An age differentiated tax on bequests

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Abstract

This chapter presents four arguments supporting an age-differentiated tax on bequests, that is, a tax rate on bequests that is varying with the age of the deceased. The arguments are based on various ethical foundations and lead to an inheritance tax that can be either increasing or decreasing with the age of the deceased. The chapter argues that one of these arguments is more convincing than the three others: the argument supporting a bequest tax increasing with the age of the deceased. The chapter defends age-differentiated taxation on bequests by appealing to considerations of the compensation of unlucky prematurely dead persons in a world of imperfect information.

Keywords

taxation, age, justice between age groups, equality, bequest tax, differential longevity

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**An Age-Differentiated Tax on Bequests**

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1. Introduction

Whereas the taxation of inheritance or bequests is a widespread practice around the world, existing fiscal systems involve tax rates on bequests that do not—at least explicitly—depend on the age of the deceased.[[1]](#footnote-1) If a person dies and leaves a bequest to their descendant, this bequest will be, in a given country, taxed at the same rate independently from whether the donator died at age 40 or 95.

Would it be socially desirable to make the taxation of bequest depend (explicitly) on the age of the deceased? If yes, on what grounds could one justify an age-differentiated tax on bequests? In which direction should the age of the deceased affect the rate at which bequests are taxed?

An age-differentiated tax on bequests is far from an uncontroversial proposal. This may explain why no country in the world applies an age-differentiated tax on inheritance.

The goal of this chapter is twofold. First, we defend an age-differentiated tax on bequests, with a tax rate increasing with the age of the deceased: the older the deceased is, the higher the tax on their inheritance should be. Second, although there exist several distinct arguments supporting such an age-differentiated tax on bequests, we argue that the most persuasive argument is a compensation for short longevity. It states that, in a world of imperfect information about durations of life, an age-differentiated tax on bequests is a non-substitutable way of improving the situation of individuals who turn out to be short-lived. This chapter thus proposes to defend a particular kind of age-differentiated bequest tax (i.e. increasing with the age of the deceased) on a particular ground, that is, the compensation of unlucky prematurely dead individuals in a world of imperfect information.

This chapter proceeds in two stages. In a first stage, we review some theoretical arguments supporting, on various grounds, an age-differentiated tax on bequests. Some arguments support a tax rate on inheritance that is decreasing with the age of the deceased; others support a tax rate that is increasing with the age of the deceased. Then, in a second stage, we propose a critical assessment of those arguments, and we argue that the most persuasive one is based on compensation for premature death, which supports a taxation of inheritance that is increasing with the age of the deceased.

2. Strategic testamentary dispositions and tax revenues

Within the public economics literature, one of the first arguments for taxing bequests differently depending on the age of the deceased is the one formulated by [Vickrey (1945](#LinkManagerBM_REF_TCxOKztI) [1994]). To be precise, the proposal made by Vickrey is not a tax based on the age of the deceased but on the age gap between the donator and the receiver of the bequest. However, assuming that the age of the receiver is constant and that the donator is the deceased, this proposal amounts to imposing a tax rate on bequests that increases with the age of the deceased.

Vickrey’s argument is motivated by the goal of minimizing strategic testamentary dispositions, which can lead to (legal) fiscal avoidance. That argument relies on the idea that a uniform, age-invariant, tax on bequests has the undesirable feature of influencing the form of testamentary dispositions. More precisely, such a uniform bequest tax pushes the donator to transmit their wealth with as few steps as possible (e.g. directly to grandchildren or even great-grandchildren) in order to avoid taxation of the bequest. There is thus a danger that donators adopt transmission strategies in order to reduce the amount of tax they have to pay, leading to tax avoidance and losses of fiscal revenues for the state.[[2]](#footnote-2)

Here is an example. Suppose that an elderly person would like to transmit their wealth *b* to their family. This elderly person has, for simplicity, one child and one grandchild. Under a uniform tax rate *τ* on bequests, the transmission to the child will make the child receive (1 – *τ*)*b*.[[3]](#footnote-3) Then, when the child will transmit the wealth to their own child, the amount transmitted will now be (1 – *τ*)2*b*. But if the parent transmits the wealth directly to the grandchild, the amount transmitted is equal to (1 – *τ*)*b*. As a consequence, if the elderly parent wants to transmit their wealth to their descendants, it is more profitable to transmit it directly to the youngest descendant by minimizing the number of intermediate steps.

As the example illustrates, the uniform tax on bequests has the consequence of influencing the form of testamentary dispositions. Rich elderly persons will systematically opt for transmission with as few steps as possible. In order to avoid such an influence on the tax, Vickrey proposed that the tax rate on bequests should be increasing with the age gap between the donator and the receiver. If the tax is properly designed, this makes the burden of the tax invariant to the number of steps in the succession.[[4]](#footnote-4) According to [Vickrey (1945](#LinkManagerBM_REF_TCxOKztI) [1994]: 136), such a tax would imply that the same burden is imposed on the transfer of a given sum of money from one generation to another regardless of the number of steps in which it is done.

To see how this proposal could make the tax on bequest neutral for testamentary dispositions, let us suppose that, in our previous illustration, there is a ℓ-year age gap between each generation (i.e. the donator is aged 2ℓ, their child is aged ℓ, and the grandchild is a newborn) and denote by τℓ the tax rate on bequest when the age gap between the donator and the receiver is equal to ℓ. If the parent adopts the strategy of transmitting the wealth directly to their grandchild, the amount transmitted is (1 – τ2ℓ)*b*, whereas, in case of a two-step transmission, it is equal to (1 – τℓ)2 *b*. Hence, there is indifference between the two transmission strategies if, and only if, τ2ℓ = τℓ (2 – τℓ), which implies τ2ℓ > τℓ, that is, a tax on bequest that is increasing with the age gap between the donator and the receiver.

Thus, imposing a tax on bequest that is increasing in the age gap between the donator and the receiver is a simple way to avoid strategic testamentary dispositions leading to losses of fiscal revenues for the state. That argument can be easily translated into an argument supporting a tax on bequests that is increasing with the absolute age of the donator, provided the age gap between the donator and the receiver increases with the age of the donator.[[5]](#footnote-5)

Vickrey’s argument faces two main criticisms.

First, from the perspective of avoiding strategic testamentary dispositions, taxing bequests based on the degree of parenthood is a better policy response than bequest taxation based on the age of the deceased. If, for instance, a large age gap between a donator and a receiver (their son) is due to the late birth of the latter, there is little support for applying a higher tax rate on inheritance. Thus, Vickrey’s argument can only be regarded as providing a second-best argument for age-differentiated taxation of bequests, the age gap between the donator and the receiver being taken as a proxy for the degree of parenthood between them.

Second, Vickrey’s argument relies on the goal of raising fiscal revenues. However, as argued by [Rawls (1971](#LinkManagerBM_REF_jfybgHCj): section 43), the primary function of inheritance taxation is not to raise fiscal revenues but, rather, to correct for inequalities in economic power, inequalities that often affect the quality of political democracy. If one adopts Rawls’s view, inheritance taxation rules should be designed to achieve more social justice. From that perspective, a major problem is that Vickrey’s taxation rule may, in some cases, conflict with basic intuitions about a fair taxation of inheritance.[[6]](#footnote-6) Take the example of two rich old individuals, John and Jim, with the same characteristics and the same families, except that the grandchild of Jim was victim of a fraud and fell into poverty. Because of that circumstance, Jim prefers to transmit his wealth directly to his grandchild, unlike John, who transmits his wealth to his son. Based on Vickrey’s argument, one should tax the bequest left by Jim at a higher rate because of a larger age gap. However, it is not clear why Jim should be penalized with respect to John. If the government cares equally about their interests, it is fair to tax the two bequests at the same rate. Moreover, Jim’s transfer would minimize inequalities among descendants by compensating the unlucky grandchild. Vickrey’s tax proposal is here in conflict with basic intuitions about fairness.

3. Utilitarianism, age at death, and accidental bequests

Consider now inheritance taxation in an economy where there is inequality of longevity: some individuals die prematurely, while others enjoy a long life.[[7]](#footnote-7) Assuming the absence of annuity markets, the possibility of premature death gives rise to what can be called ‘accidental bequests’, that is, bequests that would not have been transmitted provided a premature death had not occurred.[[8]](#footnote-8) In the case of a long life, the inheritance includes only an unconditional component, which the person had planned to give to their descendants, whatever the time of their future death. However, for the prematurely dead, bequests include two components: an unconditional component, which is independent of the age at which the person dies, and an accidental component, which depends on the age at which the person dies.[[9]](#footnote-9) The presence of the accidental component is explained as follows: in the case of a premature death, the inheritance includes, in addition to the unconditional component of bequest, the deceased’s ‘lost saving’, that is, the resources that the deceased had saved for their old age and that they would have consumed provided their early death did not take place.

A utilitarian government, whose goal is to maximize the sum of individual utilities in the population, leads to the equalization of the marginal utility of everyone, which has strong implications for the taxation of bequests. Let us assume that an individual’s joy-of-giving function is increasing and concave.[[10]](#footnote-10) Utilitarianism prevents some individuals from giving more than others.[[11]](#footnote-11) This has an unambiguous implication for bequest taxation: accidental bequests should be taxed at a 100 per cent rate and redistributed equally among all young adults. The intuition behind that result is that, given the concavity of the joy-of-giving function, social welfare is maximized when all individuals who die give the same amount. From that perspective, one should confiscate all accidental bequests, which are given only by the prematurely dead, but leave unconditional bequests untaxed.

However, confiscating accidental bequests can be criticized on the grounds of penalizing the short-lived, who are, under general conditions, the most disadvantaged. Prematurely dead individuals are disadvantaged since they have, due to their shorter life, fewer opportunities to transform resources into well-being. Under general conditions, short-lived individuals have a lower lifetime well-being in comparison to the long-lived. A confiscatory tax on accidental bequests, by preventing the prematurely dead from giving more to their descendants (in comparison to long-lived persons), worsens even more the situation of the most disadvantaged individuals. This definitely goes against the intuition of justice.

Of course, in the real economy, it is difficult for a government to impose distinct (explicit) tax rates on the different components of bequests—accidental and unconditional. We are actually in a second-best world, where the government has access to only a limited number of fiscal instruments. However, since the age of the deceased is observable, the government can use the age of the deceased as a proxy variable: the accidental component of bequest is larger when a person dies early and vice versa. It is thus possible for a government to achieve a differentiated taxation of the two components of bequests by differentiating the tax rate on total bequests based on the age of the deceased.

When solving the optimal (second-best) problem faced by the utilitarian government, [Fleurbaey et al (2022)](#LinkManagerBM_REF_z8tykO7G) show that it is optimal to tax total bequests at a rate that decreases with the age of the deceased. The argument goes as follows. We know from above that a utilitarian government would like, ideally, to tax accidental bequests at a 100 per cent rate. This cannot be done directly in a second-best world where only total bequest can be taxed, but it is nonetheless possible, by taxing bequests at a rate that decreases with the age of the deceased, to tax more the bequest left by those who die early and for whom the accidental component of the bequest is the largest. Age-differentiated bequest taxation is thus only an indirect way to tax accidental and unconditional bequests differently, in the absence of tax instruments for the distinct components of bequests.

Quite interestingly, the utilitarian argument considered here leads to justifying age-differentiated taxation of bequests but in a direction opposite to the one considered in section 2, which is Vickrey’s argument. The reason why the two arguments differ in conclusion lies in the fact that Vickrey considers an economy where individuals can follow strategies to avoid paying inheritance tax, strategies that are not available in this model. Another fundamental difference is that we consider here inequalities in the duration of life, giving rise to accidental bequests, something that is not considered in [Vickrey (1945 [1994])](#LinkManagerBM_REF_TCxOKztI).

Although appealing at first glance, the second-best utilitarian argument for a tax on bequests that is decreasing with the age of the deceased can be criticized on the same grounds as the 100 per cent tax rate on accidental bequests in the first-best setting: such an age-differentiated tax on bequests penalizes the short-lived with respect to the long-lived, which is counter-intuitive. Given that prematurely dead persons are disadvantaged with respect to the long-lived, imposing a higher tax rate on bequests left by the former amounts to imposing on them a kind of ‘double penalty’. Fairness would recommend allowing the disadvantaged to transmit more—and not less—to their descendants. A bequest tax that is decreasing with the age of the deceased has implications contrary to our basic intuitions about social justice.

4. Compensating the unluckily short-lived

The ‘double penalty’ imposed to the short-lived under utilitarianism is particularly counter-intuitive since it goes against the intuition of compensating the unluckily short-lived. Given that a large part of longevity inequalities are due to circumstances, there is strong ethical support for compensating the unluckily short-lived. This support for compensating the short-lived takes its roots in the Principle of Compensation ([Fleurbaey and Maniquet 2004](#LinkManagerBM_REF_CyFG4TgP" \o "LinkManagerBM_REF_CyFG4TgP); [Fleurbaey 2008](#LinkManagerBM_REF_hTwibF2f)). This principle states that, when well-being inequalities are due to circumstances over which individuals have no control, the government should intervene to abolish those inequalities.[[12]](#footnote-12)

The utilitarian criterion goes against the Principle of Compensation since it leads to penalizing short-lived persons even more. This counter-intuitive feature of utilitarianism motivated the search for alternative social welfare criteria, which do more justice to the compensation of the short-lived. One of those criteria is the ex post egalitarian criterion proposed by [Fleurbaey et al. (2014)](#LinkManagerBM_REF_XX8AGdSN), which gives priority to the worst-off individual defined in ex post terms. Under unequal lifetimes, that criterion aims to maximize the realized lifetime well-being of prematurely dead individuals, who are usually the worst off ex post.

Ex ante (i.e. before individual longevities are revealed), no one—neither individuals, nor the state—knows who will end up being short-lived or long-lived. But, using life tables, the state can anticipate that some individuals will turn out to die prematurely and design policies in such a way as to favour the interests of individuals who will be short-lived, even if those persons cannot be identified ex ante.

When applied to the issue of bequest taxation, the ex post egalitarian criterion leads to conclusions that are opposite to the ones derived under utilitarianism ([Fleurbaey et al. forthcoming](#LinkManagerBM_REF_z8tykO7G" \o "LinkManagerBM_REF_z8tykO7G)). Provided that individuals care about how their lost savings are redistributed in case of premature death, accidental bequests can be regarded as allowing for the compensation of the unlucky short-lived. Short-lived persons cannot, by definition, consume what they saved for their old days, but if they prefer those lost savings to be transmitted to their children, then, allowing them to transmit these to their children contributes to making them better off. Thus, accidental bequests can be regarded as an indirect way to compensate unlucky short-lived persons.[[13]](#footnote-13)

As a consequence, if the goal of the state is to compensate the prematurely dead, accidental bequests should neither be confiscated nor taxed. If a government could impose different tax rates on the different components of bequests (accidental and unconditional), then it would not tax but subsidize accidental bequests. That result, shown by [Fleurbaey et al. (forthcoming)](#LinkManagerBM_REF_z8tykO7G), goes against the confiscatory tax that would prevail under utilitarianism (see section 3). The logic goes as follows. If the state aims to compensate prematurely dead individuals, this entails subsidizing the accidental component of bequests since this component is transmitted only by prematurely dead persons and not by long-lived individuals. Subsidizing accidental bequests It It amounts to allowing the prematurely dead individual to transmit more resources to their descendants and thus contributes to the compensation for premature death.

In real-world economies, it is not possible to impose distinct (explicit) tax rates on the different components of bequests, that is, accidental and unconditional. However, it is possible, as in section 3, to use the age of the deceased as a proxy variable since it is reasonable to assume that the share of the accidental bequest in the total bequest is likely to decrease with the age of the deceased. Hence, since the accidental component of bequests becomes less and less sizeable with the age of the deceased, one way to compensate the short-lived is to tax bequests less when the deceased is younger and more when they are older. There is thus a second-best ex post egalitarian argument for taxing bequests at a rate increasing with the age of the deceased.

That conclusion is the exact opposite of what prevailed under utilitarianism, which recommends taxing bequests at a rate that decreases with the age of the deceased. The intuition is that utilitarianism leads to the equalization of the marginal utilities of alternative uses of resources. This leads to preventing some individuals from giving more than others. In contrast, the ex post egalitarian criterion aims to equalize the levels of utility between short-lived and long-lived individuals. From that perspective, it is optimal to allow prematurely dead individuals to give more, net of tax, to their descendants. This motivates taxing bequests at a rate that increases with the age of the deceased.

Although attractive, that—second-best—argument supporting a tax on bequests that increases with the age of the deceased nonetheless faces one major limitation. The argument states that allowing prematurely dead individuals to give more (net of taxes) is a way of providing some compensation for the harm of having a shorter life. But this is true only if individuals care about what they give to others in case of premature death.[[14]](#footnote-14) If, alternatively, individuals did not care about how lost savings are distributed in case of premature death, then this argument would not hold anymore. Age-differentiated taxation of bequest would be ineffective at compensating such short-lived persons and the only avenue left would need to rely on modifying consumption/leisure profiles.[[15]](#footnote-15)

5. Compensating unluckily deprived widows and orphans

There exists another equity argument that also supports age-differentiated taxation of bequests. That argument does not rely on the idea of compensating a person for their own premature death. It considers, instead, the compensation of widows and orphans who are the collateral victims of the premature death of a person. This argument is very different from the previous one since it involves a demand for justice not between the deceased but among the surviving persons. Age-differentiated taxation of bequests is regarded here as a way to reduce inequalities when some persons face the premature death of a close relative.

In order to do justice to the idea of compensating orphans/widows, let us adopt, as in section 4, the ex post egalitarian criterion, which gives priority to the worst off ex post. In the context under study, this social criterion supports a taxation of bequests that increases with the age of the deceased. Several variants of the argument can be proposed.

The first variant of that argument is based on the simple idea that families are economic and social units in which some members benefit from resources provided by other family members. In that context, the death of a parent has a strong impact on the resources enjoyed by the rest of the family. Quite importantly, the impact of the premature death of the parent on the resources of the children (and, hence, on their well-being and their development) is likely to vary with the age of the children and, hence, with the age of the parent, assuming a constant intergenic interval. If the parent dies at a young age, this implies, in purely material terms, a bigger loss for (younger) children in the sense that this penalizes their future development more strongly.[[16]](#footnote-16) In light of this, it appears intuitive, from an ex post egalitarian perspective applied to the families of the deceased, to tax bequests at a lower rate when the deceased was younger and at a higher rate when the deceased was older.[[17]](#footnote-17)

There is another variant of that argument, which considers the emotional impact of a death, that is, its impact in well-being terms, independently from material resources. As shown by [Blanchflower and Oswald (2004)](#LinkManagerBM_REF_JCCV3xj1), becoming a widow(er) has a major negative impact on subjective well-being.[[18]](#footnote-18) Note that, if we adopt a life-cycle perspective, the well-being loss due to the death of someone is likely to be larger when the deceased is younger. The underlying intuition is that, in case of interest for joint survival, individuals are like ‘durable goods’, which are enjoyed during longer time periods in case of a late death and during shorter time periods in case of an early death.[[19]](#footnote-19) Thus, in terms of compensation, even if all persons in widowhood face a strong deprivation, this deprivation is likely to be quantitatively larger when the deceased is younger because the opportunity cost of the non-lived coexistence time is then larger. In light of this, an ex post egalitarian view applied to the surviving family members would, again, recommend taxing bequests at rates that increase with the age of the deceased, as under the first variant.

While appealing at first glance, that argument faces two main criticisms.[[20]](#footnote-20)

First, the argument supports, strictly speaking, a taxation of bequests not based on the age of the deceased but on the age of the descendants of the deceased. True, in many cases, the younger the deceased is, the younger their descendants are. However, in case of differential fertility timing, this would not be true any longer, and this argument would not support a differentiation of bequest taxation based on the age of the deceased.

A second, related point, concerns the tension between compensating the deceased and compensating their descendants. While those arguments seem to go in the same direction, conflicts may arise in case of differences in parent–child age gap. Take two individuals: the first one, who had a son at age 20, died at age 40, whereas the second one, who had a son at age 40, died at age 50. The compensation for a shorter life would lead to imposing a lower tax rate on the bequest left by the first individual, whereas the compensation for losing a parent would lead to imposing a higher tax rate on the bequest left by the first individual. Thus, the two compensation motives can lead to contradictory policy recommendations.

6. Discussion

Up to now, this chapter has examined four distinct arguments supporting an age-differentiated taxation of bequests. Given that those arguments can conflict regarding the direction and extent of age-differentiation of bequest taxation, it is necessary to compare and weight these to determine which one is the most persuasive.

Regarding the direction of discrimination with age, among the four arguments considered, only one—the utilitarian argument—recommended a tax that decreases with the age of the deceased. But, as we have seen, that argument is quite questionable. Such a direction for age-differentiated inheritance taxation leads to penalizing the prematurely dead, which is counter-intuitive since the prematurely dead is the main victim of a harm for which they are not responsible, and, as such, they should be compensated rather than penalized.[[21]](#footnote-21) The utilitarian argument for age-differentiated bequest taxation being questionable, we will leave it aside in the rest of this section and focus on the three other arguments.

Among the three justifications for an inheritance tax increasing with the age of the deceased, we believe that the most persuasive argument is the one based on the compensation of the prematurely dead. Our rationale is based on (i) the hierarchy of priorities among goals and (ii) the (un)availability of alternative policy instruments allowing for achievement of those goals.

The three arguments under comparison rely on distinct goals: raising fiscal revenues, compensating the prematurely dead, and compensating the heavily dependent in case of death of a relative. We believe that, among those goals, the second and the third one should have priority over the first one. The reason is that the harm due to a premature death—either for the deceased themselves or for their family—is such a source of misfortune that the compensation for those losses should have priority over the goal of raising fiscal revenues per se.

It is more difficult to rank the two compensation goals: compensating the deceased themselves or their surviving family. Both the deceased and their surviving family are victims of a serious harm, for which these are not responsible.[[22]](#footnote-22) In both cases, the Principle of Compensation recommends a state intervention aimed at compensating those victims. One cannot state that some compensation should have priority over another one. Both harms matter, and the associated demands of justice are equally valuable.

In order to weigh our different compensation-based arguments supporting an inheritance tax increasing in the age of the deceased, we thus need to consider the second aspect of the comparison: the possible substitution by means of other policy instruments. From that perspective, there exists a major difference between the two arguments.

The relevance of age-differentiated bequest taxation for the compensation of the prematurely dead is reinforced by the presence of informational constraints specific to the compensation of the prematurely dead and which make that policy instrument hardly substitutable for that particular purpose. The informational constraint is the following: short-lived persons can hardly be identified before durations of life are revealed, and there is little that can be done for them after the short-lived have been identified since they are dead.

In light of those serious limitations, the only possible strategy to improve the situation of the prematurely dead is to design policies that favour all young individuals since the young necessarily include the unlucky individuals who will turn out to die prematurely. True, this can be done by modifying consumption profiles, as in [Fleurbaey et al. (2014)](#LinkManagerBM_REF_XX8AGdSN), or leisure profiles, as in [Leroux and Ponthière (2018)](#LinkManagerBM_REF_peA43h2l). But since the capacity of the prematurely dead to convert resources into well-being is de facto limited by their short life, allowing them to give more to their loved ones is a major channel through which we can improve their lives. Thus, excluding age-differentiated bequest taxation would remove an important policy instrument from the perspective of compensating the prematurely dead. Therefore, under those informational constraints, age-differentiated bequest taxation is a non-substitutable way of improving the situation of the unlucky individuals who turn out to be short-lived.

But the same is not true when considering the compensation of orphans/widows. Unlike the prematurely dead, those individuals can be identified when alive and can receive some compensation once the harm has occurred. It is thus possible to help them without using age-differentiated bequest taxation. For instance, if orphans are suffering from lack of funding for higher education, special student scholarships can be introduced to correct for unequal endowments. Similarly, if orphans are suffering from the absence of their parent, some particular services/allowances could be introduced to help them. But none of those instruments could be used for the compensation of the short-lived themselves.

In sum, informational constraints are weaker for the compensation of orphans/widows than for the compensation of the prematurely dead, who can only be identified when dead. Differences in informational constraints make age-differentiated bequest taxation hardly substitutable for the compensation of the prematurely dead but easily substitutable for the compensation of orphans/widows. As a consequence, age-differentiated inheritance taxation is best supported by the argument based on the compensation of the prematurely dead.

7. Conclusion

This chapter considered whether it is justified to tax bequest differently based on the age of the deceased. We examined four arguments supporting age-differentiated taxation of bequests: three arguments supporting a tax on inheritance that increases with the age of the deceased and one argument supporting a tax that decreases with the age of the deceased.

We argued that, from an ethical perspective, there is strong support for a tax that increases with the age of the deceased, whatever we consider the compensation of the short-lived themselves or the compensation of the family in widowhood. Among those two arguments, we argued also that the former is more persuasive because age-differentiated bequest taxation is, from the perspective of achieving compensation of the prematurely dead, a non-substitutable instrument (due to stronger informational constraints), unlike the situation that prevails for the compensation of the family of the short-lived.

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1. This does not mean, of course, that the tax rates that are applied do not account, indirectly, for the age of the deceased. For instance, if wealth accumulates (respectively, decumulates) with age, and if bequest taxation is progressive, the tax rate on bequest is implicitly increasing (respectively, decreasing) with the age of the deceased. [↑](#footnote-ref-1)
2. This possibility of fiscal arbitrage arises because the tax system does not usually take into account the frequency of transfers (i.e. their relation with past/future transfers) but only their levels. [↑](#footnote-ref-2)
3. For simplicity, we assume that the interest rate equals 0. [↑](#footnote-ref-3)
4. This argument assumes that the age gap between the donator and the receiver can be taken as a proxy for the degree of parenthood between them (see below). [↑](#footnote-ref-4)
5. This is the case when the donator must wait longer in order to be able to transmit their wealth to a more distant descendant. [↑](#footnote-ref-5)
6. Note that it is not necessarily the case. Minimizing fiscal avoidance contributes also to the reduction of the concentration of wealth in some dynasties, and, as such, can be defended on the ground of equalizing opportunities across families (see [Halliday 2018](#LinkManagerBM_REF_Dk6TNjJv)). [↑](#footnote-ref-6)
7. This section relies on the study of optimal inheritance taxation in [Fleurbaey et al (2022)](#LinkManagerBM_REF_z8tykO7G). By emphasizing heterogeneity in longevity, that paper differs from [Cremer et al. (2012)](#LinkManagerBM_REF_2mtknuoB); [Fahri and Werning (2013)](#LinkManagerBM_REF_ParLA9Bt); and [Piketty and Saez (2013)](#LinkManagerBM_REF_AlOeRDZ2), which focus on heterogeneity in wages and parental altruism. [↑](#footnote-ref-7)
8. Otherwise, if there existed an annuity market, the savings of the dead would be redistributed among the surviving old of the same cohort so that there would be no accidental bequests going to descendants. [↑](#footnote-ref-8)
9. Note that, since individuals anticipate what is given to their children under different longevity outcomes, the donator has the intention to give the unconditional component in case of a long life and both the unconditional and the accidental components in case of a short life. Thus, the ‘accidental’ component of the bequests is not unintentional. We use the term ‘accidental’ to highlight that this component of bequests would not have been transmitted provided a premature death had not taken place, unlike the unconditional component. [↑](#footnote-ref-9)
10. The joy-of-giving function is the component of the individual’s utility function that captures the utility derived by the person from the act of giving some resources to a close relative. We assume an individual’s total utility to be additive in its consumption component and in its joy-of-giving component. [↑](#footnote-ref-10)
11. The intuition goes as follows. Utilitarianism equalizes the marginal utility of giving for all donators. If a person were to give more to their descendant, the associated marginal utility of giving would be, for that donator, smaller, which contradicts utilitarian optimality. At the utilitarian optimum, all marginal utilities of giving are equalized, implying that all individuals give the same amount, whether these are short-lived or long-lived. [↑](#footnote-ref-11)
12. While [Dworkin (2000)](#LinkManagerBM_REF_Hd1NGika) highlighted the distinction between circumstances and choices, hypothetical insurance markets *à la* Dworkin lead generally to allocations violating the Principle of Compensation. Indeed, hypothetical insurance devices only lead to allocations that are fair ex ante, whereas the Principle of Compensation is about fairness ex post, that is, once the states of the world are known. See [Fleurbaey (2008](#LinkManagerBM_REF_hTwibF2f): 172–173). [↑](#footnote-ref-12)
13. One may wonder at which precise time the compensation for premature death takes place, in the same way as some philosophers, such as [Bradley (2009)](#LinkManagerBM_REF_bNnpQuyM), try to localize the harm due to a premature death. The answer is that the compensation takes place over the entire life of the prematurely dead and is thus not located at a particular point within that life. More technically, [Fleurbaey et al (forthcoming)](#LinkManagerBM_REF_z8tykO7G) measure ex post lifetime well-being as a numerical representation of preferences over degenerate lotteries of life. Subsidizing accidental bequests contributes to increase ex post lifetime well-being of the prematurely dead when measured in that manner. [↑](#footnote-ref-13)
14. The reason why they care about giving to their descendants is irrelevant for that argument: as long as it matters for the deceased to give, allowing them to give more in case of a premature death brings some compensation for an early death. [↑](#footnote-ref-14)
15. See [Fleurbaey et al (2014)](#LinkManagerBM_REF_XX8AGdSN); [Leroux and Ponthière (2018)](#LinkManagerBM_REF_peA43h2l). [↑](#footnote-ref-15)
16. This argument is, like the previous one, a second-best argument, that is, under a limited set of policy instruments. [↑](#footnote-ref-16)
17. We assume here implicitly that the degree of material dependence between family members is decreasing with the age of the deceased. [↑](#footnote-ref-17)
18. [Blanchflower and Oswald (2004)](#LinkManagerBM_REF_JCCV3xj1) show that $100,000 per year would be required to compensate someone for the death of a spouse. [↑](#footnote-ref-18)
19. This argument may not hold for all ages of life. For instance, [Broome (2017)](#LinkManagerBM_REF_YOtAh2Jm) discusses some reasons why the death of a young adult may be seen as worse than the death of a child. [↑](#footnote-ref-19)
20. These apply to both variants of the argument. [↑](#footnote-ref-20)
21. Note that, in the case of a suicide, the issue of the responsibility of the deceased for their premature death could be raised. This goes outside the scope of this chapter, which is about ordinary premature deaths. [↑](#footnote-ref-21)
22. Again, we focus here on ordinary premature deaths and exclude suicides and murders. [↑](#footnote-ref-22)