

Taxing large inheritances, for more solidarity

In the midst of a social crisis affecting millions of French people, there can be no question of repeating the much-heard liberal-technocratic refrain: do more with less. In the short term, public resources can be mobilized through borrowing in a context of minimal credit costs. But the truth must be told: it will be necessary to obtain tax revenues. **Tax is necessary, it is the cement of our social model of solidarity.** We are convinced that our fellow citizens are very attached to this model. But we are also convinced that the political contract with our fellow citizens needs to be re-founded. There can only be consent to taxation if everyone feels that it is fair. Let's be frank, this is no longer the case.

It is no longer possible to ask for increased efforts from a majority of our fellow citizens, as has been done since 2009. Especially if, at the same time, we are told that it is necessary to reduce taxes for the richest, in the name of economic efficiency, the results of which we are still waiting for. In France, in 2020, half of our fellow citizens will have little or no wealth. This has been a historical constant since the first Industrial Revolution. **Forty years of neo-liberal reforms have not delivered the runoff that has been promised so many times.** Instead of flowing downwards, capital has escaped the forces of gravity and has benefited only a minority.

As such, the question of inheritance must be at the heart of socialist thinking. Is it acceptable that some people receive several million euros "for free" with low taxation, while half the population will inherit nothing or almost nothing?

In 2018, free of charge transfer taxes (DMTG)¹ generated 15.9 billion euros, three times more than the ex-ISF. Despite natural growth in its revenues, this tax is highly unequal and poorly designed: not very progressive, not very redistributive, and profoundly unfair to some citizens. Not to mention the many niches from which it suffers (companies, life insurance, etc.). So much so that the current system proves incapable of curbing the dynamics of wealth concentration in our society: the richest among us (the first percentile) now hold 20% of all assets.

The 1980s were the starting point for a historic acceleration in income and wealth gaps. An archi minority has become considerably richer in 30 years, while the mass, ever more numerous, has seen its condition stagnate or even regress.

Social progress occurs when the condition and well-being of the greatest number of people improves. For society to become a whole, the members of a community must be able to adhere to a common social project in which everyone benefits equitably. As inequalities increase, the feeling of being part of a whole, alongside one's fellow human beings, weakens.

^{1/} The DMTG includes inheritance and gift tax.

Moreover, inequalities are at the root of many of the social problems that our societies face. Researchers' work has perfectly demonstrated that there is a systematic correlation between the level of inequalities and health and social problems². Whether it be health status, life expectancy, obesity, mental health, incarceration or homicide rates, racism, parity, school failure, or pollution, unequal societies are systematically among the bad students.

1. France divided into "heritage castes"

In France, even if the current situation is more enviable than at the beginning of the 20th century, the distribution of wealth is very unequal. It is thus possible to divide the population into four heritage classes³ :

- The "bottom 50%": the working classes, who own less than 10% of total private assets, and whose average assets are almost nil ('20,000).
- The next 40% (between the "bottom 50%" and the top 10%): the middle classes, whose share is 30% ;
- The next 9% (the top decile, excluding the richest 1%): the upper middle classes, whose share is 40% ;
- The top percentile (the top 1%): the rich, who hold 20% of the total wealth.

The introduction of the proportional tax on income from capital, the virtual disappearance of wealth tax, the sharp decline in transfer taxes, and the sharp drop in corporate taxes (from a range of 40-50% in OECD countries to 20-30% today) have led to a sharp decline in the taxation of capital worldwide.

In France, since 2017, the taxation of capital has been substantially reduced, following the introduction of a flat-rate 30% levy on capital income and the elimination of the wealth tax on securities. The first beneficiaries of these provisions have logically been the wealthiest categories of the population⁴.

This political strategy in favor of capital ownership, whose return is historically higher than that of labor and grows with the amount of wealth held⁵ , creates de facto the conditions for a deepening of inequalities.

^{2/} *"Why equality is better for everyone". Richard Wilkinson and Kate Pickett. Editions Les Petits Matins", Vleben Institute for Economic Reforms and Etopia, translated in 2013.*

^{3/} *Source : World Inequality Database.*

^{4/} *"Transformation of the solidarity wealth tax (ISF) into a real estate wealth tax (IFI) and creation of the single flat-rate levy (PFU): a first assessment. "Senate, Information Report No. 42 (2019-2020) by Mr. Vincent ÉBLÉ and Mr. Albéric de MONTGOLFIER, made on behalf of the Finance Committee, filed on October 9, 2019.*

^{5/} *Thomas Piketty, " Le capital au XXIe siècle ", Editions du Seuil, 2013.*

2. A significant enrichment at the national level that benefits a minority of annuitants.

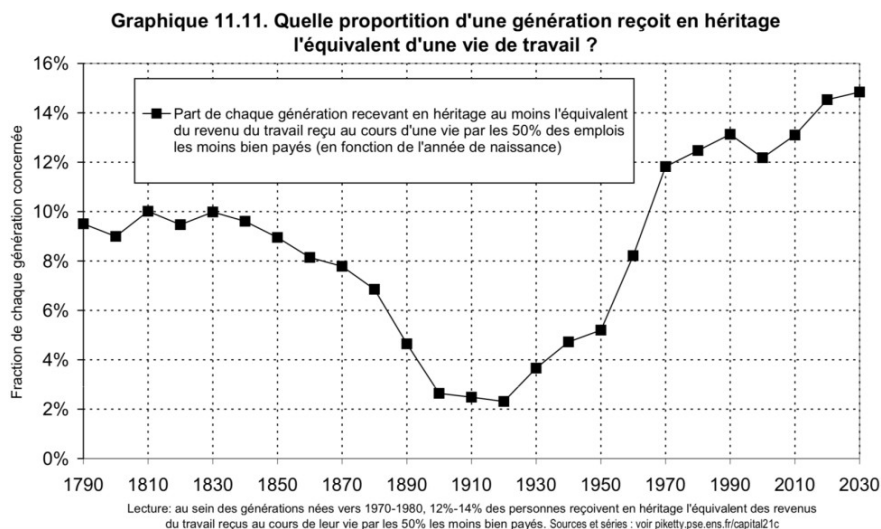
Between 1980 and 2015, the heritage of the French has been multiplied by three. According to INSEE, the aggregate sum of private assets was in 2016 greater than 11,000 billion euros (net of debts). This represents 8 years of disposable income (compared to 4.5 in the early 1980s).

The concentration of capital accumulation in the hands of a few has strong consequences on the meritocratic character of our society: it becomes impossible (or almost impossible) to reach the highest strata of society's wealth on the basis of one's work alone⁶. Worse, the inflation observed in real estate prices, which our tax and legal system is unable to curb, prohibits home ownership for almost the entire population in certain areas of the country.

Thus, for a growing part of the population, the only way to take the social elevator becomes the perception of a donation or an inheritance. A direct consequence of the return of inheritance concerns the increase in the weight of inheritances and donations received in the total resources of individuals.

Where, for generations born in the first half of the 20th century, inheritance accounted for less than 10% of resources over a lifetime (compared with more than 90% for labor income), we note that inheritance represents about a quarter of resources for generations born in the 1970s and beyond.

However, not everyone benefits from this climb. The concentration of inheritances is such that it generates rentiers, i.e., individuals who receive more in inheritance than most French people receive in a lifetime of work. Defined in this way, rentiers represent more than 12% of individuals born in the 1970s, a proportion that is expected to grow for subsequent generations if nothing is done to limit the concentration of wealth.



⁶ / In 1970, an individual who was in the top 1% was 30% likely to be in the top 1% of the distribution of assets; this probability has fallen to 14%. Bertrand Garbinti, Jonathan Goupille-Lebret and Thomas Piketty (2018), "Income inequality in France, 1900-2014: Evidence from Distributional National Accounts (DINA)", *Journal of Public Economics*, vol. 162, 2018, pp.63-77.

3. Inheritance, a mechanism for perpetuating inequalities

Like the distribution of wealth in our society, the transmission of assets is highly concentrated in the upper decile of the population, a fortiori in the upper percentile. Today, the average amount received in France by an individual during his or her lifetime is 135,400 euros⁷. The richest 10% receive 50% of the annual volume of transmissions, while the poorest 50% receive only 7% (approximately 9,000 euros per capita). In the upper percentile of the population (the 1%), the average inheritance is 1.18 million euros (a figure that climbs to 5.52 million in the upper millime, the 0.1%, or 373 years of Smic).

The annual transmission flow was estimated at 250 billion euros in 2015⁸ (more than 10% of GDP!), compared to 60 billion in 1980. This explosion can be explained by demographic (baby boomers' death cohorts) and economic reasons (appreciation in the value of real estate and stock market assets). There is therefore a base effect and a headcount effect. This trend is set to continue.

This natural growth of free transmissions therefore makes the issue of the applicable tax system crucial. Reforming it must be an opportunity, on the one hand to increase its budgetary yield, and on the other hand to meet a social objective of better redistribution of wealth within the population, through the State.

4. A tax system undermined by its exemptions and rebates

International comparisons of tax scales are not very relevant. For example, while the top marginal rate is 45% in France for direct lineage, inheritances between parents and children are taxed at an effective average rate of 3% (only 10% of inheritances are taxed at a rate higher than 5%).

The low effective tax rate is explained by the existence of a large number of exemptions and allowances, which make most transmissions de facto non-taxable.

The limitation in time of the "tax reminder" and its scope also play a role in the lower taxation of transfers. The principle of the "tax reminder" is to take into account the donations previously received by the beneficiary to establish his taxation at the time of a new transmission. In France, the takeover period is 15 years and is applied by "donor/recipient" binomial.

Thus, for the same amount, an individual receiving donations from different people will have a tax advantage over an individual receiving from a single donor. This system favors the wealthiest households, the only ones able to start the transmission of assets early, in order to "turn the meters" and thus be able to donate every 15 years without taxation.

^{7/} Clément Dherbécourt, "Can we avoid a society of heirs? "France Stratégie, Note d'analyse, No. 51, January 2017.

^{8/} Ibid.

5. Life insurance, a legalized tax optimization tool

The highest wealth groups make extensive use of so-called exempt assets (mainly life insurance). This asset class accounts for nearly 30% of the assets of the wealthiest 0.1% (those receiving 5.52 million euros on average), enabling them to reduce their final tax rate by 6 percentage points.

The OECD, in a report published in April 2019 , notes that, in France, "the progressivity of inheritance and gift taxation is limited, because the relief mainly benefits the wealthiest households, which can fuel a sense of tax injustice for part of the population". However, to reduce wealth inequalities, a well-designed inheritance tax can be more efficient and less costly to administer than a tax on net wealth". For example, it would be appropriate to eliminate the differential tax treatment of life insurance policies for estate tax purposes for the largest life insurance policies. »

Today, a quarter of the amounts transmitted by inheritance are transmitted via life insurance in France. For the past 30 years, this asset class has been the preferred medium for the highest net worth individuals to invest their surplus savings. Life insurance now accounts for about 45% of household financial assets, compared with less than 5% in the early 1980s.¹⁰

Historically, this comparative tax advantage has been justified by the legislator by the role it intended life insurance to play in financing the economy. In 2019, more than 80% of the outstanding amounts were still invested in euro funds, which are legally guaranteed and therefore not very conducive to holding risky assets (such as company shares). Moreover, like the assets of the French in general, life insurance capital is concentrated in the hands of a minority: the average outstanding amount per subscriber is €30,000, but 1% of policyholders alone hold a quarter of the outstanding amounts (i.e. €425 billion out of €1,700 billion, for an average amount per policy of €600,000 in this percentile¹¹).

Because of its global mass and the concentration of its assets, life insurance is therefore a major issue for a GMD reform.

9/ OECD, OECD Economic Survey - France, April 2019.

10/ Karine Berger, Dominique Lefebvre. Report on financial savings. April 2013 11/ - Ibid.

Reform Proposal

- ✓ a "**lifetime tax reminder**", i.e., the tax will be calculated by making a mass of everything received during the lifetime of the beneficiary, and not piecemeal as it is today. With the "tax reminder for life", for each new donation or inheritance received by a donee/heir, the previous donations received will be added together (regardless of who made them) in order to calculate the tax due.
- ✓ a **€300,000 allowance** for all, in order to protect small and medium assets and to encourage donations during life.
- ✓ **Life insurance**: the derogatory regime for life insurance will be abolished and brought into line with the common law regime, according to the scale mentioned above.
- ✓ a **new scale**, simplified, readable and applicable regardless of family relationships. It will be made up of 3 parts.

Fraction of net taxable portion	Applicable rate (%)
Up to €300,000	0
Between €300,000 and €1,100,000	30%
Between €1,100,000 and €1,900,000	45%
More than 1 900 000 €.	60%

Depending on family configurations, this new scale should be neutral or favorable for 95% to 99% of households. Only the top percentile (assets over 2 million euros) will lose significantly, and even less so the top millime (assets over 7 million euros).

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