TAXATION & INTERGENERATIONAL FAIRNESS

Exploring the role and reforms to inheritance taxes in Ireland

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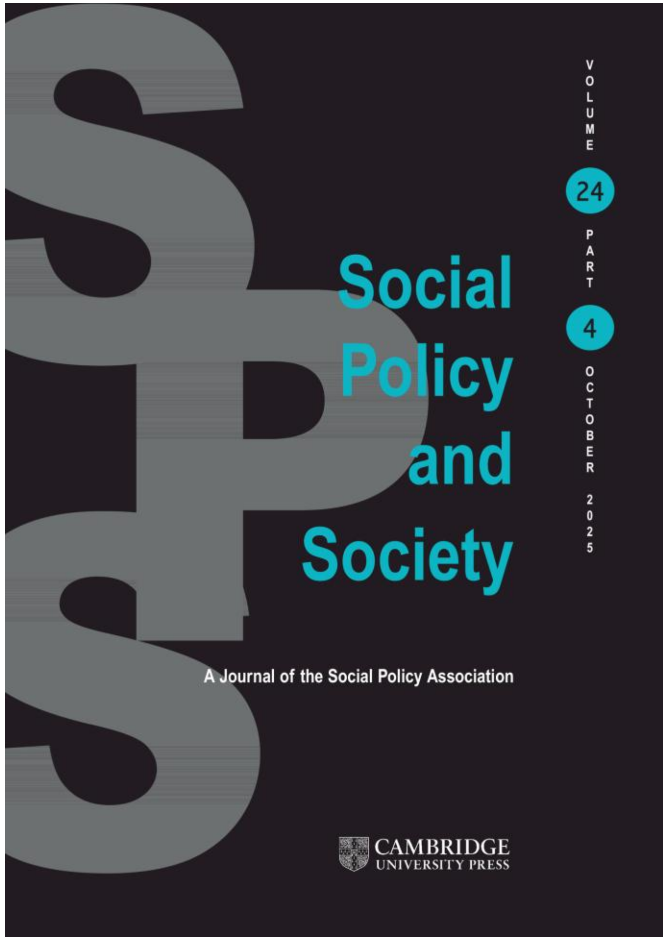
1. Introduction
2. Taking a look at Household Wealth
3. Economic & Social Rationales for/against Inheritance Taxes
4. Some Design Considerations
5. Ireland and Inheritance Taxes: reforms to enhance fairness
6. Conclusion

Based on a recent paper in a special edition of ***Social Policy and Society***



Social Policy & Society: page 1 of 18

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Taxation and Intergenerational Fairness: Exploring the Role of Inheritance Taxes with a Focus on Ireland

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Discussions about economic equality have, in recent years, extended beyond considerations of income distribution to encompass the distribution of wealth and its intergenerational transfer. Driven by new and more frequent data, a better understanding is emerging of the concentration of wealth within society and the dynamics of its transfer between generations.

This article contributes to that discussion by assessing the economic and social rationales for the taxation of intergenerational wealth transfers. It outlines the social policy case for inheritances taxes grounded in vertical equity principles. Then it presents comparative data on household wealth across high-income European countries before focusing on one of these, Ireland, to consider whether current inheritance taxation policies counter or perpetuate these inequalities. Focusing on that system, the article explores a range of inheritance taxation reforms intended to address wealth inequality while providing recurring funds for public services and redistribution.

Keywords: net wealth, taxation, inheritance, Ireland.

Introduction

The discussion about economic equality has, in recent years, extended beyond considerations of income distribution to encompass the distribution of wealth and its intergenerational transfer. Driven by new and more frequent data on assets and their ownership, a better understanding has emerged of the concentration of wealth within society and the dynamics of its transfer between generations.

This article contributes to that discussion by assessing the economic and social rationales for the taxation of intergenerational wealth transfers (section two). This includes a problematisation of the perception of intergenerational taxes as unfair, 'taking away people's hard-earned possessions' – and outlines the social policy case for fair and transparent inheritances taxes grounded in vertical equity principles where those with the greatest resources contribute more taxation to society.

We then present comparative data on the composition and distribution of household wealth across high-income European countries (section three) and examine design considerations and different approaches to taxing wealth transfers (section four). The analysis uses data from the fourth wave of the EU-wide European Central Bank (ECB) Household Finance and Consumption Survey (HFCS), covering nineteen Euro area countries as well as Croatia, Czechia, and Hungary.

1

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OPEN ACCESS

1. Introduction

- New and recurring data on household wealth
  - for Social Policy, it is like income in the 1990s!
  - opening up opportunities for greater engagement with wealth distribution and related issues
  - from abstract to applied…
  - including intergenerational transfers…
- Aim to link a very ‘economics’ literature to Social Policy considerations of these issues
- Think about reforms using Ireland as a case study
  - why?
    - Authors
    - Commission on Taxation and Welfare recommendation
    - Wealth data

What is Wealth?

- Wealth is a stock and income is a flow
  - They are *not* the same thing
  - Net wealth = Gross Assets – Liabilities
- Asset Types
  - Real assets and financial assets
  - Transferable and non-transferable
  - Mobile and immobile
  - Liquid and illiquid
- Numerous categories:
  - (1) Land, (2) houses and other real estate, (3) business equity, (4) agricultural assets, (5) vehicles, (6) cash, (7) current accounts and deposits, (8) life assurance reserves, (9) pension fund equity, (10) securities, (11) human capital, (12) personal property etc...

- ***<u>The household main residence makes up over half of all household wealth in the euro area</u>***

2. Taking a look at Household Wealth

- Focus on the European Household Finance and Consumption Survey (HFCS)
- Latest for 2021: comparative data for 22 states
- Net wealth = gross assets - liabilities
- Descriptive stats:
  - higher net wealth is associated with:
    - larger households
    - higher competed education
    - home-ownership
    - employment
  - ‘a hump-shaped pattern’ when charted against age

Table 1 Participation Rates and Composition of Wealth among Households in Euro Area Countries, 2021

	Participation rate %	Conditional median €'000	Conditional mean €'000
Total real assets	**91.7**	**153.7**	**283.5**
Household main residence	*61.7*	*191.6*	*247.3*
Other real estate	*25.0*	*108.7*	*239.6*
Vehicles	*78.0*	*7.0*	*11.9*
Valuables	*44.9*	*3.0*	*10.6*
Self-employment business	*11.5*	*41.0*	*293.3*
Total financial assets	**98.7**	**15.0**	**66.4**
Deposits	*98.6*	*9.0*	*30.1*
Mutual funds	*12.9*	*18.0*	*59.5*
Bonds	*3.2*	*20.0*	*62.4*
Shares (publicly traded)	*10.9*	*10.0*	*54.7*
Money owed to households	*6.4*	*3.0*	*18.9*
Voluntary pensions/life insurance	*28.4*	*16.0*	*44.8*
Other financial assets	*9.6*	*4.5*	*66.3*
Total Gross assets	**100.0**	**158.5**	**325.7**
Net Wealth	**100.0**	**123.5**	**292.1**

Source: HFCS - wave 2021 (European Central Bank, 2023a: 14, 34).

Notes: Participation rate is the proportion of households holding this asset. Median and mean figures are conditional values, i.e. they are calculated only for those with non-zero values for each asset category.

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Table 2 Net Wealth and its Distribution in 22 European Countries, 2021

	Conditional median €'000	Conditional mean €'000	% among top 50%	% among top 10%	% among top 5%	p80/p20 ratio	Net Wealth Gini
Euro area	123.5	292.1	94.0	53.4	39.7	33.1	69.4
Germany	106.7	315.6	96.6	55.5	41.2	61.9	72.7
Estonia	66.2	157.7	92.6	59.0	47.7	11.4	70.9
Austria	127.8	293.0	95.4	51.5	37.1	41.5	69.3
Latvia	31.3	73.0	92.0	55.1	42.8	11.7	68.5
Finland	104.0	215.0	94.6	49.6	35.3	82.5	68.3
Spain	127.7	278.7	92.2	53.2	40.6	19.1	68.0
Netherlands	105.6	219.6	95.7	46.7	31.9	57.7	67.9
France	125.7	277.1	94.0	49.9	35.9	37.3	67.6
Italy	159.0	350.0	91.0	54.6	41.7	10.7	67.1
Ireland	193.7	370.5	92.7	49.8	36.6	44.7	66.6

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Austria	127.8	293.0	95.4	51.5	37.1	41.5	69.3
Latvia	31.3	73.0	92.0	55.1	42.8	11.7	68.5
Finland	104.0	215.0	94.6	49.6	35.3	82.5	68.3
Spain	127.7	278.7	92.2	53.2	40.6	19.1	68.0
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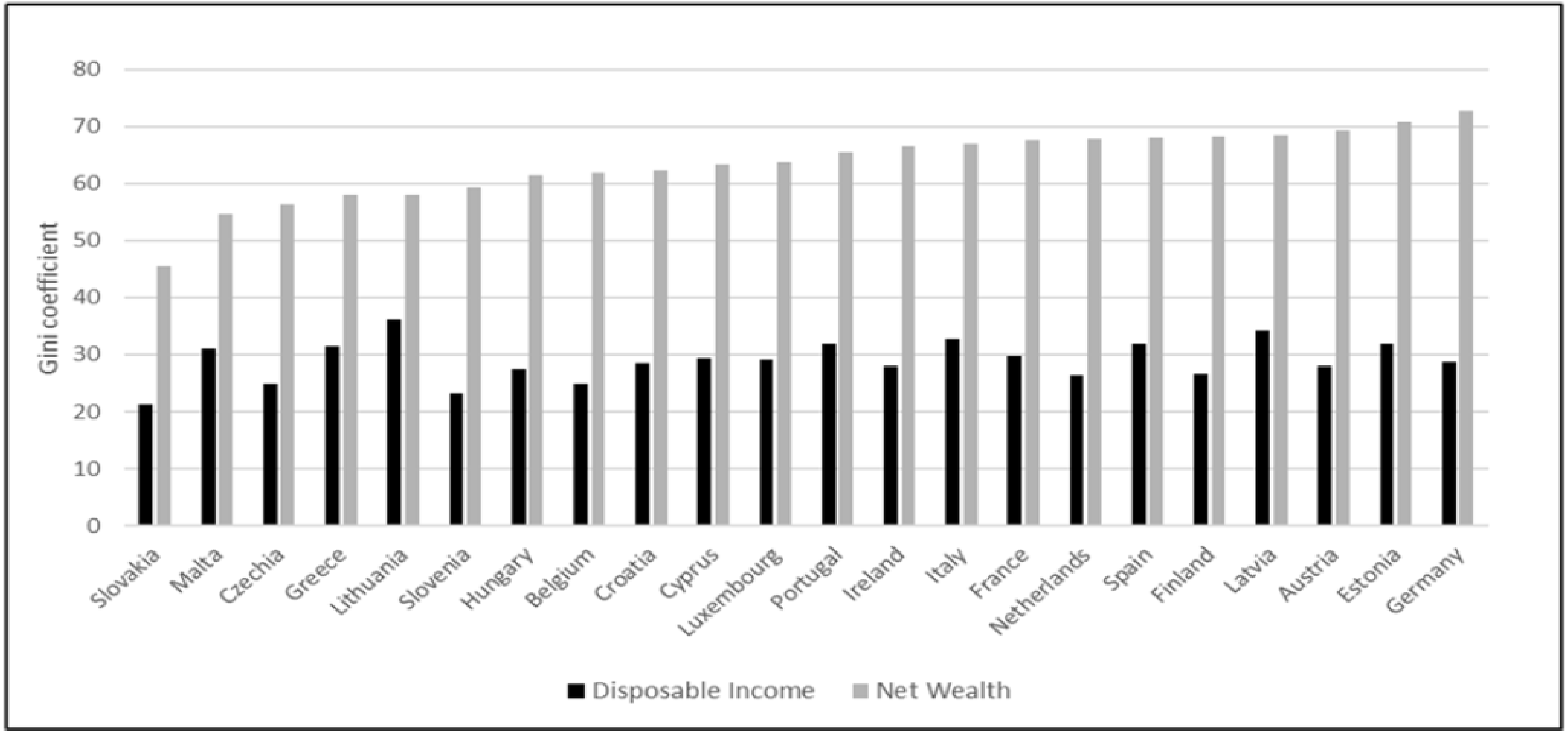
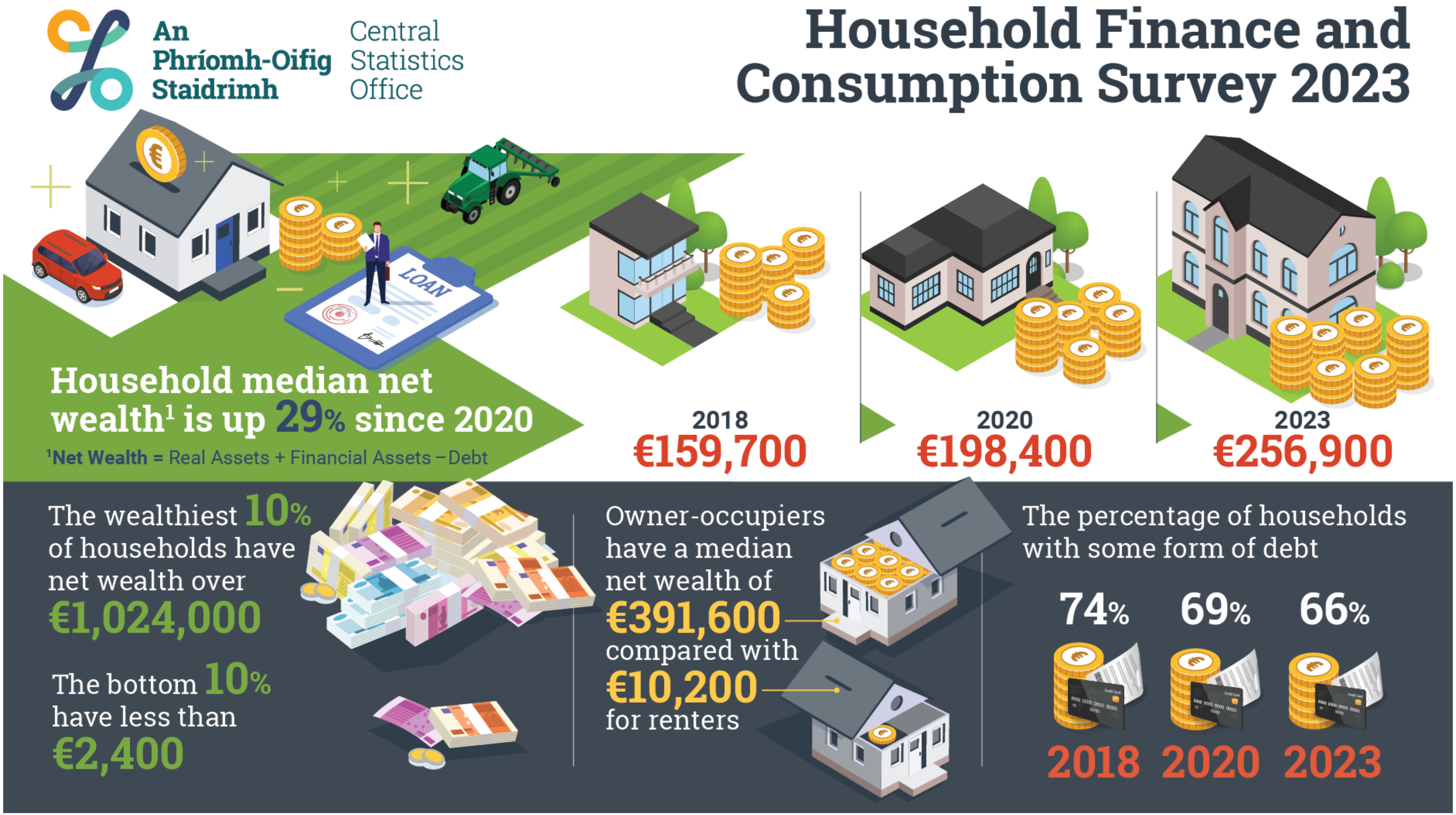
Figure 1 Comparison of Income and Net Wealth Inequality in 22 European Countries, 2021



Source: Compiled by authors from HFCS - wave 2021 (European Central Bank, 2023b: 58) and Eurostat online database (indicator ilc_di12)

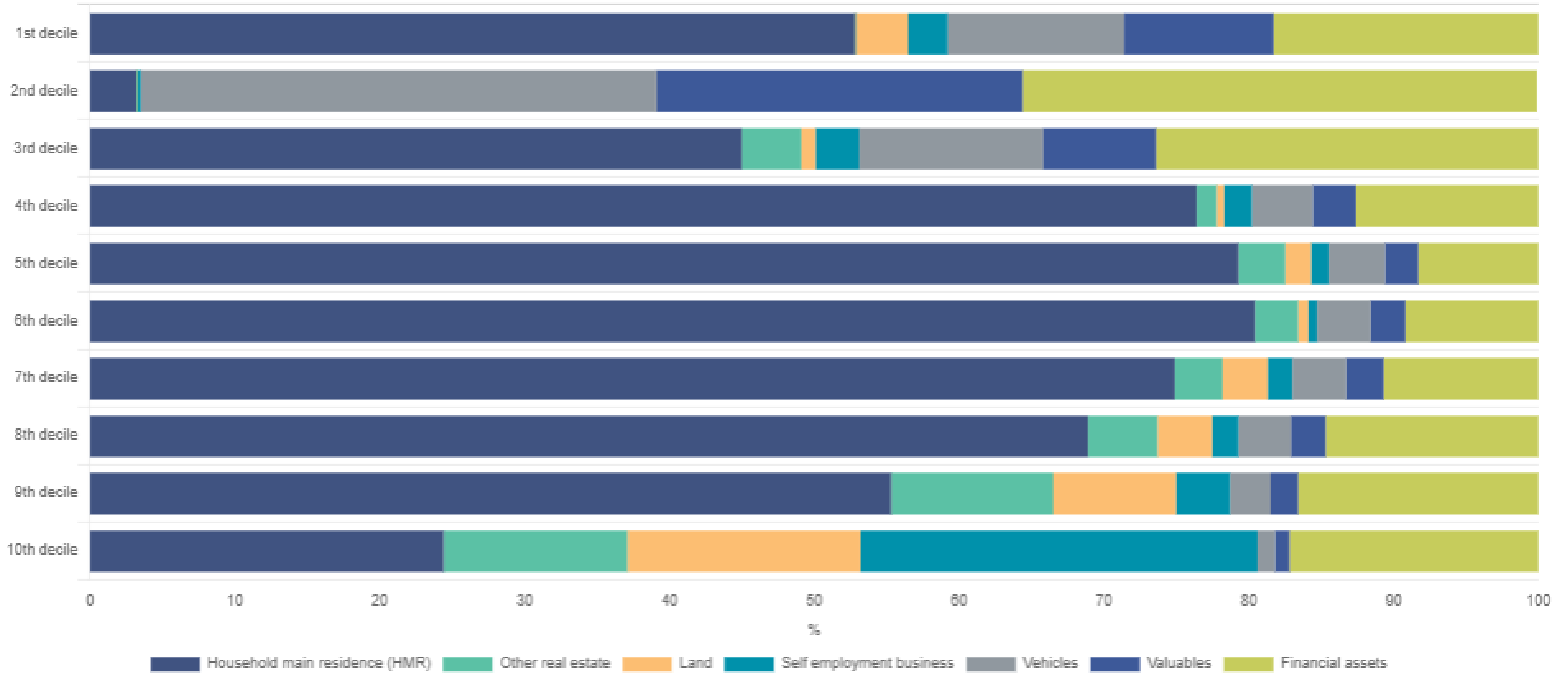


https://www.cso.ie/en/releasesandpublications/ep/p-hfcs/householdfinanceandconsumptionsurvey2023/ released on 11th June 2025

Median = €256,900, top 30% >€446,551, top 10% >€1,023,033

Mean = €17,900 (bottom decile), €2.563 million (top decile)

Figure 3.4 Percentage Distribution of the Components of Gross Wealth by Net Wealth Decile



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https://data.cso.ie/table/HFC2059

3. Economic & Social Rationales for/against Inheritance Taxes

- This wealth is going to either be spent or transferred to the next generation
- Demographic context (and capital gains on housing context…)
- Evidence points towards impact of inheritances on current inequalities…and suggest large transfers are ongoing

- Starting with ***some general tax objectives***
- Then – ***types of wealth taxes***
- Then – ***arguments For & Against*** *(paper takes a SP perspective)*

General Tax Objectives
(Equity, Efficiency, Simplicity)

- Raise a meaningful amount of revenue for the exchequer
- Support horizontal equity (Meade Report, 1978)
  - The idea that persons or groups with the same taxable capacity, or ability to pay, should be treated equally and should pay the same amount of tax
  - Inherited income vs earned income
- Support vertical equity (OECD, 2011)
  - The idea that those with greater taxable capacity should bear a proportionally heavier tax burden
- Minimise economic distortions (support economic efficiency)
- Minimise risk of capital flight
- Minimise administration and compliance costs

What are wealth taxes?

- Wealth taxes are taxes on a stock of assets.
  - They exist within the family of property taxes (LPTs, Capital Levies)

- Three main types of wealth tax:
  1. Taxes on wealth transfers (inheritance and gifts = CAT in Ireland)
  2. Taxes on capital appreciation (capital gains = CGT in Ireland)
     - CGT is arguably not a true wealth tax
  3. Taxes on net wealth holdings (net wealth tax = none in Ireland)

Arguments for taxing inheritance:

- equality considerations
  - equality of opportunity
  - social solidarity
  - horizontal equity
  - temper wealth concentration and associated negative societal effects
    - wealth provides additional benefits such as power and access
- an efficient tax: limited impact on real economic activity especially compared to almost all other forms of taxation (opportunity cost argument)
- anticipation effect (recipient) negatively influences labour supply, entrepreneurship and human capital decisions
- administratively easier than recurring wealth taxes? – might assist fight against tax evasion

Arguments against taxing inheritance:

- perceptions of ‘double taxation’ (common to all taxes?)
  - times taxed is not the issue - though combined effective tax rate might be…
- anticipation effect can distort investment activities
- exemptions and reliefs would distort investment decisions
- force the break-up ‘family businesses’
  - but, literature suggests 2^{nd} and 3^{rd} gen businesses are notably inefficient…..

Capital Acquisitions Tax yield in ROI, 2015-2022

Table 3. Capital acquisitions tax yield in Ireland, 2015–2022

	€m	% GNI*	% Household Net Wealth
2015	400	0.246	0.069
2016	415	0.242	0.067
2017	460	0.250	0.067
2018	523	0.269	0.070
2019	522	0.248	0.066
2020	505	0.216	0.061
2021	582	0.249	0.062
2022	605	0.221	0.058

Source: Calculated by Authors from Revenue Commissioners (2023), CSO (2023c), Central Bank of Ireland (2023).

4. Some Design Considerations

Review of Approaches across the OECD

- 24 of 36 OECD countries taxed inheritances or estates in 2019 (Drometer et al, 2018)
- Exceeds 1% of total tax revenue in just 4 countries (Korea, Belgium, France, Japan)
- Small majority applies progressive rates
    - Rates range from 1% to 80%
- Exemption thresholds vary from €15,000 in Belgium to $10 million in the US
- Effective rates are much lower than implicit tax rates on consumption, labour income or capital income
- Close family members tend to receive preferential treatment

CAT system in the Republic

CAT (inheritances, gifts, trusts) was introduced in 1975

- Rates originally varied between 5-50% but have been 33% since December 2012. Net CAT receipts were €854 million in 2024 (0.2 per cent of GNI*), most of which came from inheritances (€725 million).
- CAT has a lifetime tax-free threshold known as a group threshold, which is determined based on the relationship between the person making the gift or leaving the inheritance and the recipient. The tax-free thresholds are occasionally changed in the annual budget, most recently from January 2025. The threshold is €400,000 for a child (Group A), €40,000 for a sibling, niece, nephew or lineal ancestor or descendent (Group B), and €20,000 for all other groups (Group C).
  - Thus, a gift to a child of €450,000 would incur a CAT charge of €16,500 (an effective rate of 3.7 per cent) while the same gift to a non-relative would incur a CAT charge of €141,900 (an effective rate of 31.5 per cent).
- There is a 'small gift' exemption on the first €3,000 of taxable gifts received during each tax year (so €6,000 per annum if each parent provides a gift) as well as a 'dwelling house' exemption where a person continues to live in a home. There is also an exemption for gifts and inheritances made between spouses.
- Enormously generous agricultural and business property reliefs significantly reduce liability to CAT. These operate by reducing the market value of the relevant assets by 90% so that CAT is calculated on an amount - known as the 'agricultural value' or 'business value' - which is substantially less than the market value (10%).
  - 40 per cent of households in the top wealth decile report receiving a farm or business, whereas no households in the lowest net wealth decile report doing so. The agricultural relief cost €237 million (1,657 claims, average relief = €143,000) and the business relief €430 million (782 claims, average relief €550,000) in 2024, thereby depleting the total yield from €1.52 billion to €854 million
- Given that net household wealth exceeded €1.18 trillion in 2024 and assuming these assets are transferred once a generation, or every 25-40 years, we can establish an effective tax rate on net wealth transfer in the order of 1.8-2.9% in 2024.
  - For context, Ireland's implicit effective tax rate (ITR) on capital averaged 14% between 2016 and 2020, its ITR on consumption averaged 19.6% and its ITR on labour averaged 32.7%

Some Design Principles

For taxing wealth transfers in high-income countries:

1. Taxes on wealth transfers appear justified on equity and efficiency grounds and are a potentially meaningful source of recurring government revenue
2. They should be applied to the recipient rather than the donor
3. Gifts (over the lifetime) should be included in the assessment of inheritance taxes
4. Tax should apply on a lifetime basis, rather than treating inheritances one by one

Plus (from a horizontal equity perspective):

- same rates and thresholds for all
- avoid exemptions, reliefs and favourable valuations
- there is a case for a progressive inheritance wealth tax rate (as per some OECD states)
- and…administratively simpler to have this as a stand-alone system

Ready Reckoner

Revenue estimates

- 1% change in rate (+ or - €28.2 million)
- Reduce ag relief:
  - 90% to 80% = €11.6 million
  - 90% to 50% = €75.2 million
- Reduce bus relief:
  - 90% to 80% = €27.5 million
  - 90% to 50% = €124.7 million
- Thresholds
- A + or - €50,000 = €44.7 million
- B + or - €5,000 = €19.0 million (circa €37 million for €10k)
- C + or - €5,000 = circa €7.0 million

5. Ireland and Inheritance Taxes: reforms to enhance fairness

- Given these observations:
  - <u>all wealth recipients should be treated the same</u> with a modest exemption threshold below that of median wealth (median wealth in the Republic is circa €257,000 in 2023)
  - special treatments for agriculture and business should be abolished
    - both asset types tend to be concentrated amongst the wealthiest households
  - introduce a progressive CAT (inheritance tax) structure
  - facilitate long-term payment schedules and low-interest rates to offset hardship cases
  - CGT should apply on an asset (aside from PPR?) at death…before it is transferred

6. Conclusion

- Accumulating data and evidence…
- Important SP issue where taxation is key
- We explore the case for relatively higher and better designed inheritance taxes
- As a means of:
    - addressing wealth inequality
    - countering its future concentration
    - providing a large and recurring source of additional taxation revenue

- Challenge (not new) remains to build a widely accepted narrative to support the adoption of these reforms…

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