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The possible revenue impact of some hypothetical inheritance and gift tax reforms

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Rationale

Based on a microsimulation model developed at the Banco de España, this article quantifies the possible revenue impact of certain hypothetical changes in the configuration of inheritance and gift tax (IGT) in Spain.

Takeaways

- In 2023 IGT revenue amounted to 0.23% of GDP in Spain, slightly above the European Union (EU) average of 0.15%.
- However, IGT revenue varies considerably across the Spanish regions, as the regional governments have the power to modify the tax parameters.
- Using a microsimulation model, we estimate that, if all the regional governments were to set IGT at the levels envisaged in the State benchmark legislation, the revenue raised could increase by 0.5 percentage points (pp) of GDP to 0.7%.
- This is assuming that the tax changes would not lead to substantial changes in economic agents' behaviour.

Keywords

Inheritance and gift tax, tax reform.

JEL classification

H24, H73.

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THE POSSIBLE REVENUE IMPACT OF SOME HYPOTHETICAL INHERITANCE AND GIFT TAX REFORMS

Introduction

In recent years, the long-standing imbalance in Spanish public finances, marked by high structural deficit and public debt levels, has prompted the Banco de España and other national and international institutions to flag the need for a medium-term fiscal consolidation strategy in Spain, to strengthen fiscal sustainability and create fiscal space to respond to possible future adverse shocks.[1] This strategy is particularly necessary in the context of the new European economic and fiscal governance framework, adopted in 2024, which will guide the coordination and oversight of Member States in the fiscal arena in the coming years.

Moreover, a reform of the regional government financing system, to correct some of the shortcomings it has displayed in recent decades, is still pending. This reform must comply with the principles of sufficiency of the resources available to the regions (based on objective calculation of their real spending needs), fiscal co-responsibility in the financing of their expenses (understood as their capacity to generate revenue to fund their spending), and transparency in the various parameters that determine how the system functions and evolves.

In this setting, this article presents an analytical tool that simulates the revenue impact of various hypothetical reforms of Spain's IGT,[2] which since 1996 has been devolved to the regions and over which they have regulatory powers. Specifically, the regions can modify the tax parameters envisaged in the State benchmark legislation,[3] including the tax scales, reductions for kinship or tax relief.

The methodological approach uses an IGT microsimulation model, developed in Micó-Millán (2023), which allows us to estimate the revenue obtained under different configurations of the tax (for instance, in terms of reductions for kinship or tax scales). The model accurately captures the fundamental elements of IGT returns and applies them to a representative sample of potential taxpayers (specifically, it uses the wealth distribution of households over the age of 64, assuming that this is the wealth that will be either gifted or inherited). In consequence, it provides a true picture of the IGT revenue obtained under its present configuration. The model also enables a realistic analysis of the revenue's sensitivity to changes in the tax parameters, under the assumption that agents' behaviour remains unchanged.[4]

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1 Banco de España (2024).

2 There are similar analytical tools that simulate reforms for other taxes. See, for instance, Bover, Casado, García-Miralles, Labeaga and Ramos (2017) and the references contained therein for personal income tax, VAT and excise duties.

3 Law 29/1987 of 18 December 1987 on inheritance and gift tax.

4 The microsimulation model developed is, therefore, a *static* model, that is, it assumes that individuals' and firms' behaviour does not change in response to tax reforms. This is a realistic scenario if the reform does not entail radical changes in tax legislation. By contrast, *dynamic* models consider that behaviour may change as a result of such reforms. There is a large body of literature on inheritance and gift taxes in different countries that analyses changes in agents' behaviour in response to tax reforms, relating among other aspects to gifts, residence decisions, understated wealth tax returns or asset portfolio rebalancing. See Micó-Millán (2024) for a summary of the literature.

Table 1
Simulated hypothetical IGT reforms

Baseline scenario	Legislation in force in each region in 2022
Reform 1	Non-application of tax relief
Reform 2	Reform 1 + application of tax rates envisaged in State benchmark legislation
Reform 3	Reform 2 + application of reductions for kinship envisaged in State benchmark legislation
Reform 4	Reform 3 + application of default values for all other parameters

SOURCE: Banco de España.

The analytical exercise is based on the IGT legislation in force in the regions in 2022. Four different hypothetical reforms are applied, cumulatively, to this baseline scenario (see Table 1): (i) the tax relief established by some regions under their above-mentioned powers is not applied; (ii) in addition, the various tax scales applied by the regions are replaced by the benchmark tax rates envisaged in the State legislation; (iii) in addition, the reductions for kinship applied by the regions are replaced by those set out in the benchmark legislation; and (iv) also, the value of all the other default parameters (unmodified by the regions) is added, in particular relating to reductions for life insurance payments received and for sale of the principal residence, and the multipliers based on the amount of the taxpayer's pre-existing wealth. Accordingly, this last scenario is equivalent to an IGT system including all the parameters envisaged in the State benchmark legislation.

Under these hypothetical reforms, IGT receipts increase. Under the baseline scenario they amount to 0.23% of GDP.[5] If the tax relief is excluded, they increase to 0.43% of GDP, and to 0.46% if, in addition, the tax scales envisaged in the State benchmark legislation are applied. Under the third and fourth scenarios, that is, if the reductions for kinship and all other parameters are also applied as per the State benchmark legislation, IGT receipts amount to 0.67% and 0.74% of GDP, respectively, some 0.5 pp higher than estimated under the baseline scenario.

The rest of the article is structured as follows. The next section provides a brief description of IGT tax revenue at the European and regional level. This is followed by a quantification of the reforms analysed. Lastly, the methodological annex at the end sets out the details of the empirical exercise conducted and, in particular, offers an overview of the microsimulation model used in the analysis.

Inheritance and gift tax revenue

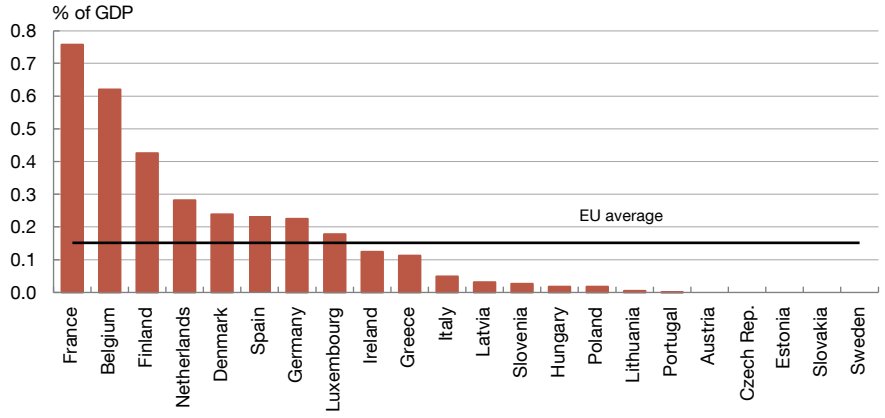
Inheritance and gift tax revenue amounted to 0.23% of GDP in Spain in 2023. It is, therefore, the second tax among those fully devolved to the regions in terms of revenue raised, after transfer tax and stamp tax (0.73% of GDP) and ahead of wealth tax (0.11% of GDP).

5 IGT receipts under the baseline scenario are slightly underestimated (0.9%) compared with the actual receipts observed in 2022, but they amount to the same percentage of GDP (0.23%). Importantly, the simulator excludes gift tax receipts. For more details, see the methodological annex at the end of the article.

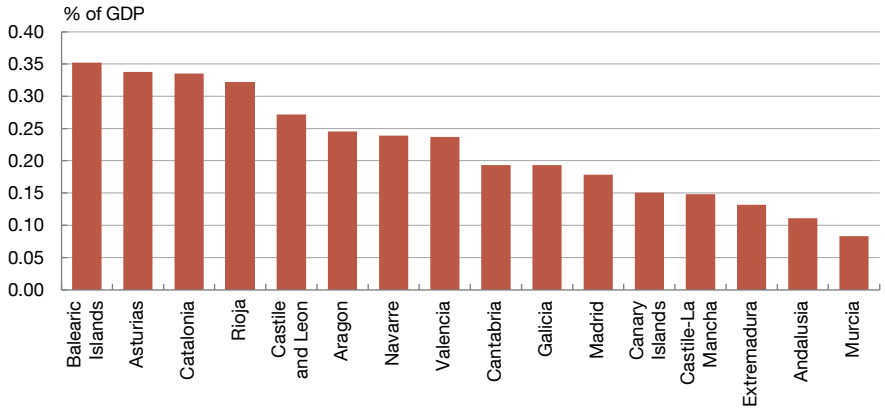
Chart 1

IGT revenue amounted to 0.23% of GDP in Spain in 2023, above the EU average, albeit with notable cross-regional differences

1.a IGT revenue in the EU (2023) (a)



1.b IGT revenue by Spanish region (2023) (b)



SOURCES: Intervención General de la Administración del Estado (IGAE) and OECD.

a Excluding the EU Member States that are not OECD member countries (Bulgaria, Croatia, Cyprus, Malta and Romania). The figures for Greece are for 2022.
b The IGAE does not provide data on IGT revenue from the Basque Country.

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An international comparison shows that IGT revenue in Spain in 2023 was higher than the EU average (0.15% of GDP). In particular, it was similar to the revenue raised in Germany and Denmark, but below that raised in France and Belgium (0.8% and 0.6% of GDP, respectively) which are the EU countries with the highest IGT revenue. Various EU Member States, including Portugal, Austria and Sweden, do not have inheritance and gift tax, whether *de facto* or *de jure* (see Chart 1.a).[6]

From a regional perspective, IGT revenue varies across the Spanish regions. In 2023 the Balearic Islands reported the highest IGT revenue, followed by Asturias, Catalonia and Rioja; in all four regions it amounted to more than 0.3% of their GDP. At the other end of the scale, Extremadura,

6 Comité de Personas Expertas (2022), Table V.27.

Andalusia and Murcia reported the lowest revenue, amounting to less than 0.15% of their GDP (see Chart 1.b).

Since the early 2000s the regional governments have actively exercised their regulatory powers over IGT.[7] Accordingly, while the cross-regional revenue differences mentioned in the previous paragraph may be partly attributable to certain demographic, economic and social disparities, they are also due to the different tax parameters applied regionally. In general, the changes approved by the regional governments have been to extend the reductions for kinship and introduce relief on the tax payable by direct heirs (descendants and spouses).[8]

To illustrate this point, Chart 2 shows the tax payable in each region in 2003, 2013 and 2022 by a direct heir over 21 years of age who receives an inheritance in the third and the top quintile of the respective distribution at national level, that is, around €90,000 and €350,000, respectively. The distribution of inheritances used in this exercise is estimated drawing on the wealth module of the 2021 Household Panel.[9] For this purpose, the sample has been restricted to households over the age of 64 and the wealth of each household has been divided by the number of descendants, to capture a fictitious distribution of the amount to be received by each heir. The IGT simulator mentioned in the introduction and described in more detail in the next section and in the methodological annex has been applied to these fictitious inheritances, which include real estate assets, financial assets and life insurance.

This exercise shows that the general trend in the regions has been to reduce the tax payable by direct heirs. Whereas in 2003 the great majority of the regions had not exercised their legislative powers, so the tax rate applicable was that envisaged in the State benchmark legislation, by 2013 many of them had implemented reforms that reduced – to a varying extent – the tax actually paid by direct heirs. Moreover, there can be substantial differences in the tax payable across the regions as a result of those reforms. For instance, in 2022, in the top quintile of the inheritance distribution, the differences could amount to over €10,000 between Valencia and Asturias, which have the highest levels, and the other regions, with levels under €500.

Simulation of some hypothetical inheritance and gift tax reforms

This section calculates the possible revenue effects of different hypothetical IGT reforms, which are presented merely for illustrative purposes.

7 As indicated above, IGT was devolved in 1996, when the regions were granted the power to determine the amount and multipliers of the taxpayer's pre-existing wealth and to set the tax rates applicable, which should be progressive in line with those set by the State. In the case of inheritances, the regions were empowered to regulate the reductions in the taxable amount (Law 14/1996 of 30 December 1996 on the transfer of State taxes to the regions and additional tax measures). Under this Law the management, settlement, collection and inspection of IGT was also transferred to the regions. Subsequently, under Organic Law 7/2001 of 27 December 2001 amending Organic Law 8/1980 of 22 September 1980 on the financing of the regions, and Law 21/2001 of 27 December 2001 regulating the tax and administrative measures of the new financing system for the regions (excluding those subject to the special regime) and the city enclaves of Ceuta and Melilla, the regions were empowered to modify the reductions in the taxable amount for gifts, extend the State reductions, introduce tax deductions and tax relief and freely set the tax rates applicable.

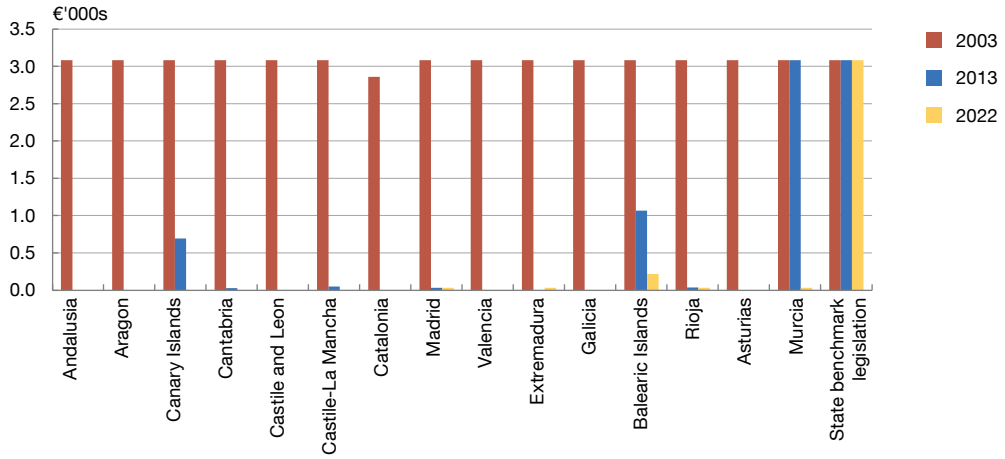
8 For example, Andalusia, Cantabria, Castile and Leon, Madrid, Extremadura and Murcia all currently have 99% tax relief (100% in the case of Cantabria) for group 2 heirs (descendants and adoptees over 21 years of age, spouses and ascendants) (Consejo General de Economistas, 2023).

9 Drawn up by the National Statistics Institute (INE), the State Tax Revenue Service (AEAT) and the Institute of Fiscal Studies (IEF).

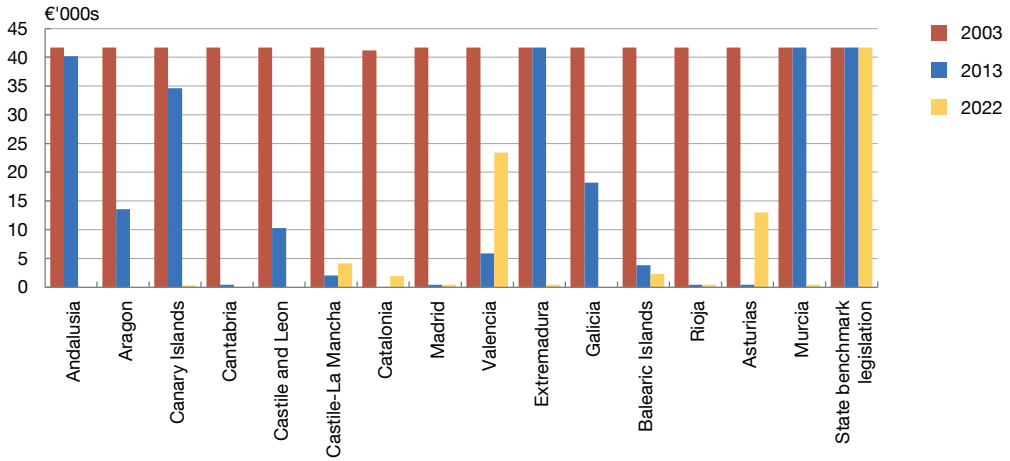
Chart 2

Over the past two decades the regions have tended to reduce the amount of IGT payable by direct descendants

2.a Tax payable on an inheritance in the third quintile of the distribution (a)



2.b Tax payable on an inheritance in the top quintile of the distribution (a)



SOURCE: Banco de España.

a In the case of a direct heir over 21 years of age. No bar denotes zero tax payable. The third and the top quintile amount to around €90,000 and €350,000, respectively.

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Methodologically, the analysis is based on an IGT simulator, which is described, alongside other details of the empirical analysis, in the annex. By contrast with other taxes – such as personal income tax – there is a considerable lack of quantitative information on IGT, both overall and at individual level. This constitutes a considerable obstacle to assessing reforms and means that the findings should be treated with caution.[10]

10 By contrast, the Catalan tax authorities (Agència Tributària de Catalunya) stand out for making anonymised data on IGT payments in the region available to researchers. This information was used to adjust some assumptions in the simulation, as described in the methodological annex.

The quantification is conducted on the basis of the legislation in force in 2022, the last year for which the microdata used in the exercise are available, as described in the methodological annex. Broadly speaking, IGT works as follows. The net taxable amount is the taxable amount (the net value of the assets and financial claims acquired) less a series of deductions. These depend, among other characteristics, on the degree of kinship between the inheritor/donee and the deceased/donor (e.g. the reductions tend to be higher for group 2, which includes the spouse and descendants)[11] and the type of asset received (for instance, the principal residence). The tax payable is the result of applying the tax's progressive scale to the net taxable amount, and of multiplying the product of this operation by a coefficient that depends on the taxpayer's pre-existing wealth and their degree of kinship with the transferor. Lastly, the tax payable can be lowered by a series of tax deductions and relief.

The quantitative analysis takes as reference a hypothetical IGT design that reflects the legislation in force in each region in 2022.

Using this baseline scenario, four reforms are simulated:

1 The tax relief on the tax payable established by the regional governments is excluded.

2 In addition, the tax scales established by the regional governments are replaced by those envisaged in the State benchmark legislation, which applies where a regional government has not adopted its own.

3 In the tax design resulting from reform 2, the value of the reductions for kinship prevailing in 2022 are replaced with those established by default in the State benchmark legislation.

4 To reform 3, the rest of the default values for the tax parameters are added, i.e. those that are used if the regional governments decide not to modify them, in particular with regard to the reductions for life insurance payments received and the acquisition of the principal residence of the deceased/donor and the pre-existing wealth multipliers.

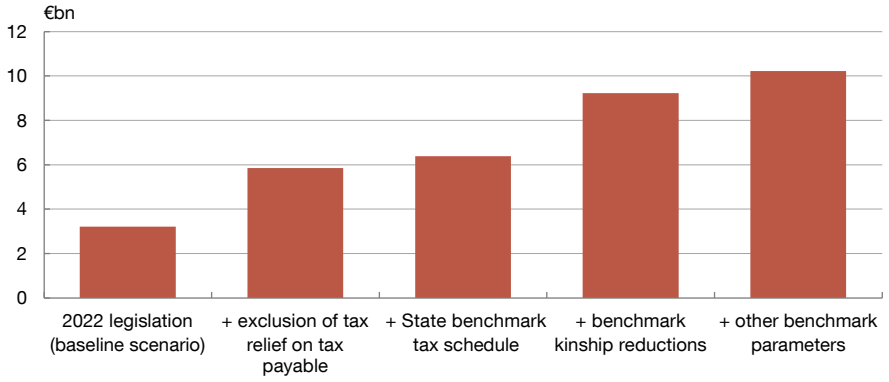
Chart 3 presents the results of these simulations. Chart 3.a shows that the four above-mentioned reforms would raise IGT revenue compared with the baseline scenario, under which receipts amount to €3.2 billion (0.23% of GDP). Specifically, excluding the tax relief raises revenue to €5.9 billion (0.43% of GDP); imposing, in addition, the State benchmark tax scale increases revenue to €6.4 billion (0.46% of GDP); establishing furthermore the default kinship reductions yields tax revenue of €9.2 billion (0.67% of GDP); and, lastly, introducing the predetermined value for the rest of the parameters raises IGT revenue to €10.2 billion (0.74% of GDP).

11 The legislation distinguishes between four groups of kinship: group 1 comprises descendants and adoptees under the age of 21; group 2, descendants and adoptees aged 21 and over, spouses, ascendants and adopters; group 3, second and third-degree collaterals, ascendants and descendants by affinity; and group 4, fourth-degree collaterals, more distant degrees of kinship and persons with no degree of kinship.

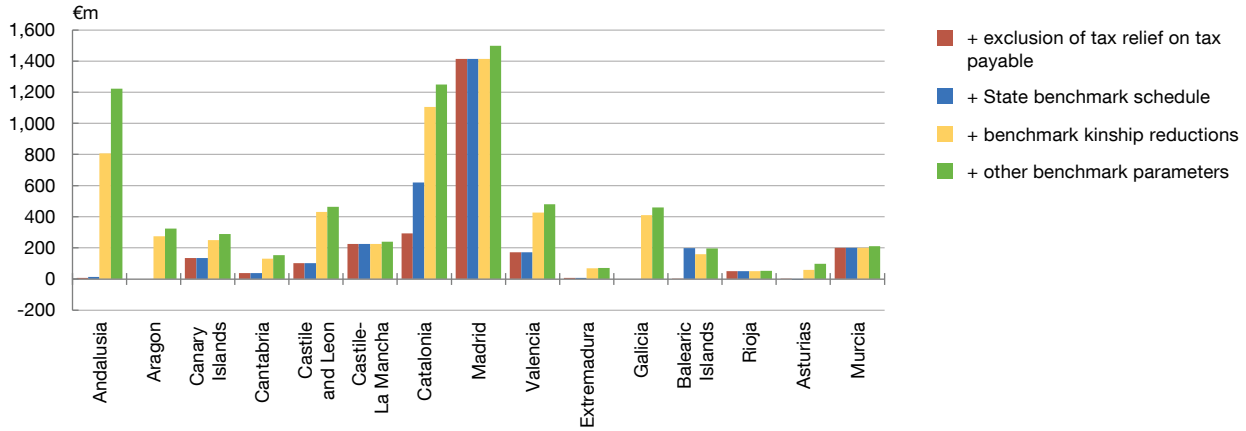
Chart 3

The reforms analysed suggest that establishing the pre-determined values for the IGT parameters would raise the revenue collected

3.a IGT revenue under different scenarios



3.b Change in revenue collected compared with the baseline scenario, by region



SOURCE: Banco de España.

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By region, the greater tax revenue in absolute terms under reform 1 is mainly explained by Madrid, where tax relief for IGT is high (see Chart 3.b). Applying the benchmark tax schedule would mainly impact Catalonia and the Balearic Islands, as their tax schedules are slightly below the State benchmark (see Chart 4).[12, 13] Meanwhile, the hypothetical re-establishment of the default kinship reductions would impact Andalusia and Catalonia in particular, as these regions have set reductions above the pre-determined values (see Table 2). Lastly, the increase in revenue

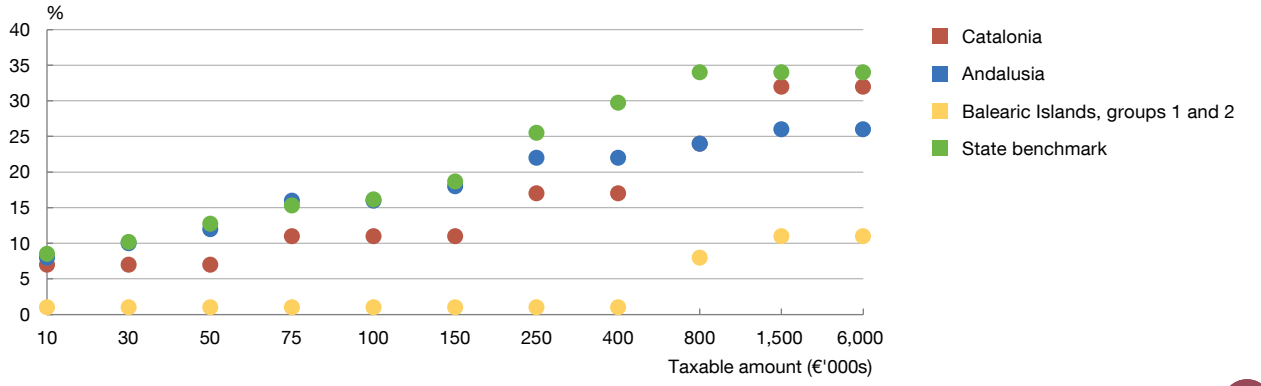
12 In 2022 the State benchmark tax schedule – or a very similar one – was applied to kinship groups 1 and 2 in all regions except for Andalusia, Catalonia, Galicia, Balearic Islands, Asturias and Murcia, and to kinship groups 3 and 4 in all regions except for Andalusia, Catalonia, Asturias and Murcia (Consejo General de Economistas, 2022).

13 For high net taxable amounts, Andalusia has lower rates than the State benchmark (see Chart 4). However, under a hypothetical scenario where the State benchmark rates are used, the tax revenue in that region barely increases due to the high kinship reductions in place.

Chart 4

Some regions have set an IGT schedule that is lower than the State benchmark

4.a Marginal IGT rates (2022)



SOURCES: Consejo General de Economistas (2022) and Law 29/1987.

Table 2

Reductions according to degree of kinship (2022)

€	Group 1 (1)	Group 2 (2)	Group 3 (3)	Group 4 (3) / (2) * (1)
Andalusia	Max. 1,000,000	Max. 1,000,000	10,000	0
Aragon	Max. 3,000,000	Max. 500,000	15,000	0
Canary Islands	[40,400, 138,650]		9,300	0
Spouse		*40,400*		
Children or adoptees > 21 years		*23,125*		
Other direct descendants		*18,500*		
Cantabria	[50,000, 155,000]	50,000	25,000	0
Castile and Leon	Max. 400,000	Max. 400,000	7,993	0
Castile-La Mancha	[15,957, 47,859]	15,957	7,993	0
Catalonia	[100,000, 196,000]		8,000	0
Spouse		*100,000*		
Children or adoptees > 21 years		*100,000*		
Other direct descendants		*50,000*		
Madrid	[16,000, 48,000]	16,000	8,000	0
Valencia	[100,000, 156,000]	100,000	7,993	0
Extremadura	[18,000, 70,000]	15,957	7,993	0
Galicia	[1,000,000, 1,500,000]	1,000,000	16,000	0
Balearic Islands	[25,000, 50,000]	25,000	8,000	1,000
Rioja	[15,957, 47,859]	15,957	7,993	0
Asturias	200,000	200,000	7,993	0
Murcia	[15,957, 47,859]	15,957	7,993	0
Value in the absence of regional regulation	[15,957, 47,859]	15,957	7,993	0

SOURCES: Consejo General de Economistas (2022) and Law 29/1987.
NOTES: Group 1 comprises descendants and adoptees under the age of 21; group 2, descendants and adoptees aged 21 and over, spouses, ascendants and adopters; group 3, second and third-degree collaterals, ascendants and descendants by affinity; and group 4, fourth-degree collaterals, more distant degrees of kinship and persons with no degree of kinship.
The kinship reductions for direct descendants under the age of 21 in the Canary Islands, Cantabria, Castile-La Mancha, Catalonia, Madrid, Valencia, Extremadura, Galicia, Balearic Islands, Rioja and Murcia are regulated following the schedule in Law 29/1987, which establishes a floor and the reduction increases by a fixed value for each year the heir is under 21, up to a ceiling.
In Andalusia, Aragon and Castile and Leon the kinship reductions for groups 1 and 2 are regulated so that the reduction plus the other deductions for principal residence, family business, life insurance and any other applicable deduction under the State legislation does not exceed the ceiling. In Aragon, the life insurance deductions are excluded from the calculation.

stemming from applying the benchmark value for the remaining IGT parameters would once again mainly impact these two regions (see Chart 3.b).

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METHODOLOGICAL ANNEX

The IGT simulator developed in Micó-Millán (2023) calculates the tax payable associated with inheritances, taking into account their value, asset composition and year and region in which they are payable. It excludes the Basque Country and Navarre because these regions belong to the special financing system regime and, therefore, no wealth tax data, which are required for the simulation, are available for them. In addition, the simulator does not quantify the proportion of the tax associated with gifts.

In order to estimate the number, value and composition of inheritances in 2022, we perform the empirical analysis as follows. First, we obtain the number of tax returns in that year in Catalonia from that region's tax authorities' microdata. For the other regions, due to the lack of data, we estimate the number of tax returns by applying the growth in the number of deaths between 2015 and 2022 to the data on the number of tax returns in 2015 reported in Comité de Personas Expertas (2022) (see Table A.1).

Second, we calculate the distribution of the persons filing IGT returns by taxable amount brackets. To do so, in the case of Catalonia we use the microdata referred to in the previous paragraph, grouping them into the 16 brackets under the State benchmark tax schedule. We compare this distribution with the distribution of wealth per child of the households in Catalonia whose reference person has descendants and is 65 or over, drawn from the wealth module of the Household Panel 2016-21 drawn up by the INE, the AEAT and the IEF.[14]

We then use the ratio of wealth per child in the Household Panel to wealth inherited from the Catalonia microdata to correct the distribution of inheritances for each taxable amount bracket in the other regions obtained from the Household Panel 2016-21, assuming that willingness to bequeath is consistent across regions. In addition, we obtain the asset composition in each taxable amount bracket from the Household Panel and we consider that it is the same for all regions. Lastly, the distribution by kinship group is assumed to be the same as in Catalonia.

Third, we apply the IGT simulator, using the configuration corresponding to the reforms analysed, to each taxable amount bracket in each region. When the tax design matches the 2022 legislation, the tax revenue obtained is very similar to that actually raised (see Chart A.1). Specifically, the model yields revenue of €3.2 billion where its parameterisation replicates the IGT design prevailing in 2022. This represents a slight under-estimation (0.9%) of the revenue raised in that year. In this respect, note that the simulator excludes the revenue associated with gifts, which could at least partly explain simulated revenue being lower than the levels observed in some regions, in particular, in Catalonia.

14 https://www.ief.es/Investigacion/Est_panelHogares.vbhtml.

Table A.1

Estimated number of IGT returns in 2022

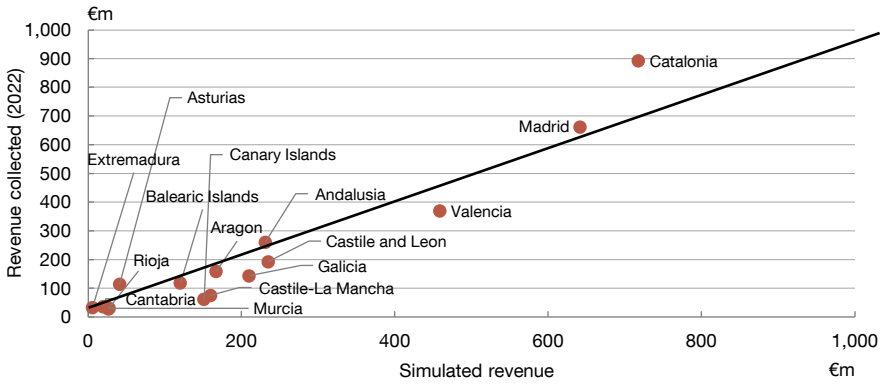
	Number of tax returns in 2015 (1)	Deaths in 2015 (2)	Deaths in 2022 (3)	Estimated number of tax returns in 2022 (a) (3) / (2) * (1)
Andalusia	249,030	72,001	78,962	273,106
Aragon	42,997	14,339	15,376	46,107
Asturias	33,453	13,550	13,936	34,406
Balearic Islands	18,441	8,322	9,320	20,653
Canary Islands	23,178	15,110	18,712	28,703
Cantabria	9,999	6,041	6,767	11,201
Castile and Leon	114,800	19,923	31,017	178,726
Castile-La Mancha	57,600	29,302	20,541	40,378
Catalonia	117,544	64,866	70,706	128,127
Valencia	109,418	44,351	49,836	122,950
Extremadura	4,667	11,519	12,387	5,019
Galicia	102,186	31,688	34,996	112,853
Madrid	127,715	46,859	51,154	139,421
Murcia	36,048	11,233	13,161	42,235
Rioja	12,499	3,093	3,464	13,998

SOURCES: Comité de Personas Expertas (2022), INE and Banco de España.

Chart A.1

The IGT simulator provides a close approximation to the actual revenue collected in the different regions

A.1.a Actual and simulated revenue (2022)



SOURCES: IGAE and Banco de España.

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