What is an inheritance tax?

A type of wealth transfer tax in which the recipient, rather than the donor's estate, is taxed.

An inheritance tax applies to the amount of gifts and bequests a taxpayer receives. Unlike estate and gift taxes, a progressive inheritance tax gives donors an incentive to spread their wealth more broadly because recipients can claim an exemption and take advantage of the progressive tax rates, thus reducing their effective tax rate. Currently the United States has no federal inheritance tax, but several states do.

The economic burden of wealth transfer taxes falls on recipients rather than donors; recipients receive a smaller after-tax gift or inheritance than they would without the tax. However, the burden on individual recipients varies depending on whether the tax is an inheritance tax or an estate and gift tax.

Inheritance taxes come in three principal forms. An accessions tax applies to the amount an individual receives by gift or bequest over a lifetime. An annual inheritance tax applies to the gifts and bequests a person receives in a given year. An inclusion tax counts gifts and bequests as income and taxes them as such. Thus, the tax rate depends on the size of the gift or bequest as well as the recipient's other income. An inclusion tax could be combined with either of the other two types of inheritance taxes into a single tax that takes advantage of the strengths of each.

Most countries rely on inheritance taxes rather than on estate and gift taxes. More than half of the 34 countries in the Organisation for Economic Co-Operation and Development have an annual inheritance tax (figure 1); a few use accessions and inclusion taxes. Only three (besides the United States) have estate taxes. The past several decades have seen a shift away from estate taxes: Australia, Canada, and New Zealand repealed their estate taxes, and Ireland replaced its estate tax with an inheritance tax.

Some analysts argue that inheritance taxes are simpler to administer than estate taxes because they curtail strategies used to avoid estate taxes, such as moving assets into complicated trusts that falsely suggest that a decedent's estate will go to a person or entity exempt from the tax. Others argue that estate taxes are simpler because they require less record keeping.
Data Sources

Batchelder, Lily. *How Should an Ideal Consumption Tax or Income Tax Treat Wealth Transfers?* Figure 6. “Type of Wealth Transfer Tax in 34 Countries.”

Further Reading


