritance tax was abolished a mere 10 per cent of all firms on the SSE were on the A-list.

tion over a short period in the mid-late 1990s experienced rapid increases in their inheritance tax burden, the heirs of very large fortunes experienced the opposite development.

The government did not attempt to argue or explain to the electorate that substantially reducing the inheritance tax rate and applying it to a broader asset base with larger exemptions would be favorable. Although the distortionary effects resulting from evasive behavior may have been growing, the system remained unreformed. Ultimately, the inheritance tax lost its legitimacy among people because it became regarded as a voluntary tax for the very wealthy,[46] while simultaneously hitting a large share of middle-class heirs (through low basic exemption levels), who also soon reached the top marginal tax rate (recall Figure 1).

The abolition of the inheritance tax by a Social-Democratic government may seem paradoxical. In addition to the above factors, an accidental element may have been involved. In an interview conducted by tax law professor Sven-Olof Lodin, then-Prime Minister Göran Persson (1996–2006) acknowledged that the decision to repeal the tax was part of a logrolling scheme between the Social Democrats and the Left Party.[47]

The government had concluded that reform of the wealth tax and/or the inheritance tax was necessary. The wealth tax was generally deemed to be more distortive, but polls showed that the inheritance tax was more unpopular. The logrolling between the Left Party and the Social Democrats regarding reform of wealth or inheritance taxation was no exception. Göran Persson had decided that one of the tax policies had to be repealed. In the negotiations between Persson and Lars Ohly, the then leader of the Left Party Ohly was given a choice between the abolition of the inheritance and the abolition of the wealth tax, and Ohly chose the inheritance tax.[48]

5. Summary and conclusions

This paper presents new facts regarding the long-run evolution of inheritance, gift and estate taxation in Sweden from 1885 to the repeal of the taxes in 2004. Our contribution is twofold.

[46] See, e.g., Eklund (1998) and SOU 2002:47, p. 458.
[47] The Social Democrats formed a minority government in 2002–2006 based on passive support from the Left Party.
[48] Particularly towards the end of his time in office, Göran Persson dominated the government, and on crucial issues, he sometimes acted largely independently. This course of events has also been confirmed by Kjell-Olof Feldt, Social-Democratic Minister of Finance in 1982–1990 (email correspondence, 19 April 2015).

First, we compute the annual effective average inheritance tax rates for different bequest sizes and for two different types of inherited assets: personal net wealth and family firm equity. These series account for all relevant institutional tax rules and stand in complete contrast to the most commonly used metric of inheritance taxation in previous studies: the top marginal tax rate. In fact, disregarding the national institutional specificities in inheritance, taxation can have significant consequences for the assessment of inheritance tax levels and trends.

The long-run evolution of effective inheritance tax rates exhibits an inverse-U shape over five broad phases. Following an initial low-tax phase beginning in the 1880s, a second phase began towards the end of the First World War and lasted until 1933. The third phase emerged as the newly appointed Social-Democratic government doubled the tax rate for large bequests. A long fourth phase then began in 1948 with the introduction of an estate tax in addition to the inheritance tax, and when the estate tax was abolished a decade later, inheritance tax rates were raised commensurately. At this time, Swedish inheritance taxation reached an international high, with top marginal tax rates of 70 per cent and average effective tax rates between 50 and 60 per cent for large estates (with non-deducible latent capital gains taxes). Tax levels remained high until the early 1990s, with the exception of the drastic tax cuts in the 1970s for inherited family firms. The fifth and final phase of the Swedish inheritance tax began with the overhaul of the tax policy in 1992, when the taxation of large inheritances was reduced from 60 to 30 per cent (although without changing—and even slightly raising—the tax on small, middle-class bequests). The final phase lasted until the tax was repealed in 2004.

Our second contribution is our attempt to explain the changes in inheritance taxation by drawing on a combination of quantitative and qualitative evidence. We propose four major factors that appear to have played a role in this process. First, we trace the expansion of inheritance taxation to domestic politics and the ideological momentum of the Social Democrats governing the country continuously from the early 1930s until the mid-1970s. Inheritance and gift taxes were not particularly important as a source of revenue for the government. With few exceptions, less than 2 per cent of Sweden's total tax revenue was generated through such taxation, and in the last 40 years before the abolition of the tax, the share was approximately one-tenth of this level. Inheritance and gift taxation was instead primarily motivated by distributional concerns, based on an urge to balance large inequalities in opportunity arising from inherited wealth at the top of the wealth distribution. The electorate apparently accepted an excess tax burden as the price required for a more even distribution of wealth, a policy that thus could be aligned with maximizing the welfare of the least well off groups in society, at least in the early era. However, the evidence on increasing tax avoidance and falling revenues during the post-war period, despite sharply increased tax rates and reduced exemption levels, cast doubt on the effectiveness of the inheritance and gift tax from the late 1940s until the 2004 repeal.

Second, mass mobilization related to the world wars appears to have influenced inheritance taxation in Sweden. The relevance of this factor even in a neutral country in both world wars lends support to the mobilization effects on taxation of the rich suggested by Scheve and Stasavage.[49] However, this effect is not as strong in Sweden as in the belligerent Western countries, and it cannot explain the most substantial changes in Swedish inheritance taxation.
Third, tax avoidance and, likely, tax evasion appear to have increased in scope over time and in the level of the inheritance tax. This finding indicates that the economic distortion generated by the tax grew over time and that such distortion was possibly at its largest towards the end of the past century, immediately before the tax was ultimately repealed.

Finally, in contrast to the more exclusive regimes in, e.g., France, the U.K. and the U.S., the inheritance tax regime in Sweden affected a relatively large portion of the population. Although the top tax rates for heirs to family firms and other large fortunes were reduced in the final decades of the twentieth century, the effective taxation of middle-class bequests even increased somewhat. The combination of broad taxpayer coverage and rapidly growing opportunities for the rich to reduce their effective tax undermined the legitimacy of the inheritance tax. This loss of legitimacy was also observed in tax attitude surveys. Ultimately, this loss of legitimacy explains why there was such little support for the tax and so few objections when it was finally abolished in 2004 by a Social-Democratic minority government backed by the Left Party.

[49] Scheve and Stasavage (2012).

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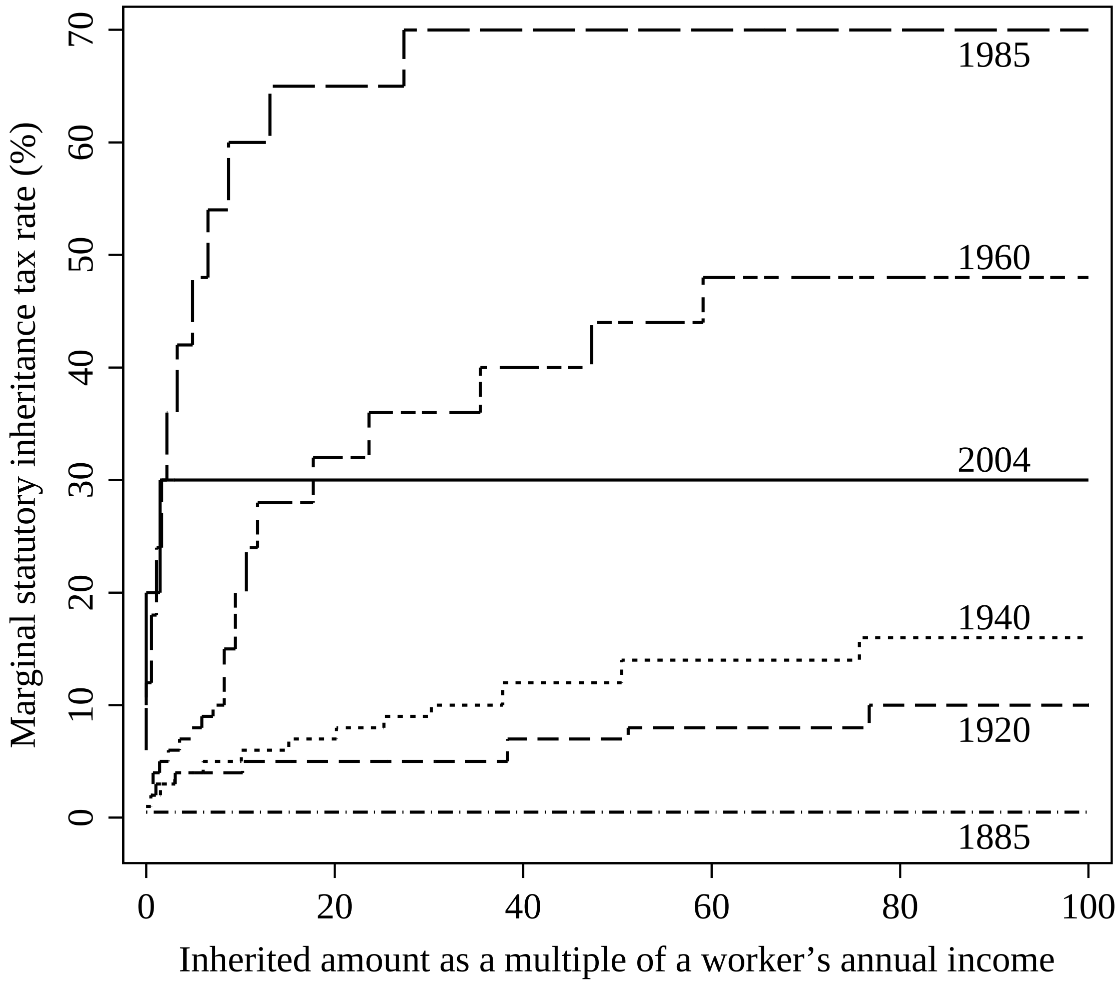
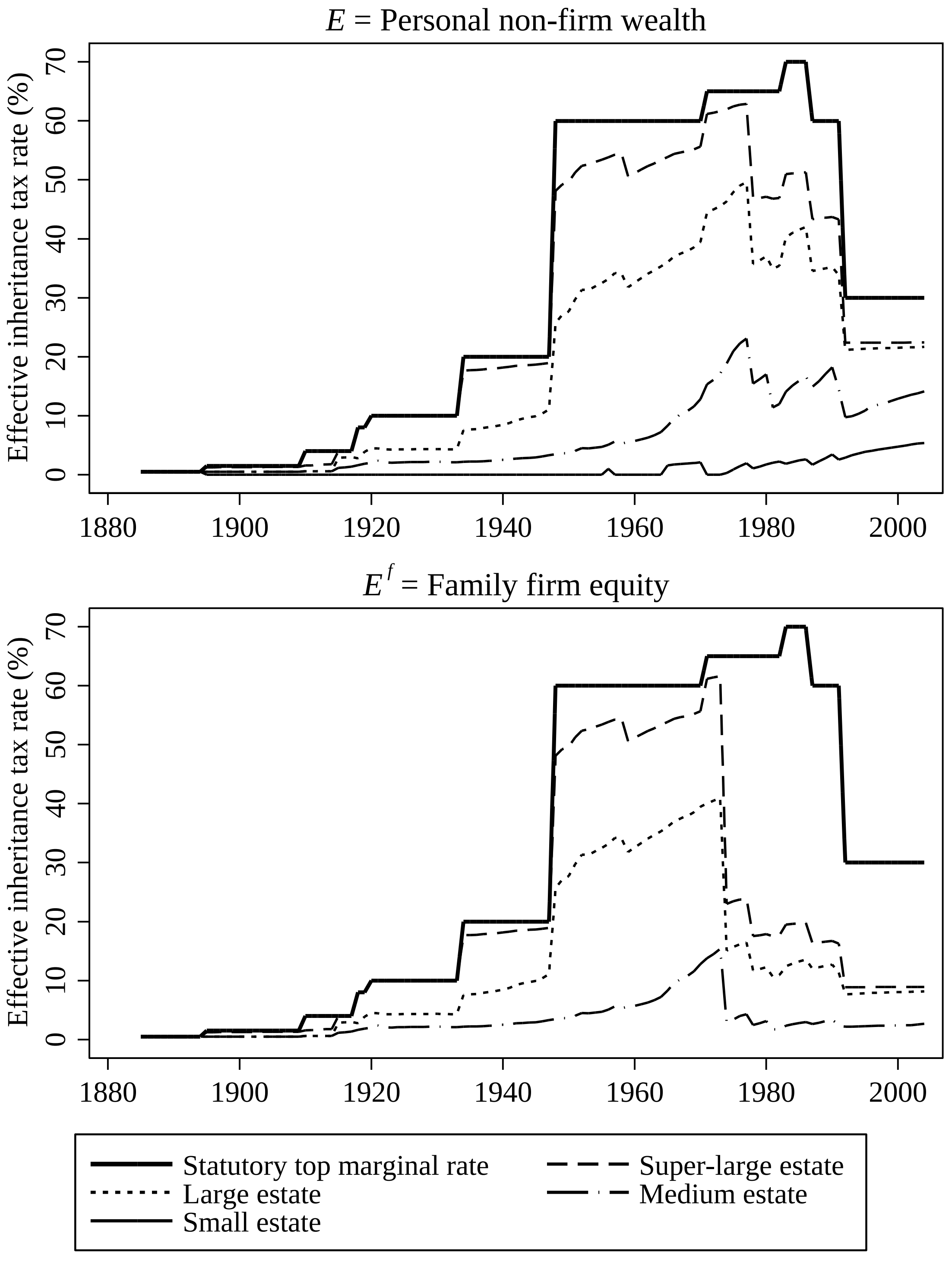
Figure 1: Marginal statutory inheritance tax rates across size of inheritance, 1885–2004.



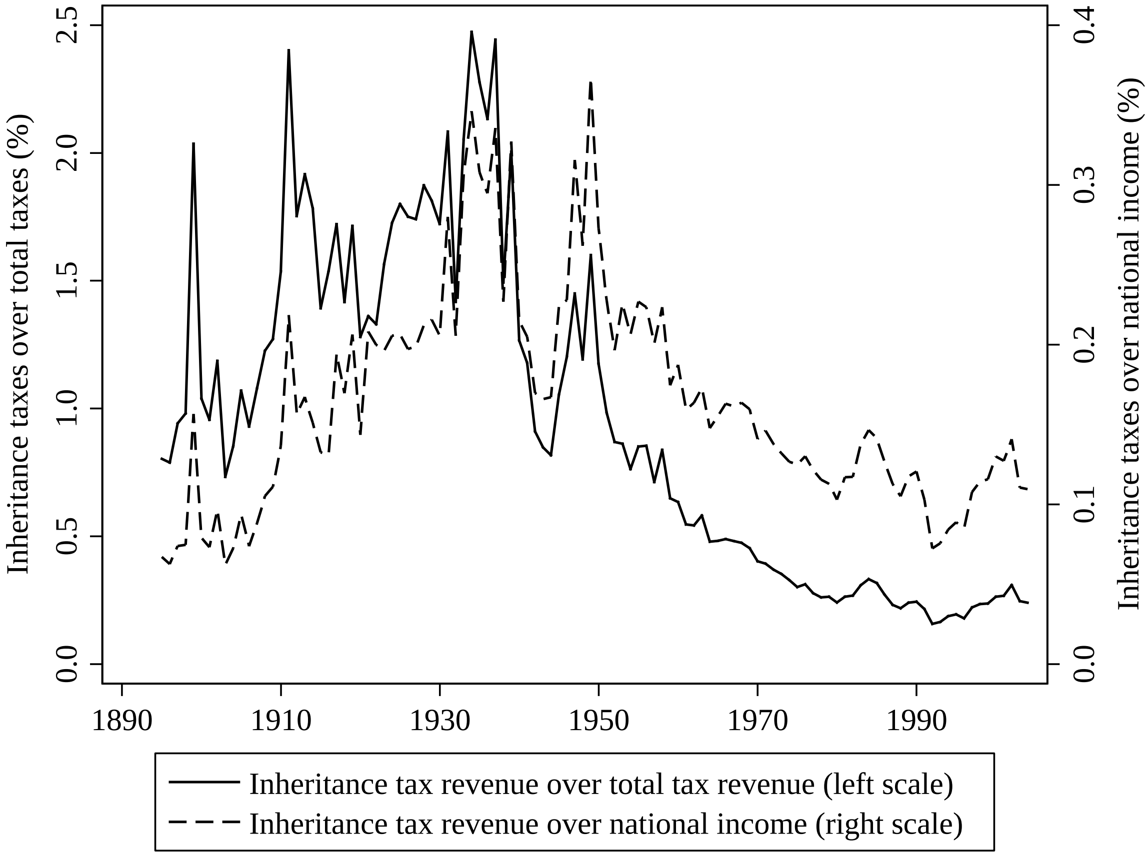
Note and source Basic exemption levels are deducted for each schedule. Tax rates apply to spouses and children (heir Class I). Note that the figure bounds the size of the bequest on the x-axis and thus does not show the top marginal tax rate in 1920 (10 per cent from 322 worker incomes), 1940 (20 per cent from 142 worker incomes) and 1960 (60 per cent from 370 worker incomes). For tax schedules and annual worker incomes, see Du Rietz, Henrekson and Waldenström (2015).

Figure 2: Effective inheritance tax rates on non-firm and family firm assets, 1885–2004.



Source: The sizes of the different estates were the following in 2004. A super-large estate was worth SEK 266 million (EUR 30 million), a large estate was worth SEK 26.6 million (EUR 3 million), a medium estate was worth SEK 2.66 million (EUR 0.3 million), and a small estate was worth SEK 0.67 million (EUR 74,000). See the text for details. Data are from Table A2.

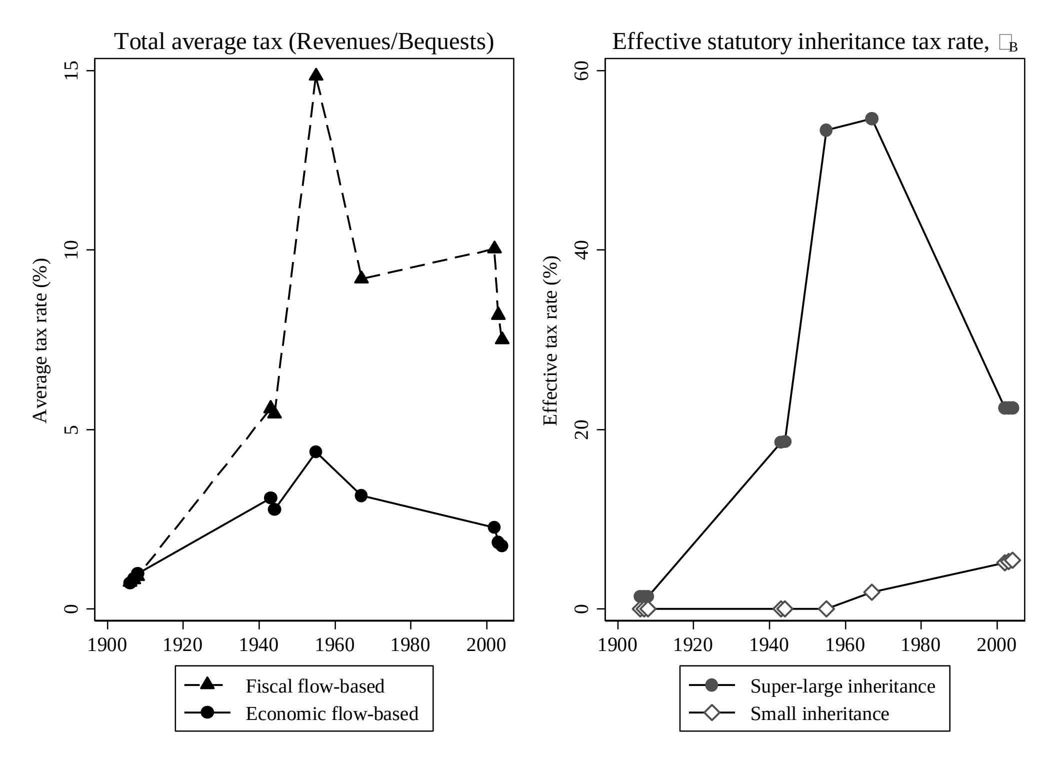
Figure 3: Revenues of Swedish inheritance and gift taxes, 1885–2004.



Note: Estate tax payments between 1948 and 1959 are classified as inheritance tax payments. Due to lags in estate inventories and in tax payments, the taxes still generated revenue for a few more years even though tax liability ceased for deaths after 16 December 2004.

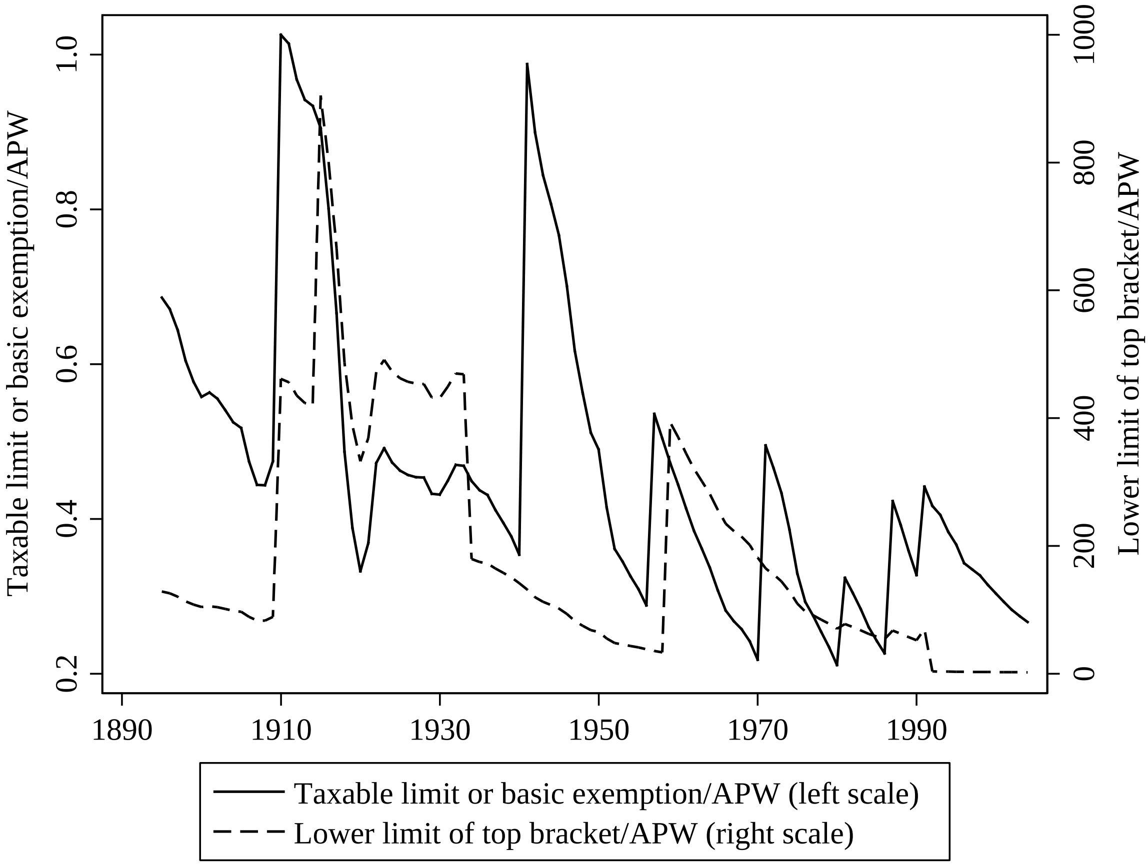
Source: Data on inheritance and gift taxes are from Ohlsson (2011) and data on total tax revenue are from Gårestad (1985), Rodriguez (1980) and Statistics Sweden. See Table A1.

Figure 4: The role of tax avoidance: The difference between tax-reported ('fiscal flow') and estimated ('economic flow') inheritance flows.



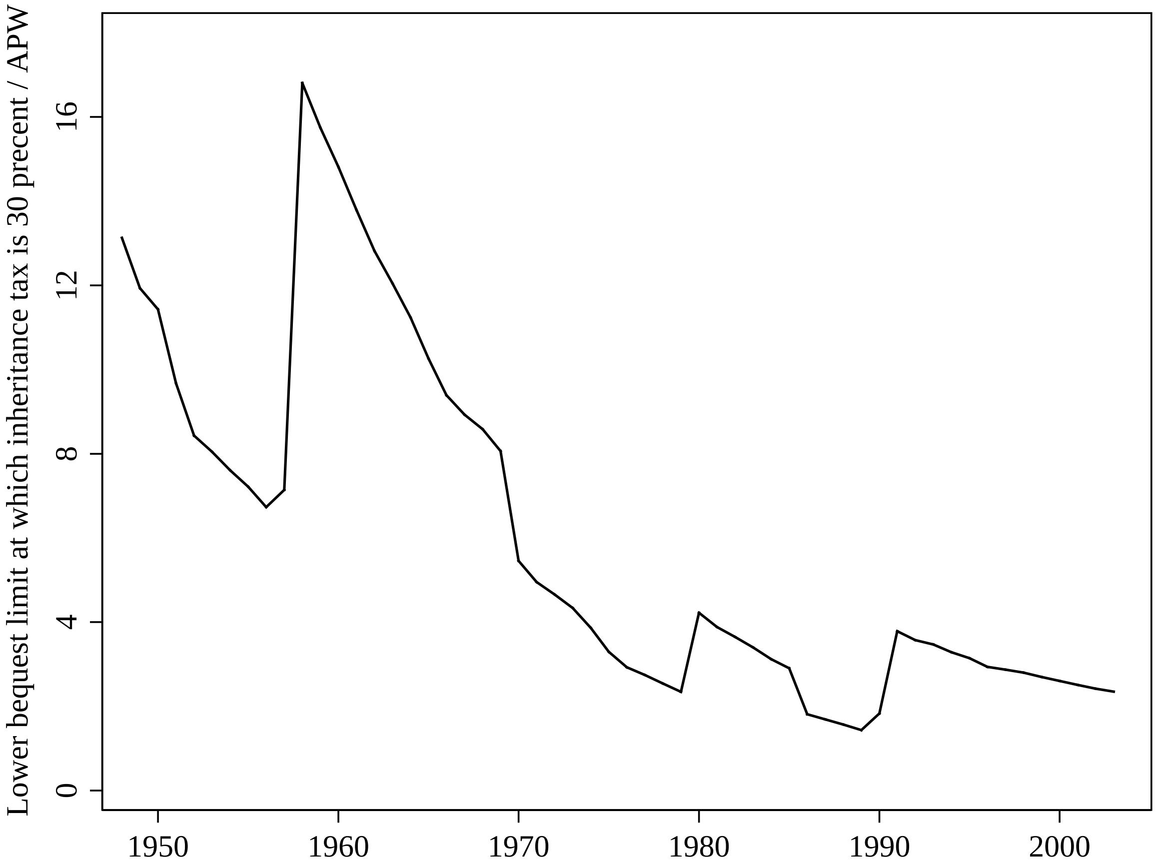
Note: The left panel shows total inheritance and gift revenues divided by inheritance flows, computed using either the 'fiscal flow' (observed from estate tax returns) or 'economic flow' (estimated from the relationship among aggregate wealth-income ratio, adult mortality and age-wealth patterns; see Ohlsson et al. (2014). Effective statutory inheritance tax rates are $\tau_{B=Super-large}$ and $\tau_{B=Small}$ and reported in Table A1.

Figure 5: Basic exemption amount and lower bequest limit of the top tax bracket for descendants as a share of the average worker's annual salary.



Note: APW = average annual income of production worker.
Source: See Figure 3.

Figure 6: Limit at which the inheritance tax rate reaches 30 per cent 1948–2004.



Source: See Figure 3.

Table 1: Effective average inheritance tax rates in Sweden, 1885–2004.

Tax rates	1885	1910	1930	1950	1970	1990	2004
Super-large estate							
Personal wealth, τ_B	0.5	1.6	10.0	49.7	55.7	43.7	22.4
Family business, τ_{Bf}	0.5	1.6	10.0	49.7	55.7	16.7	8.9
Estate tax, τ_E	–	–	–	38.1	–	–	–
Large estate							
Personal wealth, τ_B	0.5	0.6	4.4	27.7	39.5	35.2	21.7
Family business, τ_{Bf}	0.5	0.6	4.4	27.7	39.5	12.7	8.2
Estate tax, τ_E	–	–	–	18.6	–	–	–
Medium estate							
Personal wealth, τ_B	0.5	0.6	2.2	3.7	12.8	18.2	14.1
Family business, τ_{Bf}	0.0	0.0	0.3	1.1	17.6	25.8	35.7
Estate tax, τ_E	–	–	–	0.0	–	–	–
Small estate							
Personal wealth, τ_B	0.5	0.0	0.0	0.0	2.1	3.4	5.4
Estate tax, τ_E	–	–	–	0.0	–	–	–
Statutory top rate, τ_I^{top}	0.5	4.0	10.0	20.0	60.0	60.0	30.0

Note: The sizes of the different estates were the following in 2004. A super-large estate was worth SEK 266 million (EUR 30 million), a large estate was worth SEK 26.6 million (EUR 3 million), a medium estate was worth SEK 2.66 million (EUR 0.3 million), and the small estate was worth SEK 0.67 million (EUR 74,000). See the text for details. The tax rates are the effective inheritance tax rate on bequest E being either non-corporate personal wealth (τ_B) or family business equity (τ_{Bf}).

Table 2: Countries where the top inheritance tax rates exceeded 60 per cent.

	From	Initial level (%)	Until	Peaked at (%)	Peak period
Japan	1950	90	2002	90	1950–1951
New Zealand	1958	60	1961	60	1958–1961
South Korea	1947	68	1988	90	1947–1988
Sweden	1948	60	1991	65	1971–1982
United Kingdom	1940	60	1987	80	1950–1974
United States	1934	60	1983	77	1940–1976

Note: The top inheritance tax rate is defined as the top estate tax rate, the top inheritance tax rate for direct descendants or the combined effect of the top estate tax and the top inheritance tax rate for direct descendants.
Source: Scheve and Stasavage, 'Democracy, war and wealth' and Table A2, this study.

Table A1: Inheritance and other tax revenues, thresholds, national income, in Sweden.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Revenue from inheritance, gift and estate taxes (thou-sand SEK)	Revenue from gift tax (million SEK)	Total tax revenue (million SEK)	National income (million SEK)	Average annual income of production worker, APW (SEK)	Tax thresh-old (basic exemption) (thousand SEK)	Bequest threshold for paying top tax rate (thousand SEK)	Bequest threshold for paying 30 percent tax rate (thousand SEK)
1885	330		111	1,440	499			
1886	397		109	1,349	484			
1887	285		105	1,276	493			
1888	415		114	1,383	512			
1889	349		119	1,456	544			
1890	415		122	1,526	561			
1891	375		119	1,604	565			
1892	445		120	1,581	560			
1893	404		124	1,565	565			
1894	513		133	1,543	573			
1895	1,108		138	1,650	583	0.4	75	
1896	1,097		139	1,750	596	0.4	75	
1897	1,392		148	1,884	621	0.4	75	
1898	1,517		155	2,032	662	0.4	75	
1899	3,446		169	2,201	693	0.4	75	
1900	1,780		171	2,252	717	0.4	75	
1901	1,584		166	2,163	710	0.4	75	
1902	2,076		175	2,149	720	0.4	75	
1903	1,451		198	2,337	740	0.4	75	
1904	1,731		203	2,384	762	0.4	75	
1905	2,282		213	2,437	773	0.4	75	
1906	2,013		217	2,729	844	0.4	75	
1907	2,602		241	2,950	901	0.4	75	
1908	3,124		255	2,971	902	0.4	75	
1909	3,253		256	2,929	843	0.4	75	
1910	4,322		281	3,166	975	1	450	
1911	7,054		294	3,229	986	1	450	
1912	5,393		308	3,448	1,033	1	450	
1913	6,228		325	3,724	1,062	1	450	
1914	5,786		324	3,829	1,071	1	450	
1915	5,902	0.086	424	4,449	1,105	1	450	
1916	7,386	0.395	480	5,635	1,249	1	450	
1917	12,548	2.127	729	6,457	1,502	1	450	
1918	14,794	2.855	1,044	8,724	2,054	1	1,000	
1919	21,553	4.786	1,257	10,448	2,574	1	1,000	
1920	16,930	1.223	1,323	11,799	3,008	1	1,000	
1921	17,632	0.896	1,295	8,471	2,711	1	1,000	
1922	14,596	0.676	1,098	7,302	2,118	1	1,000	
1923	14,419	1.926	920	7,342	2,035	1	1,000	
1924	15,573	0.577	902	7,574	2,114	1	1,000	
1925	16,178	0.839	898	7,835	2,162	1	1,000	
1926	15,548	0.665	888	7,880	2,189	1	1,000	
1927	15,980	1.017	918	8,040	2,202	1	1,000	

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1928	17,687	1.131	944	8,335	2,205	1	1,000	
1929	18,815	1.305	1,038	8,726	2,312	1	1,000	
1930	18,102	0.993	1,051	8,802	2,317	1	1,000	
1931	22,365	1.682	1,073	7,988	2,225	1	1,000	
1932	15,542	1.386	1,096	7,561	2,128	1	1,000	
1933	23,226	7.160	1,130	7,582	2,134	1	400	
1934	29,225	1.158	1,181	8,443	2,227	1	400	
1935	27,858	1.436	1,224	9,048	2,288	1	400	
1936	28,580	2.096	1,340	9,695	2,320	1	400	
1937	35,982	2.187	1,473	10,723	2,430	1	400	
1938	25,386	1.898	1,699	11,184	2,533	1	400	
1939	40,655	2.414	2,028	12,428	2,649	1	400	
1940	28,115	1.662	2,221	13,078	2,825	1	400	
1941	29,640	2.200	2,514	14,457	3,037	3	400	
1942	26,854	2.401	2,950	15,826	3,337	3	400	
1943	28,336	2.376	3,340	17,080	3,554	3	400	
1944	29,481	3.127	3,606	17,635	3,717	3	400	
1945	41,690	14.165	3,959	18,593	3,913	3	400	
1946	48,886	16.556	4,068	21,445	4,277	3	400	
1947	74,333	43.180	5,126	23,554	4,859	3	400	
1948	68,220	7.930	5,721	26,041	5,331	3	400	70
1949	98,610	2.490	6,161	26,861	5,865	3	400	70
1950	81,940	3.180	6,971	30,026	6,125	3	400	70
1951	84,930	2.770	8,641	37,277	7,235	3	400	70
1952	79,230	2.690	9,114	40,314	8,300	3	400	70
1953	93,660	2.290	10,866	41,518	8,700	3	400	70
1954	91,790	2.500	12,030	44,443	9,200	3	400	70
1955	108,350	2.670	12,722	47,756	9,700	3	400	70
1956	115,770	2.470	13,550	51,819	10,400	3	400	70
1957	110,850	3.420	15,555	55,203	11,200	6	400	70
1958	130,420	3.620	15,552	58,364	11,900	6	400	80
1959	108,830	5.930	16,766	62,348	12,700	6	5,000	200
1960	127,460	7.740	20,087	68,016	13,500	6	5,000	200
1961	118,400	7.050	21,650	74,322	14,500	6	5,000	200
1962	132,800	9.000	24,457	81,126	15,600	6	5,000	200
1963	152,300	10.00	26,200	88,111	16,600	6	5,000	200
1964	144,600	13.00	30,162	97,861	17,800	6	5,000	200
1965	167,400	11.70	34,728	107,922	19,500	6	5,000	200
1966	191,600	15.90	39,186	117,514	21,300	6	5,000	200
1967	206,100	14.70	42,805	127,695	22,400	6	5,000	200
1968	222,000	29.80	46,803	135,632	23,300	6	5,000	200
1969	236,600	44.50	52,185	148,328	24,800	6	5,000	200
1970	235,100	42.30	58,452	166,756	27,500	6	5,000	200
1971	262,100	28.90	66,605	179,294	30,300	15	5,000	150
1972	269,500	27.10	72,789	195,559	32,200	15	5,000	150
1973	286,500	26.10	81,177	217,001	34,600	15	5,000	150
1974	309,000	30.80	94,079	243,826	38,800	15	5,000	150
1975	357,200	46.20	118,326	285,768	45,500	15	5,000	150
1976	420,700	51.90	134,534	323,199	51,200	15	5,000	150
1977	423,500	45.30	152,645	348,561	54,600	15	5,000	150
1978	446,800	45.20	171,064	386,883	59,000	15	5,000	150
1979	494,200	48.00	187,698	437,674	64,000	15	5,000	150

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1980	518,258	51.40	215,059	503,239	71,000	15	5,000	150
1981	638,077	92.43	241,773	545,586	77,200	25	6,000	300
1982	694,263	134.54	258,865	591,848	82,200	25	6,000	300
1983	909,855	152.83	294,426	659,939	88,200	25	6,000	300
1984	1,089,397	197.75	327,450	743,532	96,100	25	6,000	300
1985	1,140,694	197.33	359,632	807,020	103,200	25	6,000	300
1986	1,122,565	125.27	412,371	888,248	110,400	25	6,000	300
1987	1,089,600	179.92	470,153	965,770	118,200	50	8,000	200
1988	1,106,940	257.76	506,548	1,053,249	127,400	50	8,000	200
1989	1,364,655	272.00	567,124	1,161,395	139,400	50	8,000	200
1990	1,532,832	393.09	627,177	1,270,797	152,700	50	8,000	200
1991	1,390,630	262.50	644,662	1,350,922	158,500	70	11,000	280
1992	961,600	157.58	610,058	1,326,552	167,900	70	600	600
1993	990,843	103.89	601,374	1,308,775	172,800	70	600	600
1994	1,211,931	152.87	645,374	1,439,297	182,600	70	600	600
1995	1,388,000	303.00	712,880	1,562,108	190,800	70	600	600
1996	1,363,000	198.00	759,332	1,599,669	204,100	70	600	600
1997	1,795,000	222.00	809,517	1,666,375	208,900	70	600	600
1998	2,005,000	250.00	852,156	1,755,139	214,100	70	600	600
1999	2,149,579	271.79	906,107	1,857,632	222,400	70	600	600
2000	2,548,000	460.00	966,769	1,959,361	230,500	70	600	600
2001	2,576,000	377.00	962,038	2,022,582	239,000	70	600	600
2002	2,975,355	332.12	962,146	2,112,221	247,600	70	600	600
2003	2,490,027	314.66	1,008,670	2,251,405	255,300	70	600	600
2004	2,551,291	477.69	1,060,935	2,329,737	262,200	70	600	600
2005	1,092,082	222.52	1,122,927	2,445,212				

Note and sources: Estate tax payments between 1948 and 1959 are classified as inheritance tax payments. Due to lags in estate inventories and in tax payments, the taxes still generated revenue for a few more years even though tax liability ceased for deaths after 16 December 2004. Data on inheritance and gift taxes are from Ohlsson (2011) and data on total tax revenue are from Gårestad (1985), Rodriguez (1980) and Statistics Sweden.

Table A2: Effective average tax rates (inheritance, estate, capital gains) on super-large, large, medium and small non-firm wealth (τ_B) and family-firm equity (τ_{Bf}) and statutory top marginal tax rates, percentage points, 1885–2004.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
	Super-large estate				Large estate				Medium estate				Small estate	Top statutory rate on heirs:	
	τ_B	τ_{Bf}	τ_E	τ_{KG}	τ_B	τ_{Bf}	τ_E	τ_{KG}	τ_B	τ_{Bf}	τ_E	τ_{KG}	τ_B	Child	Any
1885	0.50	0.50		0.00	0.50	0.50		0.00	0.50	0.50		0.00	0.50	0.5	0.6
1886	0.50	0.50		0.00	0.50	0.50		0.00	0.50	0.50		0.00	0.50	0.5	0.6
1887	0.50	0.50		0.00	0.50	0.50		0.00	0.50	0.50		0.00	0.50	0.5	0.6
1888	0.50	0.50		0.00	0.50	0.50		0.00	0.50	0.50		0.00	0.50	0.5	0.6
1889	0.50	0.50		0.00	0.50	0.50		0.00	0.50	0.50		0.00	0.50	0.5	0.6
1890	0.50	0.50		0.00	0.50	0.50		0.00	0.50	0.50		0.00	0.50	0.5	0.6
1891	0.50	0.50		0.00	0.50	0.50		0.00	0.50	0.50		0.00	0.50	0.5	0.6
1892	0.50	0.50		0.00	0.50	0.50		0.00	0.50	0.50		0.00	0.50	0.5	0.6
1893	0.50	0.50		0.00	0.50	0.50		0.00	0.50	0.50		0.00	0.50	0.5	0.6
1894	0.50	0.50		0.00	0.50	0.50		0.00	0.50	0.50		0.00	0.50	0.5	0.6
1895	1.24	1.24		0.00	0.50	0.50		0.00	0.50	0.50		0.00	0.00	1.5	6.0
1896	1.25	1.25		0.00	0.50	0.50		0.00	0.50	0.50		0.00	0.00	1.5	6.0
1897	1.26	1.26		0.00	0.50	0.50		0.00	0.50	0.50		0.00	0.00	1.5	6.0
1898	1.27	1.27		0.00	0.50	0.50		0.00	0.50	0.50		0.00	0.00	1.5	6.0
1899	1.28	1.28		0.00	0.50	0.50		0.00	0.50	0.50		0.00	0.00	1.5	6.0
1900	1.29	1.29		0.00	0.50	0.50		0.00	0.50	0.50		0.00	0.00	1.5	6.0
1901	1.29	1.29		0.00	0.50	0.50		0.00	0.50	0.50		0.00	0.00	1.5	6.0
1902	1.29	1.29		0.00	0.50	0.50		0.00	0.50	0.50		0.00	0.00	1.5	6.0
1903	1.30	1.30		0.00	0.50	0.50		0.00	0.50	0.50		0.00	0.00	1.5	6.0
1904	1.30	1.30		0.00	0.50	0.50		0.00	0.50	0.50		0.00	0.00	1.5	6.0
1905	1.31	1.31		0.00	0.50	0.50		0.00	0.50	0.50		0.00	0.00	1.5	6.0
1906	1.32	1.32		0.00	0.50	0.50		0.00	0.50	0.50		0.00	0.00	1.5	6.0
1907	1.33	1.33		0.00	0.50	0.50		0.00	0.50	0.50		0.00	0.00	1.5	6.0
1908	1.33	1.33		0.00	0.50	0.50		0.00	0.50	0.50		0.00	0.00	1.5	6.0
1909	1.32	1.32		0.00	0.50	0.50		0.00	0.50	0.50		0.00	0.00	1.5	6.0
1910	1.55	1.55		0.00	0.60	0.60		0.00	0.60	0.60		0.00	0.00	4.0	16.0
1911	1.58	1.58		0.00	0.60	0.60		0.00	0.60	0.60		0.00	0.00	4.0	16.0
1912	1.69	1.69		0.00	0.60	0.60		0.00	0.60	0.60		0.00	0.00	4.0	16.0
1913	1.75	1.75		0.00	0.60	0.60		0.00	0.60	0.60		0.00	0.00	4.0	16.0
1914	1.77	1.77		0.00	0.60	0.60		0.00	0.60	0.60		0.00	0.00	4.0	16.0
1915	4.00	4.00		0.00	2.86	2.86		0.00	1.17	1.17		0.00	0.00	4.0	16.0
1916	4.00	4.00		0.00	2.92	2.92		0.00	1.23	1.23		0.00	0.00	4.0	16.0
1917	4.00	4.00		0.00	3.00	3.00		0.00	1.36	1.36		0.00	0.00	4.0	16.0
1918	8.00	8.00		0.00	2.75	2.75		0.00	1.63	1.63		0.00	0.00	8.0	16.0
1919	8.00	8.00		0.00	3.86	3.86		0.00	1.87	1.87		0.00	0.00	8.0	16.0
1920	10.00	10.00		0.00	4.51	4.51		0.00	2.00	2.00		0.00	0.00	10.0	20.0
1921	10.00	10.00		0.00	4.45	4.45		0.00	2.39	2.39		0.00	0.00	10.0	20.0
1922	10.00	10.00		0.00	4.29	4.29		0.00	2.08	2.08		0.00	0.00	10.0	20.0
1923	10.00	10.00		0.00	4.26	4.26		0.00	2.03	2.03		0.00	0.00	10.0	20.0
1924	10.00	10.00		0.00	4.29	4.29		0.00	2.08	2.08		0.00	0.00	10.0	20.0
1925	10.00	10.00		0.00	4.31	4.31		0.00	2.11	2.11		0.00	0.00	10.0	20.0
1926	10.00	10.00		0.00	4.31	4.31		0.00	2.13	2.13		0.00	0.00	10.0	20.0
1927	10.00	10.00		0.00	4.32	4.32		0.00	2.14	2.14		0.00	0.00	10.0	20.0
1928	10.00	10.00		0.00	4.32	4.32		0.00	2.14	2.14		0.00	0.00	10.0	20.0
1929	10.00	10.00		0.00	4.35	4.35		0.00	2.20	2.20		0.00	0.00	10.0	20.0

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
1930	10.00	10.00		0.00	4.35	4.35		0.00	2.21	2.21		0.00	0.00	10.0	20.0
1931	10.00	10.00		0.00	4.33	4.33		0.00	2.15	2.15		0.00	0.00	10.0	20.0
1932	10.00	10.00		0.00	4.30	4.30		0.00	2.09	2.09		0.00	0.00	10.0	20.0
1933	17.57	17.57		0.00	7.84	7.84		0.00	2.16	2.16		0.00	0.00	20.0	35.0
1934	17.67	17.67		0.00	7.55	7.55		0.00	2.19	2.19		0.00	0.00	20.0	35.0
1935	17.73	17.73		0.00	7.66	7.66		0.00	2.21	2.21		0.00	0.00	20.0	35.0
1936	17.76	17.76		0.00	7.72	7.72		0.00	2.22	2.22		0.00	0.00	20.0	35.0
1937	17.86	17.86		0.00	7.92	7.92		0.00	2.27	2.27		0.00	0.00	20.0	35.0
1938	17.95	17.95		0.00	8.08	8.08		0.00	2.34	2.34		0.00	0.00	20.0	35.0
1939	18.04	18.04		0.00	8.26	8.26		0.00	2.41	2.41		0.00	0.00	20.0	35.0
1940	18.16	18.16		0.00	8.49	8.49		0.00	2.51	2.51		0.00	0.00	20.0	35.0
1941	18.29	18.29		0.00	8.76	8.76		0.00	2.62	2.62		0.00	0.00	20.0	35.0
1942	18.44	18.44		0.00	9.23	9.23		0.00	2.74	2.74		0.00	0.00	20.0	35.0
1943	18.54	18.54		0.00	9.52	9.52		0.00	2.82	2.82		0.00	0.00	20.0	35.0
1944	18.60	18.60		0.00	9.72	9.72		0.00	2.87	2.87		0.00	0.00	20.0	35.0
1945	18.67	18.67		0.00	9.93	9.93		0.00	2.93	2.93		0.00	0.00	20.0	35.0
1946	18.79	18.79		0.00	10.41	10.41		0.00	3.08	3.08		0.00	0.00	20.0	35.0
1947	18.93	18.93		0.00	11.08	11.08		0.00	3.31	3.31		0.00	0.00	20.0	35.0
1948	48.13	48.13	36.38	0.00	25.68	25.68	16.87	0.00	3.46	3.46	0.00	0.00	0.00	60.0	67.5
1949	49.21	49.21	37.62	0.00	27.10	27.10	18.06	0.00	3.60	3.60	0.00	0.00	0.00	60.0	67.5
1950	49.67	49.67	38.15	0.00	27.69	27.69	18.57	0.00	3.68	3.68	0.00	0.00	0.00	60.0	67.5
1951	51.25	51.25	39.97	0.00	29.77	29.77	20.32	0.00	4.04	4.04	0.00	0.00	0.00	60.0	67.5
1952	52.38	52.38	41.25	0.00	31.36	31.36	21.57	0.00	4.49	4.49	0.18	0.00	0.00	60.0	67.5
1953	52.64	52.64	41.54	0.00	31.31	31.31	21.26	0.00	4.45	4.45	0.00	0.00	0.00	60.0	67.5
1954	53.04	53.04	42.00	0.00	31.92	31.92	21.74	0.00	4.59	4.59	0.00	0.00	0.00	60.0	67.5
1955	53.39	53.39	42.41	0.00	32.47	32.47	22.16	0.00	4.71	4.71	0.00	0.00	0.00	60.0	67.5
1956	53.84	53.84	42.92	0.00	33.16	33.16	22.69	0.00	5.08	5.08	0.19	0.00	1.01	60.0	67.5
1957	54.28	54.28	43.43	0.00	34.19	34.19	23.53	0.00	5.62	5.62	0.54	0.00	0.00	60.0	67.5
1958	54.50	54.50	43.67	0.00	34.16	34.16	23.15	0.00	5.29	5.29	0.00	0.00	0.00	60.0	67.5
1959	50.59	50.59		0.00	31.81	31.81		0.00	5.52	5.52		0.00	0.00	60.0	65.0
1960	51.15	51.15		0.00	32.53	32.53		0.00	5.73	5.73		0.00	0.00	60.0	65.0
1961	51.76	51.76		0.00	33.32	33.32		0.00	5.99	5.99		0.00	0.00	60.0	65.0
1962	52.34	52.34		0.00	34.08	34.08		0.00	6.27	6.27		0.00	0.00	60.0	65.0
1963	52.80	52.80		0.00	34.67	34.67		0.00	6.67	6.67		0.00	0.00	60.0	65.0
1964	53.29	53.29		0.00	35.30	35.30		0.00	7.24	7.24		0.00	0.00	60.0	65.0
1965	53.87	53.87		0.00	36.06	36.06		0.00	8.30	8.30		0.00	1.57	60.0	65.0
1966	54.39	54.39		3.17	36.98	39.13		2.15	9.53	10.03		0.50	1.72	60.0	65.0
1967	54.67	54.67		3.20	37.52	39.71		2.19	10.24	10.79		0.55	1.83	60.0	65.0
1968	54.87	54.87		3.23	37.92	40.13		2.21	10.77	11.15		0.38	1.91	60.0	65.0
1969	55.18	55.18		3.27	38.53	40.79		2.26	11.57	12.02		0.45	1.97	60.0	65.0
1970	55.66	55.66		3.54	39.46	41.95		2.49	12.79	13.38		0.58	2.09	60.0	65.0
1971	61.17	61.17		4.07	44.49	42.68		2.64	15.33	14.49		0.70	0.00	65.0	72.0
1972	61.39	61.39		4.16	44.99	43.22		2.72	16.07	15.24		0.77	0.00	65.0	72.0
1973	61.64	61.64		4.49	45.55	43.96		2.97	17.13	16.33		0.91	0.00	65.0	72.0
1974	62.01	23.01		1.68	46.35	16.13		1.08	18.85	2.93		0.02	0.27	65.0	72.0
1975	62.45	23.45		1.81	47.90	16.91		1.20	20.93	3.49		0.09	0.88	65.0	72.0
1976	62.73	23.73		5.99	49.03	20.23		4.06	22.28	4.85		0.85	1.43	65.0	72.0
1977	62.87	23.87		6.44	49.59	20.91		4.43	23.09	5.30		1.00	1.93	65.0	72.0
1978	46.78	17.53		4.85	35.71	14.92		3.21	15.44	2.85		0.39	1.08	65.0	72.0
1979	46.94	17.69		4.93	36.32	15.24		3.30	16.17	3.25		0.50	1.37	65.0	72.0
1980	47.11	17.86		4.92	37.03	15.62		3.35	17.04	3.76		0.62	1.75	65.0	72.0
1981	46.80	17.55		4.84	34.92	13.54		2.88	11.41	1.51		-0.19	2.04	65.0	72.0

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
1982	46.92	17.67		4.86	35.45	13.86		2.95	12.00	1.65		-0.13	2.24	65.0	72.0
1983	50.97	19.47		5.31	40.31	15.75		3.33	14.07	2.41		0.07	1.86	70.0	75.0
1984	51.10	19.60		5.06	41.00	16.16		3.28	15.14	2.76		0.17	2.16	70.0	75.0
1985	51.19	19.69		4.81	41.54	16.43		3.19	15.95	3.03		0.24	2.42	70.0	75.0
1986	51.28	19.78		4.80	42.01	16.79		3.25	16.67	3.26		0.31	2.60	70.0	75.0
1987	43.34	16.34		3.99	34.54	14.96		2.92	14.89	3.00		0.38	1.69	60.0	65.0
1988	43.46	16.46		4.07	34.75	15.26		3.00	15.87	3.33		0.47	2.27	60.0	65.0
1989	43.59	16.59		3.97	34.99	15.45		2.96	17.09	3.57		0.44	2.81	60.0	65.0
1990	43.72	16.72		3.63	35.21	15.44		2.73	18.21	3.85		0.47	3.44	60.0	65.0
1991	43.27	16.27		6.58	33.90	14.17		2.77	14.55	3.07		0.60	2.54	60.0	65.0
1992	22.37	8.87		2.15	21.18	9.54		1.86	9.76	2.69		0.53	2.89	30.0	30.0
1993	22.37	8.87		2.13	21.22	9.57		1.85	9.91	2.72		0.53	3.30	30.0	30.0
1994	22.38	8.88		0.09	21.28	7.86		0.08	10.34	2.26		0.02	3.59	30.0	30.0
1995	22.38	8.88		0.32	21.34	8.12		0.28	10.86	2.35		0.08	3.87	30.0	30.0
1996	22.39	8.89		0.47	21.41	8.33		0.42	11.62	2.44		0.12	4.07	30.0	30.0
1997	22.39	8.89		0.52	21.44	8.40		0.47	11.87	2.47		0.14	4.26	30.0	30.0
1998	22.40	8.90		0.58	21.46	8.48		0.52	12.13	2.50		0.15	4.43	30.0	30.0
1999	22.40	8.90		0.65	21.50	8.59		0.59	12.52	2.54		0.17	4.58	30.0	30.0
2000	22.40	8.90		0.73	21.54	8.69		0.65	12.87	2.59		0.19	4.75	30.0	30.0
2001	22.41	8.91		0.79	21.57	8.79		0.72	13.21	2.63		0.22	4.93	30.0	30.0
2002	22.41	8.91		0.86	21.60	8.89		0.78	13.53	2.68		0.24	5.12	30.0	30.0
2003	22.41	8.91		0.92	21.63	8.97		0.84	13.80	2.82		0.26	5.27	30.0	30.0
2004	22.42	8.92		0.99	21.66	9.07		0.90	14.15	2.99		0.30	5.39	30.0	30.0

Note: The size of the different estates was the following in 2004: Super-large estate was worth SEK 266 million (EUR 30 million), the large estate was worth SEK 26.6 million (EUR 3 million), the medium estate SEK 2.7 million (EUR 0.3 million), and the small estate was worth SEK 0.67 million (EUR 74,000). See text for sources. The tax rates are τ_B, the effective inheritance tax rate on bequest E being either non-corporate personal wealth or family business equity. The effective capital gains tax rate is defined as $\tau_{KG} = \tau_Y KG/E$. The top marginal inheritance tax rate for "Child" refers to the rate paid by heirs in Class I, i.e., spouse and children and for "Any" to any type of heirs or beneficiary.

Table A3: Average and effective tax rates in Sweden, single years 1906–2004.

	"Economic flow" of inheritance	"Fiscal flow" of inheritance	Inheritance tax revenue	Average tax of "Economic flow" inheritanc-es	Average tax of "Fiscal flow" inheritanc-es	Average tax differ-ential: "Fiscal flow" vs "Economic flow"	Effective tax on super-large estate ($\tau_{B=Slarge}$)	Effective tax on small estate ($\tau_{B=small}$)	Effective tax differ-ential: Super-large vs small
1906	288	270	2	0.70	0.75	0.05	1.32	0.00	1.32
1907	312	322	3	0.83	0.81	-0.02	1.33	0.00	1.33
1908	321	345	3	0.97	0.91	-0.07	1.33	0.00	1.33
1943	920	508	28	3.08	5.58	2.50	18.54	0.00	18.54
1944	1,066	543	29	2.77	5.43	2.66	18.60	0.00	18.60
1955	2,483	729	108	4.36	14.86	10.50	53.39	0.00	53.39
1967	4,540	2,241	152	3.35	6.80	6.04	54.67	1.83	52.84
2002	131,485	29,646	2,975	2.26	10.04	7.77	22.41	5.12	17.29
2003	134,483	30,414	2,490	1.85	8.19	6.34	22.41	5.27	17.14
2004	145,940	33,996	2,551	1.75	7.50	5.76	22.42	5.39	17.03
2004*		41,996	2,551	1.75	6.08	4.33			

Note and sources: The series "Total average tax differential: Fiscal vs. Economic flows" shows the difference between the average tax rates computed by dividing the revenues from inheritance, gift and estate taxes by either tax-reported ("fiscal flow") inheritance flows or estimated ("economic flow") inheritance flows. The series "Effective tax differential: Super-large vs. Small bequests" shows the difference in the actual years between $\tau_{B=Super-large}$ and $\tau_{B=Small}$. The year 2004* marks that we add an estimate of the deceased's unpaid pensions, SEK 8 billion according to Ohlsson, Roine and Waldenström (2014), to the fiscal flow inheritances. Data on inheritance flows from Ohlsson, Roine and Waldenström (2014). Data on inheritance tax revenue from Table A1.