

THE CARNEGIE ELASTICITY: BEHAVIORAL RESPONSES TO INHERITANCES AND INTER-VIVOS GIFTS

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The economic importance of inheritances and gifts is growing steadily. In 2022, it can be assumed that in Switzerland private assets of close to 90 billion were inherited and given away – compared with 36 billion in 1999 (Brülhart et al., 2018). At the same time, the tax burden on this economic flow has been lowered steadily since the late 1980s (Brülhart and Parchet, 2014).

Against the backdrop of increasing wealth inequality (Föllmi and Martínez, 2017), the rising importance of wealth relative to national income (Baselgia and Martínez, 2023), along with concerns about intergenerational equity and increasing public debt in the wake of the Covid-19 pandemic, the debate on the taxation of inheritances and gifts has been gaining renewed interest in the public debate, also in Switzerland (Der Club, 10.1.2023).

In economic research, too, the topic of inheritances and gifts is increasingly coming into focus. While academic research on inheritances is already quite extensive, both theoretically and empirically (see Nekoei and Seim, 2023, for a recent example), gifts and advance inheritances have received little research attention. In view of demographic change, rising life expectancy and the associated ever higher average age of heirs, the transfer form of gifting is likely to continue gaining in social weight over time. From an economic perspective, too, it is worth considering whether incentives for early transfers of wealth would make sense, or whether they have negative impacts, e.g., on labor supply. Closely related to this is the question of how the tax system should be designed in order to provide efficient incentives.

In this paper, we use novel, individual-level administrative data from the Canton of Bern to study how wealth transfers affect labor supply. We thereby distinguish between three different types of wealth transfers: inheritances, inter-vivos gifts, and lottery wins. The different nature of these positive wealth shocks allows us to tackle the question using several, different identification strategies. We exploit the fact that inheritances and lottery wins are quasi-random in terms of event time and size of the shock. For gifts, we use several instruments, including a large policy shock caused by an announced, credible threat of inheritance and gift taxation in the future, which led to "panic gifting".

Our preliminary findings suggest that the response to a positive wealth shock depends on the nature of the shock: for a wealth transfer of 1,000 CHF, labor supply is reduced by 31 CHF when the transfer comes in the form of a lottery win, but only by 17 CHF when the transfer stems from an inheritance. For inter-vivos gifts, we find no statistically significant effect on labor supply. A robustness analysis suggests that



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responses to inheritances vary with the characteristics of recipients, while no such heterogeneity in responses is visible with other types of wealth transfers.

References

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