

Inheritance in Switzerland: An empirical analysis with special consideration of ambivalent generational relations

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Although inheritance is a common occurrence in Switzerland and is of great economic importance, it has up till now never been the subject of scientific study. The first *objective* of the research project on inheritance in Switzerland, realised within the framework of the National Research Programme 52 "Childhood, youth and intergenerational relationships in a changing society", is thus to obtain an insight into the size and socio-economic importance of inheritance. As a second step, these findings are contextualized within the framework of family and intergenerational relations. A third objective is to put inheritance practices into the context of other transfers between generations such as lifetime gifts, financial support and investment in education. Fourthly, it is important to study what people's motives actually are for accumulating the wealth they will bequeath at a later date and for dividing it up in the manner they have chosen in order to understand the extent and the impact of the phenomenon of inheritance. Finally, on the basis of empirical data, we will ask whether there are unsolved problems and what types of reform might potentially be necessary in Switzerland.

The *research methodology* that we have chosen combines economic with sociological approaches and thus sets inheritance practices firmly within the context of family and intergenerational relations. The analysis is based on data from very different sources. The Canton of Zurich provides the centrepiece of our research due to the data available there. We were able to have access to the administrative database of the Division for Taxes on Inheritance and Lifetime Gifts of the canton's Tax Office, which has a register of all deaths. To further probe specific issues, the content of selected tax files was analysed in detail using the method of content analysis. To investigate the general situation in Switzerland, we on the one hand conducted a survey as part of the *Univox survey* (which covers only people with the right to vote). On the other hand, for our financial extrapolations we combined information from the Canton of Zurich with available statistical data for the whole of Switzerland.

The legal regulations: The law on inheritance is inscribed in the code of civil law for Switzerland as a whole. A dying person is not completely free to decide about what is to happen to his or her property upon death. The law on inheritance protects direct descendants, the spouse and, in cases where there are no children, the parents under the conventions of the *legal succession* and *legal portions*. *Unmarried partners* and *stepchildren* are not considered in the law of inheritance, which is geared to the traditional family. If they are mentioned in the will, there is a risk of conflict with the legal portions to relatives. Responsibility for *tax on inheritance and lifetime gifts* is delegated to the cantons and there are considerable differences from one to the next. The Canton of Zurich abolished taxation on direct descendants at the beginning of 2000, so we were obliged to situate our research in the years prior to this date as this change had deprived the administrative database of much of the most interesting information it contained.

With the exception of the Canton of Schwyz, every canton levies an inheritance tax, but the list of *those exempted* from paying this tax in many cantons includes the main categories of heirs: only one canton still

taxes spouses and only five cantons tax direct descendants. *Unmarried partners* are in the highest tax strata in half of the cantons; other cantons have special arrangements only for unmarried couples that have shared a household for a minimum of five years. Only three cantons give unmarried partners a tax exemption equivalent to that afforded to spouses. Eight cantons also place stepchildren in the highest tax band, whereas, in nine others, they have the same tax rights as biological children.

The main conclusions we have drawn from the various pieces of empirical work can be condensed into the following statements:

Size and importance of the phenomenon of inheritance:

■ *Inheriting has never been so widespread.* Two-thirds of the Swiss population have already inherited or are expecting to inherit. It is presumed that the proportion would be slightly lower overall, had the non-Swiss immigrant population been included in the survey. Their certitude to inherit influences their economic behaviour in advance.

■ *Swiss households inherit a greater amount than they save themselves.* Our conservative estimate values inheritance in Switzerland at around 28.5 billion Swiss francs for the year 2000 –the gross household savings come to 22 billion francs. Comparisons with other macro-economic indicators reveal just how important inheritance is.

Volume of inheritance and lifetime gifts in the year 2000 (in millions of francs)

	Cant. Zurich	Switzerland
Total bequests	8'400	28'500
As a % of total fortune	2.8%	2.6%
As a % of national income	10.7%	8.1%
As a % of GDP	..	6.8%
As a % of gross household savings	..	131%
Total lifetime gifts	1'850	

■ *Inheritances are left more often and are greater in size in Switzerland than in the surrounding countries.* However, the assets of private households are not that much larger. One important explanation for this is the high concentration of wealth in the retired generation. The reasons for this are the relative affluence, high Swiss real estate prices (about a third of bequests are in the form of real estate), a few people with very large personal fortunes coming to our country after retirement, as well as the fact that wealth in Switzerland is generally concentrated amongst the retired generation and is therefore bequeathed again more rapidly.

■ *The „tide“ in inheritance is less marked in Switzerland.* Property remained more or less intact during the Second World War and this has meant that inheritance pattern have had more continuity than in surrounding countries.

■ *At least a quarter of the total value of inheritance is passed on in the form of lifetime gifts.* Lifetime gifts are especially prevalent when the purchase of real estate and the handing down of family-owned companies is involved.

Inheritance and social inequality:

■ *At least one-third of the population does not enjoy any inheritance; the top 10 percent receive three-quarters of the total sum of inheritances.* The average amount bequeathed per person leaving an inheritance was 456 000 Swiss francs in the year 2000 and the average amount inherited per heir was 178 700 Swiss francs. But, taken in isolation, this means very little. Inheritances are very unequally distributed. A good half of the heirs - those with the smallest inheritances - shared 2 percent of the total amount; the next 40 percent received a quarter of the total and the top 10 percent three-quarters.

■ *To everyone who has, will be given more.* Inheritances lead to a certain balancing out within the family and between the generations. However, seen at the social level, they are distributed according to the principle of St Matthew: *to everyone who has, will be given more.* An analysis of socio-economic indicators points to *education* – which also serves as an indicator of social class – as the central factors affecting people's chances of inheriting: people who have no vocational qualification have only half as good a chance of inheriting. Conversely, for people with at least the Matura [the equivalent of A-levels or the baccalaureate] inherit one-and-a-half times as often. The higher someone's level of education, the larger the amount he or she inherits.

■ *The gap between the French-speaking and the German-speaking part of Switzerland exists even in matters of inheritance.* An individual's chances of inheriting are only half as great in the French-speaking part as they are in German-speaking Switzerland.

■ *There are still differences between the sexes.* The sums left by men are one fifth larger than those left by women. Moreover, men make lifetime gifts somewhat more often than women do and they give much higher amounts. Thus earlier discriminatory regulations in marital and divorce law still seem to be in effect amongst the older generation. The equality of the sexes is greater on the side of the heirs and receivers of gifts; in particular, sons are not generally favoured over daughters. There are exceptions, e.g. in the case of handing over the family firm.

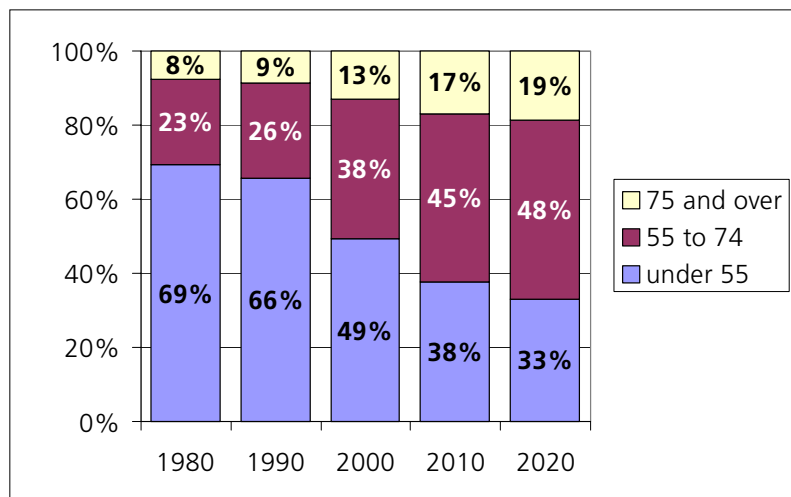
■ *Whether inheritance contributes to greater social inequality also depends on the chosen perspective.* An inheritance is of relatively greater importance for less affluent households than for those that are already well off.

■ *Other factors play a more important role in cementing social inequality in the following generation.* The passing on of social standing through the generations can be attributed to many mutually influencing factors. With the exception of the very top of the pyramid of wealth, material inheritance is not the most influential factor determining the social standing of the children. The literature on the subject considers differences in income - which are coupled with the level of education - to be far more important. Similar character traits in relation to accumulating money and property also play a role, i.e. the expectations of life that are inculcated in an individual by his or her parents.

Inheritance from a generational perspective:

■ *Longer life expectation has altered the meaning of inheritance in a person's life course.* Nowadays, less than a half of the total amount bequeathed goes to heirs younger than 55 years of age and, in 2020, this will drop to just over one third.

Distribution amongst heirs with reference to age



■ *The inheritance process is leading to a concentration of wealth amongst the retired generation.* The reason for this is the progressively increasing share of the older generation in the total sum of inheritance.

■ *The handing over of family companies does not generally form part of an inheritance.* But lifetime gifts happen nine times more often in cases of succession planning in family companies than amongst the general population.

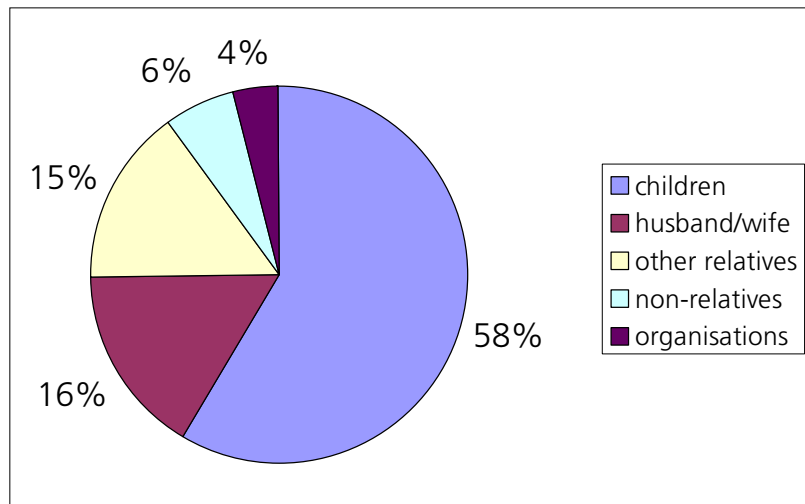
■ *It remains exceptional to leave one's inheritance to the generation of the grandchildren.* Only 3 percent of the total sum of inheritance goes to grandchildren. This is no compensation for the effect of aging on inheritance.

■ *Leaving an inheritance is one form of intergenerational transfer amongst many.* The generations are bound together through numerous exchanges of both a private and a social nature. In the social transfer system more is transferred to the elderly, in the private sphere the opposite is true: the older generation gives more to the younger one than it receives in return. The literature shows that the better the provision for old age provided through the welfare state, the more the older generation transfers to the younger.

Inheritance in the context of the family:

■ *Inheritance is kept in the family.* The dominant role of the family becomes clear when one analyses the distribution of inheritances with reference to the degree of relationship to the deceased. Almost 60% of the sum total of bequests goes to the children. If one includes the spouse, three-quarters of total inheritance remains within the close family. Of the remainder, most goes to relatives. Only 10% goes to non-relatives or to charities, but this last 3.9% still represents 1.1 billion Swiss francs per year in absolute terms.

Division of inheritance by category of heirs, Canton Zurich 1997-1999



■ *Even those without children stick to relatives when they make bequests.* Leaving an inheritance appears to be a way of taking one's place in the line of generations.

■ *The convention of equal division amongst all the children is respected in questions of inheritance, but this is not the case for lifetime gifts.* The convention of equal division is respected in 93 percent of inheritance cases where several children are involved. If there is *inequality*, this is often due to earlier gifts that are then not (fully) compensated during the inheritance process. This is often intentional: in 41 percent of cases later equalisation of *lifetime gifts* is explicitly excluded by the giver.

■ *The rules of the law of inheritance are in conflict with new forms of family life.* Non-traditional family constellations often lead to conflict with the law of inheritance. The lack of rights afforded by inheritance law to unmarried partners and stepchildren is not in phase with the general feeling amongst the population about what is fair.

Motives and attitudes:

■ *Even amongst the well off, 50 percent of people do not make a will.* The proportion amongst those without an estate to bequeath is 15 percent. The remainder make a conscious decision to let the legal line of succession run its course or simply do not mind what happens to their estate.

■ *There is no moral obligation to pass on an inheritance or a gift, although this is judged to be desirable.* Leaving an inheritance and giving a lifetime gift are not primary motives for people saving, but perhaps secondary ones. The possibility that they may one day require care prevents many elderly people from passing on their estate to their children at an early date.

■ *Inheritance is looked upon as a private matter and is not seen as undeserved wealth.* 85 percent of the population sees no injustice problem.

■ *There is no single, all-embracing motive for leaving an inheritance.* The hypothesis that inheritance is a purely accidental matter is most true of people who die leaving no estate. We were not able to research the motives of the super-rich. But it does appear that the vast number of average heirs implicitly have a retrospective attitude towards leaving an inheritance.

■ *Contradictory statements point to ambivalences.* In our survey, a majority of the respondents showed simultaneous approval for positions that contradict each other.

■ *However, people's opinions vary depending on their socio-economic status.*

■ *The fear of disputes is greater than their actual occurrence.* Avoiding disputes between the heirs is the strongest motive when dividing up the inheritance. Only 12.5 percent of heirs have actually experienced a dispute.

Need for reform and reform discussion:

■ *Inheritance taxes do not meet with great enthusiasm nor do the differences between the cantons.* Only a quarter of the Swiss population considers it right that taxes have to be paid on inheritances. When asked to comment on concrete figures and degrees of relationship, a majority of people would set the threshold for paying inheritance tax at 60 000 Swiss francs left by a friend and 1 million Swiss francs left by an uncle. Therefore the scope for increasing inheritance tax appears to be limited. On the other hand, there are better prospects of coming to a uniform federal solution; most people take exception to the great differences between the cantons.

It needs to be tested within the framework of the theory on optimal taxation whether inheritance tax makes economic sense beyond the political argument for more equal redistribution of wealth. A study by the International Monetary Fund suggests, for example, that inheritance taxes should partially replace income taxes in situations where there is a high proportion of the general population that is retired in order to reduce the burden on the economically active.

■ *The legal discrimination in inheritance matters against unmarried partners and non-biological children is not in phase with the opinions and experiences of the population.* One radical inheritance law approach to solving this is to bring in testamentary freedom. This abolishes compulsory bequests and leaves it completely up to the individual to decide to whom he/she wishes to bequeath his/her estate. Even those who do not wish to go quite so far can certainly question the current Swiss law on legal share: is it, for example, still in keeping with the times that parents figure amongst the compulsory heirs?

Our results fit well into the basic patterns of studies made in various countries. But there is one aspect in which Switzerland seems to be ahead in time of most countries where studies on inheritance have been made: the concentration of wealth in the retired generation is much more advanced in Switzerland due to the fact that inheritance matters have been able to continue uninterrupted and undisturbed by war. It would be a challenge for new research to investigate what this means for macro-economic dynamics and for the social structure of society.