

The impact of bequest and inter-vivo transfers on the wealth distribution

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We study the effect of inter-vivo transfers, bequests and taxation on the distribution of wealth. We allow for random death and birth in a novel continuous-time overlapping generations framework. We enlarge Birkner et al. (2022), focus on the evolution of the wealth distribution over time and incorporate real-world tax schemes. Starting with the German wealth distribution in 2019, we study conditions under which fat right tails occur in the wealth distribution. We also ask how long it takes until an inheritance tax reform has effects on the wealth distribution. Given these results, we give recommendations for changes in budgetary-neutral inter-vivo tax, bequest tax and tax exemption to reduce wealth inequality.

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1 Introduction

[Motivation] Wealth inequality is on the core of societal problems of the 21st century. Ways to reduce inequality have been pointed out abundantly and papers on wealth distribution have been surging the last decade. While many identify theoretical drivers coupled with a quantitative analysis, only very few papers use a bequest scheme including taxes and tax exemption rules. We attempt to fill this void and give quantitative predictions for the wealth distribution as well as demonstrate the impact of different policies.

[Setup] We enlarge the theoretical model from (Birkner et al., 2022) to feature a more appropriate bequest scheme.

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