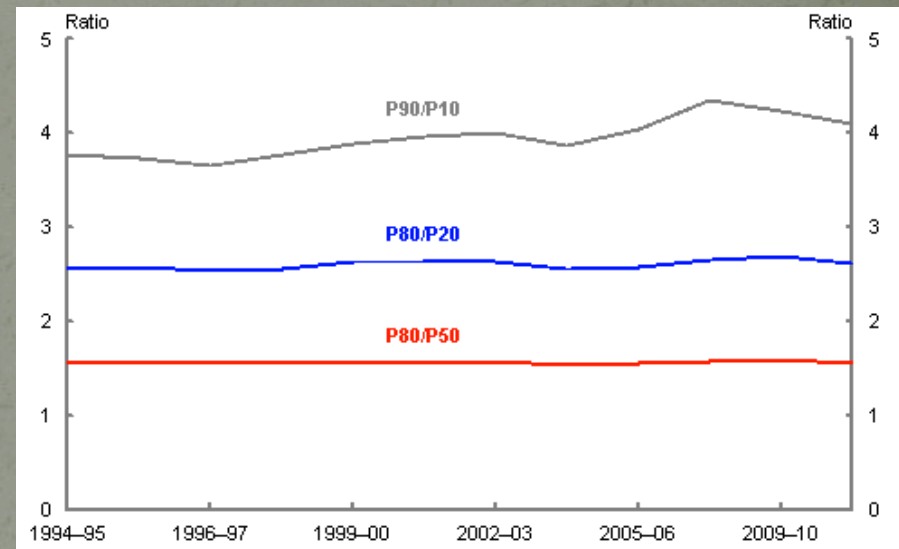
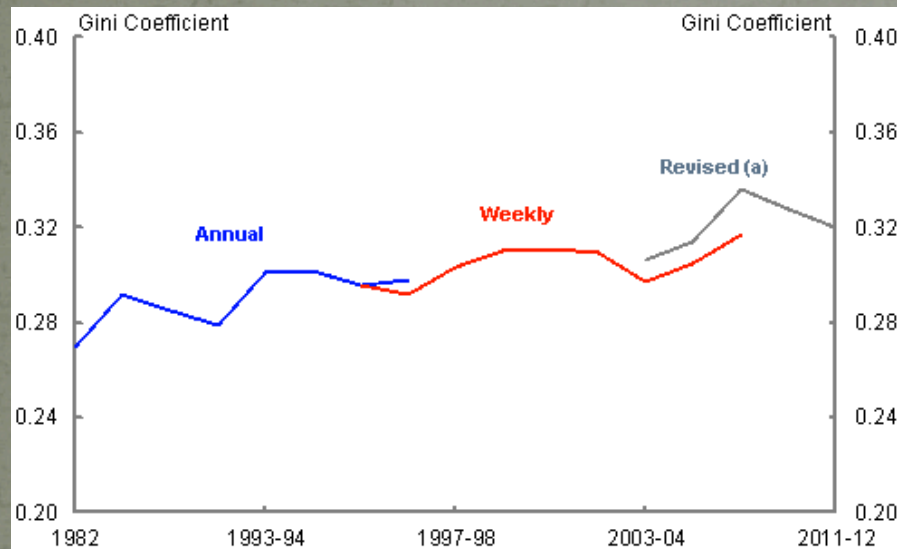


New Life For Death Taxes?

Inequality in Australia



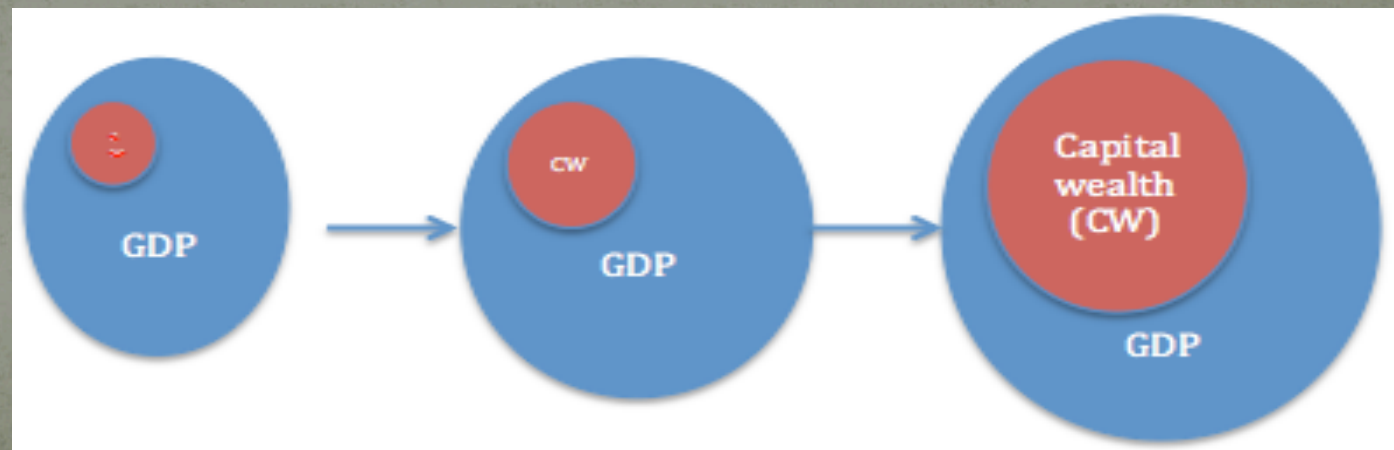
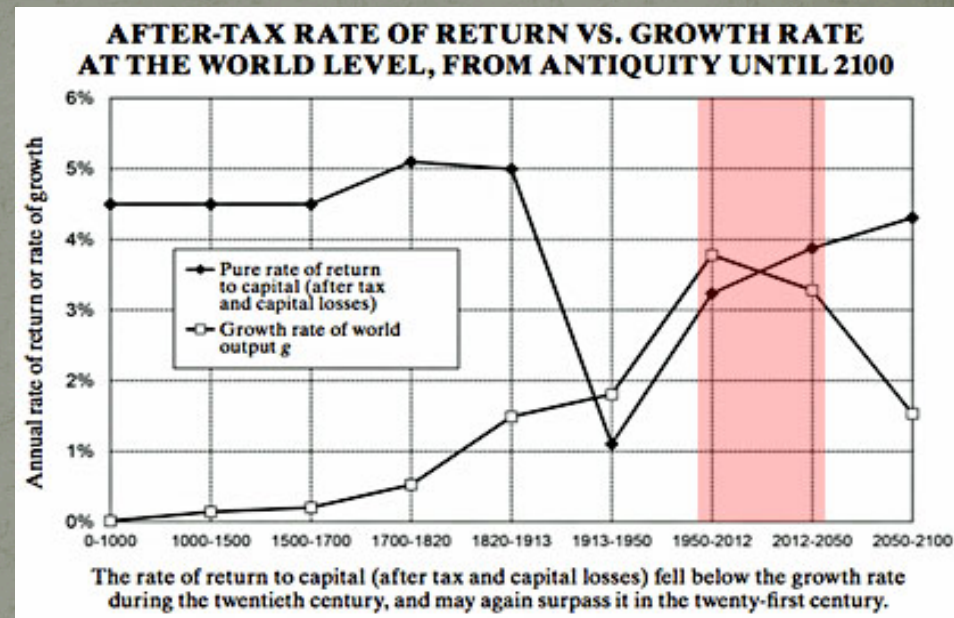
- Small decline due to the financial crisis.
- Data taken from: Fletcher & Guttman. (2013). Social policy Division. Australian Treasury.

Problems with Inequality

- when $r > g$
Inequality grows larger
- Inequality produces negative externalities.

Source: Piketty, T, & Goldhammer, A. (2014).

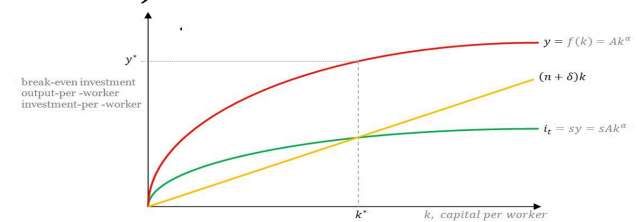
Capital in the twenty-first century.



Tax distortions: Capital Investment

- Taxing inheritance incentivizes people to spend their money more frivolously before death.
- Hence Investment and savings ↓ while consumption ↑
- This in turn hurts economic growth as in the steady state long run capital investment = depreciation.

Solow Model ***The Steady State Level of Capital*** ***(Part 2)***



- Estimates put the elasticity of Americas top marginal estate tax rate on capital investment at <0.1 . source: Brunetti, M. (2005). The Estate Tax and Charitable Bequests: Elasticity Estimates Using Probate Records. *National Tax Journal*, 58(2), 165-188

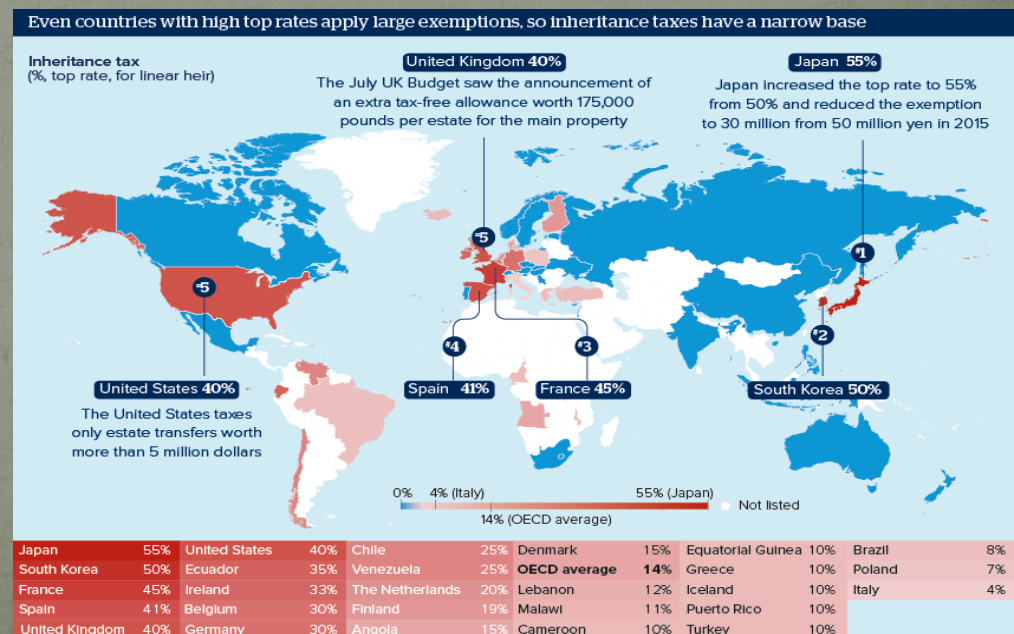
Tax Distortions: Migration

- One American study estimates statistically significant but modest migration between states with differing inheritance taxes (Brunetti, 2005).

→ smaller effect in Australia

- Most of the OECD countries have inheritance taxes:

Source: EY, The Tax Foundation,
Global Property Guide, Oxford Analytica



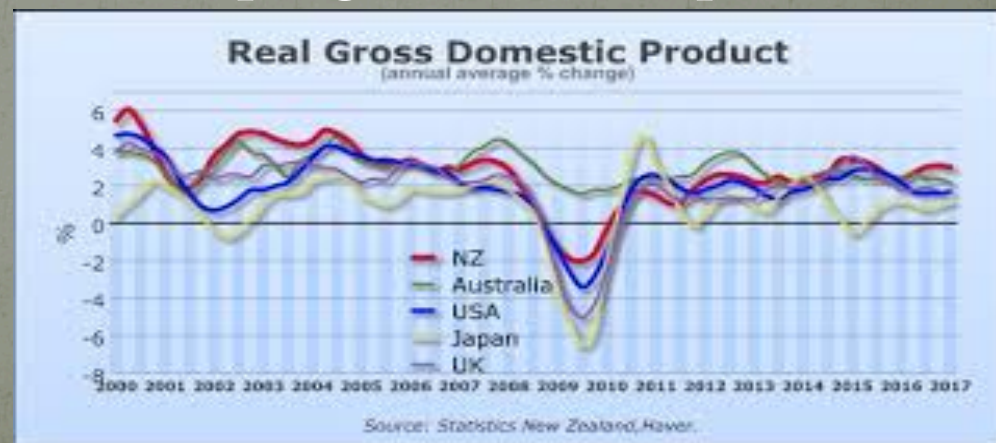
Tax Distortions: Income Effect

- A gift or inheritance doesn't change relative prices of labour/leisure but does give the recipient an increase in income.
- The income effect will see the normal good of Leisure purchased more resulting in ↓ hours worked of societies statistically more productive; with GDP ultimately ↓. source: Duncan, G, & Brooks-Gunn, J. (1997). *Consequences of Growing Up Poor*. Russell Sage Foundation.

Overall Impact

- Despite the negatives of capital investment and perhaps a negligible amount of migration the tried and tested inheritance tax hasn't appeared to slow fellow OCED countries' economies.
- The benefits of eradicating the externalities of inequality as well as the negative effect of the income effect mean that a progressive tax with a few pragmatic exemptions should be implemented.

Data taken from the reserve bank of New Zealand:



Implementation

- Pragmatic implementation:
 1. Include gifts
 2. Exclude charitable donations
 3. Exclude small business ownerships
- Progressive taxation:
 - The burden of the tax is proportional to the disutility felt by the recipient.
 - The negative externalities of immense sums of inheritance are taxed higher proportionally.

Questions?

References

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- Piketty, T, & Goldhammer, A. (2014). *Capital in the twenty-first century*.
- Reserve Bank of New Zealand
- Rueda, D., & Stegmueller, D. (2016). *The Externalities of Inequality: Fear of Crime and Preferences for Redistribution in Western Europe*. *American Journal of Political Science*, 60(2), 472-489.