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Ten years without the Swedish inheritance tax



**Mourned by no one
- missed by few**

It is ten year since the Swedish inheritance tax was abolished by a unanimous riksdag (parliament). How did it happen? How come all political parties in parliament - from the conservative right to the socialist left - agreed on its demise?

This book tells the history of the tax, its abolishment and what consequences it had on Swedish business owners and Swedish business. It also takes a broader perspective and looks out to Europe and the world, proving that Sweden is far from as alone in refraining from taxing inheritance as we are sometimes led to believe.

The abolishment of inheritance and gift tax marked the start of a broader debate on ownership issues in Sweden, a debate that eventually led to the abolishment of wealth tax and a more reasonable taxation of owner led corporations. The fact that it was the inheritance and gift tax that managed to gather both politicians and the industry around a common goal says a thing or two about which consequences the taxation had on Swedish wealth and business.

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Foreword

Sweden is among the countries in the world with the highest taxes. According to the OECD, the Swedish tax-to-GDP ratio was 42.8 per cent in 2013 and thus exceeded the OECD average by nearly 9 percentage points. The marginal tax rate on labour income is the world's highest and the capital gains tax is almost twice as high as the average in the EU, OECD and the BRIC countries. However, in some areas Sweden has made smart tax reforms. In 2004 the Swedish parliament, the Riksdag unanimously repealed the gift and inheritance tax. The whole story of how this reform happened has never been written. Nor has the impact of the reform been described.

This book was primarily written to remind Swedes, especially business owners and politicians, how onerous and destructive the inheritance tax was and what a huge barrier it presented to ownership of private businesses in Sweden.

As it is now considered utterly uncontroversial, this reform is rarely discussed, even though it would cause grievous harm if these taxes were reinstated. This book is about the inheritance tax: its history, how its elimination came about and – not least – how business owners and others view the issue today. There is also reason to remind readers why all parties in the Swedish Riksdag agreed to repeal the inheritance tax.

The gift and inheritance tax constituted the taxation of already taxed capital – a triple taxation in which first the income, then the savings and, finally, the inheritance were taxed. Administering this tax was also extremely complex, for both taxpayers and the government. The burden was distributed unfairly, since the wealthiest taxpayers were often able to legally avoid the tax through tax planning, while low- and middle-income taxpayers had no choice but to pay.

The gift and inheritance tax also generated relatively little income for the state – less than 0.2 percent of all tax revenue in 2004. On the other side of the equation, this tax, along with the net wealth tax, had for decades forced business owners to spend precious time on matters other than running their businesses and had prodded successful entrepreneurs and capital to exit the country, thus reducing total tax revenue – and jobs – in Sweden.

The crucial reason the entire Swedish Riksdag, from the Left Party to the Conservative Party, supported the bill to repeal the gift and inheritance tax was that the tax made it much more difficult to pass on a family business from one generation to the next. Generational succession is an incredibly complex challenge for family businesses, a process in which many different aspects must fall into place and where the risks that something will go wrong are substantial. Business owners often have their assets tied up in the company and it was by no means unusual that the inheritance tax compelled them to sell their assets in the company, which triggered income taxation and made the tax burden even heavier. In addition, being forced into doing this in conjunction with the serious challenges that succession always entails sometimes meant the death knell of the company.

A Swedish parliamentary Property Tax Committee tried to craft special exemptions to the inheritance tax for businesses, but this proved impracticable. How would valuation be managed? Which assets would actually be exempted? And how should all of this be accomplished? In order to avoid making a complex tax even more so, the socialist government led by prime minister Göran Persson, wisely elected to repeal the gift and inheritance tax altogether.

Some years later, the same problems related to the valuation of business assets contributed to the decision by the centre-right coalition-government, led by Prime minister Fredrik Reinfeldt, to repeal the likewise harmful net wealth tax. This set of problems is the reason that many policymakers who otherwise support inheritance tax for ideological reasons have nevertheless understood that such a tax is impossible to combine with the exemptions necessary to preserve family-owned businesses and jobs

The repeal of these destructive taxes has given Sweden a smarter tax system and has brought entrepreneurs and investment capital back to the country. A smarter tax system generates higher economic growth and thus higher tax revenues. The tax ratio declined from 51 percent of GDP in 2000 to 44 percent in 2014, even as tax income increased by SEK 260 billion, adjusted for inflation. This is the result of several measures including the repeal of gift, inheritance and net wealth taxes and the institution of the in-work tax credit, which has meant that more people have jobs to go to.

Our neighbouring country, Norway, repealed its inheritance tax in 2014 and other countries have high zero-rate thresholds or other reductions that make the effective inheritance tax rate zero in practice. Many countries either have no inheritance tax of any kind or none within the family. In European countries that still have an inheritance tax regime, the trend is that tax rates are declining.

The repeal of the gift and inheritance tax also triggered more intense discussion of the deleterious effect of taxes on ownership. For a very long time, taxation of ownership was seen as a “free lunch.” This view is wrong. A large swathe of Swedish business is made up of owner-managed companies that create numerous jobs and produce a substantial share of economic growth. Most listed companies in Sweden also have controlling owners who take active responsibility for the growth and development of their companies. Where the owner is domiciled has impact on decisions concerning the localisation of head offices, R&D and production.

Alongside the purely fiscal aspects, some factions believe inheritance tax is a means of giving everyone an equal start in life. In the United States in the early 20th century, inheritance tax was considered a way of preventing monopolies on infrastructure and energy supply from being passed down in families. Today, the biggest fortunes in the US are created by ordinary Americans who may lack significant start-up capital but have no shortage of smart ideas. As a result, the perspective on inheritance tax has also changed. Making it easier to build prosperity for all is the best way to level the playing field. There are several opportunities for continued reforms here. Allow me to point out a few:

- Increase opportunities for everyone to get a good education
- Improve the business climate, especially for new and growing businesses
- Provide better opportunities for more people to amass capital and save

Sweden has created better conditions for new jobs and higher growth by repealing gift, inheritance and net wealth taxes, but there are other counter-productive taxes that need to be addressed in order to provide more opportunities to build prosperity and make Sweden a more competitive nation.

Sweden still has the highest marginal tax rate in the world and taxes savings at nearly double the rate in effect elsewhere. We need the same wise policy in this area as when harmful taxes on capital were repealed.

I hope foreign readers of this book might find some interesting facts and experiences from the Swedish inheritance tax reform in 2004.

Krister Andersson

Head of the Tax Policy Department, Confederation of Swedish Enterprise.

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The history of inheritance tax

The inheritance tax has a long history in Sweden, where it has existed in various permutations since the 17th century. The first inheritance tax in the modern sense was introduced in 1895 as a tax paid by heirs on their personal shares of the estate, unlike the earlier estate taxes that were charged directly to the estate. The first separate inheritance tax law, which also introduced a gift tax, was enacted in 1915.

When the inheritance tax was enacted in 1895, heirs were categorised into three tax classes. Class 1, spouses and children, was subject to a maximum rate of 1.5 percent. The top rate for other heirs was 3 percent. This tax was later increased in stages to a top rate of 4 percent for spouses and children in 1911, rising to 8 percent in 1918. The top rate was increased to 20 percent in 1933 and a wealth tax was introduced the following year.^{1,2}

An estate tax was introduced in 1948 alongside the inheritance tax. The estate was appraised and taxed before distribution, after which each distributed share of the estate was taxed individually and in addition.³ The third time was the charm for Social Democratic Minister of Finance Ernst Wigforss, who had pushed for an estate tax as an individual MP in the opposition in 1928 and as minister of finance for the Social Democratic minority government in 1933, but had failed to win support for his proposals.^{4,5}

The estate tax was repealed effective 1 January 1959 when the inheritance tax was hiked again. The total tax burden thus remained equal in principle, with a maximum tax burden of 60 percent for spouses and children. This was increased to 65 percent in 1971 and the gift and inheritance tax, like the general tax burden, reached a record high in 1983, with a top rate of 70 percent applicable to spouses and children.

The phase-out commenced a few years later. The maximum rate was lowered to 60 percent in 1987, halved to 30 percent in 1992, and the tax was repealed altogether in 2004.^{6,7}

How did the tax work?

The inheritance tax was assessed against property acquired through inheritance, bequest and, in some cases, life insurance. The acquirer, the heir, was the taxable party. The tax was calculated on the value of the heir's share of the estate, was progressive and varied depending upon the tax class to which the heir belonged.⁸

¹ Swedish Government Report SOU 2004:66.

² Ohlsson, 2009.

³ Henrekson & Waldenström, 2014.

⁴ Ohlsson, 2009.

⁵ Swedish Government Report SOU 2004:66.

⁶ Ohlsson, 2009.

⁷ Swedish Government Report SOU 2004:66.

⁸ Only a general description is provided here; for more detailed information about the structure of the tax, see the Tax Statistical Yearbook of Sweden, 2005.

The value of each asset class was calculated in its own way and the assets were taxed at various rates. For example, shares on the A list of the Stockholm Stock Exchange were valued at 100 percent of market value before 1978, 75 percent of market value in 1978-1996 and 80 percent of market value in 1997-2004, while unlisted shares were valued at 30 percent of their assumed market value from 1978 onwards. Periodically, other types of business assets have also been eligible for a variety of valuation and tax relief schemes, primarily intended to facilitate generational succession in small enterprises.⁹

Since its introduction, the inheritance tax has varied depending upon the heir's relationship to the deceased person, with a lower tax rate and higher nil-rate threshold for the immediate family – spouses and children.

The year the tax was repealed, Class 1 covered spouses, partners and children, Class 2 other individuals and Class 3 institutions and voluntary clubs/associations. The gift tax was calculated likewise on the value of the gift and the rate also varied depending upon the tax class of the recipient.

Gifts whose value exceeded SEK 10,000 per year were taxable. Inheritances were taxable if they exceeded a basic deduction, which differed depending on the heir's tax class and, with regard to minor children, the age of the child. Tax on inheritances from a spouse was abolished shortly before the inheritance tax was repealed altogether as of 1 January 2004.¹⁰

Class 3, institutions and voluntary clubs/associations, comprised a limited group. Many organisations, including religious communities, academies, scholarly foundations and organisations dedicated to child welfare were exempt from tax provided that certain fundamental criteria were met, such as that the organisation was a Swedish legal entity.¹¹

The basic deduction system was introduced in 1971; before then, a nil-rate ceiling was applied. If the value of the inheritance exceeded the specified ceiling, it was taxable and the entire inheritance was taxed at the same rate.¹²

Gift tax

The gift tax may be considered a complement to the inheritance tax, intended to prevent avoiding tax on the hereditary estate by giving away property to the intended heir before death, but that is not the whole truth.

While the Inheritance Tax Committee of 1938 wrote in its report that “tax on inheritances requires a complementary gift tax, without which the taxation of inheritances could be circumvented by disposing of property during the person's lifetime”, but also stated that while some countries were content to tax the type of gifts that can be presumed an attempt to avoid inheritance tax, Sweden was not one of them. On the contrary, the Committee emphasised that the gift tax enacted in 1914 “was thus not aimed solely at certain types of gifts but rather, within certain limits, gifts in general.”

⁹ Henrekson & Waldenström, 2014.

¹⁰ Tax Statistical Yearbook of Sweden, 2005.

¹¹ Swedish Government Report SOU 2004:66.

¹² Swedish Government Report SOU 2004:66.

The reason was explicitly a matter of wealth distribution policy, as well a means of taking advantage of the increased capacity to pay tax to which a received gift could be presumed to confer.¹³

Most OECD countries that have an inheritance tax regime have some kind of gift tax and the rules and percentage rates often coincide. To ensure that inheritance tax cannot be entirely avoided through planning, many have held that it needs to be “protected” by preventing the inheritance from simply being given away before death. One alternative is to add previous gifts to the heir’s share of the estate and tax the value as a lump sum, but this presents a risk of practical difficulties in tracing and appraising the value of gifts after the fact and, depending upon how the legislation is worded, determining which gifts should be considered part of an inheritance.

Most countries, including Sweden during the time when the gift and inheritance tax regime still existed, have therefore chosen to tax gifts above a certain value at the time the gift is given at a rate comparable to the rate that would apply if the equivalent value had been part of an inheritance.

With few exceptions, such as the strong upturn in 1947, the gift tax has contributed negligible tax income compared to the inheritance tax.

Income or redistribution of wealth?

In their various permutations, inheritance and gift taxes have never been a substantial source of income for the state. Income from the tax reached its zenith back in the 1930s at about 0.3 percent of GDP or 2.5 percent of total tax income. When the inheritance tax was repealed, the income equalled about 0.15 percent of GDP, a little more than SEK 2.5 billion per year.^{14, 15}

The principle of “capacity to pay tax” is considered a fundamental precept behind the structure of the Swedish tax system: those who are able to pay tax should do so. This principle has also, at least according to its supporters, officially been fundamental to the design of the gift and inheritance taxes. The inheritance tax has basically been regarded as an expression of the idea that an individual who inherits or is given assets of significant value also has greater capacity to pay tax.

The argument is, however, critically flawed. Value in the form of fixed assets or business assets does not necessarily increase the heir’s capacity to pay tax unless the inheritance is converted to cash by selling the asset, for example. Combined with the negligible effect of inheritance and gift tax on government finances, which is accepted even by those who are in favour of inheritance tax, the argument hardly suffices on its own as a reason to retain or reinstate the tax.

The main reasons have instead been based on notions of fairness and the wealth distribution policy and, to a certain extent, to complement and legitimise other tax legislation, such as the wealth tax.

Ernst Wigforss (S), minister of finance in the era when the inheritance tax was first hiked sharply and then padded with an estate tax, argued in favour of the corrective effect of the tax in a number of articles written in the 1920s. He believed that

¹³ Swedish Government Report SOU 2004:66.

¹⁴ Ohlsson, 2009.

¹⁵ Tax Statistical Yearbook of Sweden, 2006.

collecting capital and value, entirely or partially, on behalf of the state that would otherwise give rise to wealth disparities would erase inequality.

Similar ideas are found in the directive issued to the 1967 Committee on Capital Taxation, which was exhorted by the minister of finance to “consider the taxation in a manner that facilitates a redistribution of wealth that is desirable for social reasons”, and once again in a bill on the changed valuation of shares as part of an inheritance in 1986, when the minister declared that “pursuit of the redistribution policy is the primary purpose of inheritance and gift taxes.”¹⁶

In its final report in 2004, the Property Tax Committee argued that the inheritance and gift tax should be retained, albeit with slightly adjusted valuation rules for various types of assets, and not between spouses and partners. The stated reason was that the taxes have an equalising effect on the distribution of income and wealth in society, even though the income derived thereby constitutes a minor portion of state finances.¹⁷

Consequences of the inheritance tax

Sally Kistner, widow of the founder of the pharmaceutical company Astra, was worth SEK 300 million when she died in 1984. The majority of her fortune was tied up in shares in the company and in accordance with the rules then in effect, the value of the shareholding was appraised at the market value on the date Kistner died.

The stock market, however, quickly realised that the heirs would have to sell a large portion of the shareholding in order to pay the inheritance tax and that the sale would adversely affect the value of remaining shares. The share price sank like a stone and, combined with the capital gains tax, the previously determined inheritance tax exceeded the value of the total assets of the estate. The estate was declared insolvent and the heirs to one of the greatest fortunes in Sweden were left without a penny.^{18, 19}

The Kistner case is an extreme example of course, but it illustrates the inherent problems of the inheritance tax. It also undermined the legitimacy of the tax among the general public.

The classic example of the destructive impact of the inheritance tax on a more ordinary level is the surviving spouse who could no longer afford to live in the heavily taxed family home because all assets were tied up in the property. Likewise, many families were forced to sell family homes and holiday cottages, especially in the coastal areas and other areas where property values have risen rapidly.

Such cases were far from unusual and even relatively low sums of tax due could cause tremendous personal harm to the heirs. This may partly be because Swedes are, by international comparison, considered as having little readily available capital. The household savings rate is also low, perhaps due to high trust in collective welfare systems and the social safety net.

¹⁶ Swedish Government Report SOU 2004:66.

¹⁷ Swedish Government Report SOU 2004:66.

¹⁸ *Dagens Industri*, 29 August 2001.

¹⁹ *Sydsvenskan*, 25 April 2005.

The problems that arose in family businesses in connection with generational succession were at least as serious and had much more profound consequences upon society in general and the Swedish economy. The basis for taxation, even with the relief rules introduced on several occasions specifically to lighten the burden on small and family businesses, often consisted of tied assets.

Business owners were thus compelled to withdraw liquid assets from the business. The income, taxed as dividends, was then used to pay the inheritance tax. This was a severe financial blow for most businesses, over and above the distraction it entailed from the already complex issues of responsibility and leadership. Even if the company had prepared for the distribution of the estate, tax planning takes time, energy and sometimes money away from the core operations of the business. It should also be remembered that a death in a family business is also a great personal loss that itself saps the time and energy of surviving family members.

The ongoing attempts to craft exemptions and provide relief to small enterprises and family-owned businesses have proven inadequate. It was simply impossible to exempt, in any simple or predictable way, certain companies from the destructive effects of the inheritance tax without simultaneously undermining the foundations of the tax as a whole.

Between one quarter and one third of all Swedes were affected by the inheritance tax in the late twentieth century. Increasing numbers became liable to taxation as inflation, rising median incomes and increasing tax valuations meant that more people passed on an inheritance whose value exceeded the basic deduction. In parallel, exemptions and globalisation lightened the tax burden on the wealthiest Swedes, which reduced the legitimacy of the tax among voters.²⁰

In most cases, the inheritance tax became double taxation, as it was calculated on money that had previously been earned or otherwise acquired and taxed as income or profit. In connection with generational successions in companies, the problem became both severe and bordering on the absurd, when the money had to be taken out of the company as dividends or wages before it could be used to pay the inheritance tax.

The people whom the state primarily wanted to tax for ideological reasons, those whose capital, upon transfer to the next generation, constitutes something far beyond a welcome addition to the family finances or the acquisition of a family business with tied assets, have always been able to move both their wealth and their companies abroad. In this way, they have been able to avoid not only the inheritance and gift tax, but also the recurring taxes they would otherwise pay in Sweden. The income from the inheritance and gift tax is thus not only negligible in and of itself; the taxes also present a risk of eroding the total tax base.

Tax planning

Tax planning to avoid the inheritance and gift tax has been a widespread phenomenon ever since the tax was introduced. A sharp upturn in taxed gifts can be seen in 1947, for example, prior to the tax increases that took effect in 1948. Income from the gift tax was about 20 times higher in 1947 than in the preceding and following years.²¹

²⁰ Henrekson & Waldenström, 2014.

²¹ Ohlsson, 2009.

One way to avoid or minimise the tax was to set up foundations. The Wallenberg family established three foundations in the 20th century, in 1917, 1960 and 1963. The Ax:son Johnson Foundation was created in 1947 and the Söderberg family established two foundations in 1960.

Others simply left the country, taking their fortunes and businesses with them. Tetra Pak founder Ruben Rausing, IKEA founder Ingvar Kamprad and industrialist Fredrik Lundberg all chose to emigrate, mainly due to Swedish tax policy.²²

Fredrik Lundberg specifically cited the fate of the Kistner family as one of the reasons he moved to Switzerland in 1985, even though he was then only 33 years old. “The distribution of the estate to my generation has already been accomplished, but even though I am only 33, I could be hit in the head with a brick or die in a car crash. And then there would be a Sally Kistner effect on a scale never before seen in the Swedish business sector,” Lundberg related in an interview with *Veckans Affärer* in connection with the move.²³

Göran Grosskopf, chairman of IKEA, believes that wealth, inheritance and gift taxes had a direct influence on the exit of IKEA and Tetra Pak from Sweden once upon a time – and that he would have recommended that they stay in Sweden under current tax rules. He also emphasises the importance of a long-term tax policy for companies that are considering setting up operations in Sweden or deciding whether or not to stay in Sweden.²⁴

As it happens, the tax reductions and repeals have had an effect. Fredrik Lundberg moved back to Sweden in the early 1990s after the inheritance and wealth tax were lowered. After his wife’s death, Ingvar Kamprad moved back home to Småland in 2014 to be closer to his remaining family – but also because the inheritance and wealth tax had been repealed. One of Ruben Rausing’s sons has also recently returned.

²² Henrekson & Waldenström, 2014.

²³ *Expressen*, 23 November 2013.

²⁴ Interview with the Confederation of Swedish Enterprise, March 2010.

The inheritance tax is a thing of the past

Business organisations had been working for many years to bring about the repeal of the inheritance and gift tax. The Social Democratic party lost ground in the 1998 election, but Göran Persson remained prime minister after the government had entered into a coalition with the Green and Left parties.

In June 2002, the Persson government appointed a parliamentary inquiry, the Property Tax Committee, to “review and evaluate the rules on property tax on houses, etc., wealth tax and inheritance and gift tax.”

Judging by the practical orientation of the policy, at least, there seems to have been growing understanding among Social Democrats of the problems related to taxation of ownership. The difficulties of taking over ownership within the family of highly valued properties, such as houses in the Stockholm archipelago, had been known for a long time. In the late 1990s, there was also rising concern about how Swedish taxes on capital worked in a globalised world. Among else, the minister of labour at the time, Mona Sahlin, said to *Finanstidningen* in 2000 that “Sweden cannot have high taxes on capital when Swedes have 350 billion in unreported foreign savings.”²⁵

In November 2003, Göran Persson arranged “economic growth talks” that were initially sold as an initiative from the Persson government to stimulate the Swedish economy.²⁶ Trades unions and business organisations were invited to discuss taxes, absenteeism and ethics. Rather than actual negotiations, the talks have been described as a political game on the government’s part aimed at “gaining time and disarming criticism from the business sector of the proposals the government had negotiated with its allied parties.”²⁷

Abolition of wealth, inheritance and gift taxes was at the top of the wish list for the Confederation of Swedish Enterprise. Initially, there were also indications in the media that the government was prepared to seriously examine reductions or even repeal of the wealth tax as well as inheritance and gift tax. Then Minister of Finance Per Nuder told *Dagens Nyheter*, “P-O Edin, former chief economist of the Swedish Trade Union Confederation, is the one who has suggested and pursued this issue. We have always listened to P-O Edin and we are going to listen this time too.”²⁸

P-O Edin headed up the Tax Base Committee that had proposed repeal of the inheritance tax for spouses and children (in the so-called Tax Class 1) in 2002. The inquiry did not propose repeal of the wealth tax, but primarily sought a sharp reduction combined with widening the base so that wealth tax was assessed against more assets. Edin, however, understood the problems associated with the wealth tax and the committee of inquiry thus delivered a clear reservation: “If this is considered far too problematic, the wealth tax should be repealed entirely.”²⁹

²⁵ *Finanstidningen*, 4 April 2000.

²⁶ *Aftonbladet*, 9 November 2003.

²⁷ Arnegård Hansen, 2008.

²⁸ *Dagens Nyheter*, 13 November 2003.

²⁹ Swedish Government Report SOU 2002:47.

Understanding that taxation of capital is destructive was thus well-established in the early 2000s among both academic experts and the responsible government agencies. In addition to P-O Edin, participants in the debate about the harmful taxes included Mats Sjöstrand, director-general of the Tax Agency, and Ingemar Hansson, director-general of the National Institute for Economic Research.

The conditions for change were established among the experts, but public support was essential for the politicians to dare to take the step.

Business organisations arranged a great many meetings with business owners, media and politicians around the country to rouse opinion. It was important to the business community to show evidence of the concrete problems created by the destructive taxes on ownership. The response from Swedish business owners was strong and hundreds of articles were written in the media during the year.

The problems that the inheritance tax created for family businesses in connection with generational succession were at the centre of the debate. The inheritance tax had to be paid with already taxed funds and many business owners lacked personal savings alongside their business ownership. In practice, this meant the company had to deplete and sell assets to pay the tax. It was not unusual that the inheritance tax drained companies of so much capital that their future development was endangered. Unexpected estate distributions sometimes led to the winding up of companies. For many business owners, fear of the inheritance tax constituted such an obstacle that focus on other important matters related to succession was utterly lost.

Numerous companies were affected by the generational succession issue. The Confederation of Swedish Enterprise commissioned Statistics Sweden in 2004 to compile statistics of how many business owners were then aged 50 or older. The figure turned out to be a full 46 percent – as many as 140,000 individuals – who needed to plan for a generational succession within 10-12 years. Corresponding studies were also performed by the Swedish Federation of Business Owners³⁰ (*Företagarna*) and Nutek, a government business development agency. *Företagarna* concluded that a full 90,000 companies were at risk of being lost due to the problems related to the inheritance tax, while Nutek determined that 45,000 to 50,000 companies, with a combined workforce of more than 200,000, were facing a generational succession.³¹

The differences in the estimates of the number of companies and business owners were due to the use of different criteria and study methods. Regardless, taken as a whole, all three studies indicated that numerous companies were affected, which also meant hundreds of thousands of employees, customers and suppliers were affected by the issue.

There were further objections beyond the problems related to generational succession. It was often pointed out, purely as a matter of principle, that the inheritance tax was a tax on already heavily taxed savings that entailed a restriction of ownership. It was unfair that the wealthiest could avoid the tax through planning while low and middle-income individuals were forced to pay. The inheritance tax had very minor impact on tax income, about SEK 2 billion in 2003, but was complex to manage for both taxpayers and the Tax Agency. As it was also difficult for the Tax Agency to appraise the value of various assets, the tax was unpredictable.

³⁰ *Företagarna*, 2003.

³¹ *Företagarna*, 2003.

The aforementioned Property Tax Committee had been given a directive that the matter of taxation of inheritances between spouses should receive priority attention.³² This issue was thus a subject of the Committee's first interim report. Per Landgren represented the Christian Democrats on the Property Tax Committee and was strongly committed to limiting the destructive effects of the inheritance tax.

Prior to the final meeting in January 2003 before the interim report was released, Per Landgren suggested that the inheritance tax should be repealed entirely for surviving spouses and partners. This was not the position of the chairman Jan Bergqvist, but when the Committee gathered for the final meeting, it proved there was a majority in favour of Per Landgren's position.

According to Landgren, the meeting had to be adjourned and the civil servants sent back to rewrite the proposal. The Committee wrote that the reason for repealing the inheritance tax for surviving spouses and partners was that sharply increased property prices made it difficult for survivors to remain in the family home. By 2001, Per Rosengren and several Left Party MPs had presented a private members' bill to amend the inheritance tax to ease estate distributions between spouses and partners.³³

The Property Tax Committee accepted the Left Party's suggestion. The proposals in the interim report were circulated for consultation. In its response, the Swedish Trade Union Confederation was not in favour of the repeal of the inheritance tax but also wrote that they "realise it may be necessary." The Confederation of Swedish Enterprise and NSD (*Näringslivets Skattedelegation*, the Swedish Enterprise Tax Delegation) wrote, "In the opinion of NSD, the inheritance and gift taxes, along with the wealth tax, are the prime cause of the capital flight that the National Tax Agency has estimated at 500 billion kronor."

The Committee's main report³⁴ was issued in March 2004 and followed in June by its final report.³⁵ The Property Tax Committee determined that, just as for the wealth tax, the variable valuation of different assets constituted a problem when the inheritance tax was to be calculated. In addition, the valuations for tax purposes were not consistent with those that applied to the wealth tax. Shares on the A list of the Stockholm Stock Exchange were valued at 75 percent, while shares on the O list and other listed shares were valued at 30 percent. The varied valuations were conducive to tax planning and the final tax was determined, according to the Property Tax Committee, "to a great extent on what opportunity the individual has had to take pre-emptive action for the purposes of tax planning."

The Property Tax Committee suggested further reductions of the inheritance and gift tax. Business assets would be exempt from tax, while the value of operating assets and liabilities would be valued at 15 percent instead of the previous 30 percent. According to the Committee's proposal, inheritances and gifts would be taxed at a uniform rate of 30 percent.

Christian Democrat Per Landgren relates that after the various changes to the inheritance tax, the abolition of tax between spouses and partners, and the reduction for business operations, the inheritance tax ultimately became almost as holey as a slice of Edam cheese. Tax income from these sources diminished and it became

³² Swedish Government Report SOU 2003:3.

³³ Riksdag, Parliamentary Bill 2001/02:Sk481.

³⁴ Swedish Government Report SOU 2004:36.

³⁵ Swedish Government Report SOU 2004:66.

increasingly difficult to justify the tax. The Committee's proposal was referred for consultation in the summer of 2004. There was massive criticism of the Committee's proposal, primarily against the lack of any proposal to repeal the wealth tax. Of the consultative responses, 56 were opposed to retaining the wealth tax, 2 were in favour and 20 did not discuss the wealth tax at all. The Tax Agency was one of the consultation parties that were particularly critical. At the top of its response, the Tax Agency wrote, "The Tax Agency objects to all proposed amendments to the rules on wealth tax and recommends instead that the wealth tax is repealed." There was intense debate in the media on property taxes and their consequences in 2004 and the Committee's proposals failed to reassure Swedish business owners.

The results of the budget negotiations for 2005 were presented on 10 September. The big news was that the Social Democrats, the Green Party and the Left Party had agreed to repeal the inheritance and gift tax altogether. In the Budget Bill for 2005, the government wrote, "For reasons including improving conditions for running a business, the inheritance and gift tax is repealed, which will facilitate generational succession."³⁶ The Budget Bill also included a step towards repealing the wealth tax, in that the nil-rate threshold was raised.

A separate bill, "Repealed Inheritance and Gift Tax" was presented to the Riksdag on 21 October 2004, in which the government expanded its arguments for repealing the taxes and referred to the problems entailed in different valuations of assets, such as shares on the A and O lists of the Stockholm Stock Exchange.³⁷ The government deemed it "impossible to respond to the criticism of the inheritance and gift tax through regulatory changes."

The bill was debated in the Riksdag on 16 December 2004. Representatives of all Riksdag parties argued in favour of the bill, although there was a centre-right bill that clarified the reasons for the repeal. There was also a separate opinion from the Moderate and Christian Democratic Parties that the repeal should be made retroactive from the date the budget was presented.

The debate was opened by Social Democrat Lennart Axelsson, who said that the decision to repeal inheritance and gift taxes was both historic and sad. "I hope the amassed wealth we have here in the country will do good despite, or perhaps because of, depending upon how you look at it, the decision we are probably going to make today."

Moderate Party MP Lennart Hedquist welcomed the bill and emphasised in particular the problems the taxes had created for business: "For business owners, who have built Sweden's prosperity, and in particular family businesses, inheritance and gift taxes have made generational succession much more onerous. These taxes have been highly destructive to the national economy. It is therefore, Madam Speaker, obviously gratifying that they are now being repealed. It is not a day too soon." Hedquist also argued that the repeal should have been effective as of the date the government announced the taxes would be repealed.

Anna Grönlund Krantz, Liberal Party MP, also brought up how the taxes had made generational succession more difficult for family businesses.

³⁶ Government Bill 2004/05:1.

³⁷ Government Bill 2004/05:25.

“We have seen the consequences of the inheritance and gift taxes on Swedish enterprise for many years. A company like ABU, which makes fishing reels, used to be a Swedish family business, but thanks to our taxation of inheritances and gifts, it has ended up in foreign hands. Other notable companies that chose to move abroad to avoid inheritance and gift tax include IKEA and Tetra Pak. If they had stayed in Sweden, it would quite simply have meant that the company would not have survived. Moving before the inheritance tax was realised has therefore been the solution that allowed these companies to maintain long-term ownership.”

Grönlund Krantz also noted that the Liberal Party had not put priority on repealing inheritance and gift tax, but in view of the situation that had arisen, the party had deemed it essential to repeal the taxes.

Christian Democrat Per Landgren, who had been a member of the Property Tax Committee, presented several arguments in the debate. In the Riksdag, Landgren spoke about the party’s focus on families: “In particular, I must say that our focus has been on the family, on the ability to pass something on to loved ones. That is why, as part of the Property Tax Committee, I pushed for the repeal of inheritance tax between spouses and partners to begin with. I considered it utterly unfair that after a death people would be slapped in the face this way.”

Centre Party MP Jörgen Johansson also addressed the issue of problems with generational succession for businesses: “The bill on the repeal of the inheritance and gift tax makes it possible for people born in the 1940s to transfer their companies to later generations without having to go into debt up to their eyes. The alternative is often to wind up the business. This bill lays the foundation for more jobs.”

With Christmas approaching, Social Democrat Catharina Bråkenhielm chose to refer to the Bible, specifically the passage in Matthew in which the three wise men gave their gifts to the Christ child: gold, frankincense and myrrh. “Back then, there was no gift tax in that country of course. And there is still none. Today, 2,000 years later, we are continuing on the path we set out upon almost exactly one year ago, when we decided to do away with inheritance and gift tax for surviving spouses and partners. Today we are completing that walk by getting rid of the inheritance and gift tax altogether.”

Left Party MP Per Rosengren declared in the debate that the party’s executive committee and board supported the bill. Rosengren had presented several arguments in the debate and summed them up by saying, “The important thing is that we are, first and foremost, eliminating the problems surrounding generational succession. I think we should be very pleased with that.” Christian Democrat Per Landgren praised Rosengren for his efforts in the matter.

When the vote was taken, 171 MPs voted in favour of repealing the inheritance and gift tax effective 1 January 2005, based on the Committee’s proposal, and 138 voted for the reservation that also proposed repeal but clarified the reasons.

The tsunami disaster in Southeast Asia occurred on 26 December 2004 and for that reason the Riksdag decided in April 2005 to repeal the inheritance and gift tax retroactively from 17 December 2004.

There are various accounts of how the negotiations between the government and the coalition parties resulted in a bill to repeal the inheritance tax altogether. In his memoirs, Professor Sven Olof Lodin claims that Prime Minister Göran Persson gave

the leader of the Left Party an ultimatum: either we repeal the wealth tax or the inheritance tax. One of the taxes would be eliminated. Faced with this choice Lars Ohly is said to have chosen the inheritance tax without having amassed support for the position within the Left Party.³⁸ Notably, Göran Persson does not mention the inheritance tax in his own memoirs.³⁹

Left Party MP Per Rosengren, who was a member of the Property Tax Committee and whose partner and later wife Marie Engström (now Rosengren) was the party's budget negotiator in the coalition among the Social Democratic government, the Left Party and the Green Party, remembers things differently.⁴⁰

According to Rosengren, when the budget talks began in the autumn of 2004, Minister of Finance Bosse Ringholm's opening salvo was that the inheritance tax was to be done away with. The Left Party's position was that the Property Tax Committee's proposal for further reductions should be implemented to facilitate generational succession in family businesses. But Rosengren says that the Left was never presented with any such choice.

Then again, it might have been Peter Eriksson, then spokesperson for the Green Party, who started the ball rolling. Eriksson says that he suggested to Göran Persson to include a repeal of the inheritance tax in the budget. Eriksson did not believe the inheritance tax worked and that there were too many holes in it. It was especially problematic for people who had saved a small nest egg, not for the truly wealthy. The problem of succession for small businesses was also a key issue.

"I talked to Göran Persson about it and he picked up on my idea to add a repeal of the inheritance tax to the budget. I don't believe the matter would have come up in the budget if it had not gone via Göran Persson himself," says Peter Eriksson.⁴¹

Another explanation for why the Social Democrats chose to repeal the inheritance and gift tax, regardless of whether it happened as Eriksson, Lodin or Rosengren claims, may have been the previously mentioned economic growth talks. Michael Treschow, the new chairman of the Confederation of Swedish Enterprise, withdrew from the talks in spring 2004, partly because the organisation had not received any indication from the government concerning their demands that the inheritance, gift and wealth taxes should be repealed. One possibility is that hopes of bringing business organisations back to the fold for new talks contributed to the decision, especially after the massive criticism of the Property Tax Committee's proposal during the summer of 2004.

Lennart Olsen, who was an economist for the Green Party from 1998 to 2006, was also involved in the negotiations on tax matters with the Social Democrats and the Left Party. In his book *Rödgrön reda* [Red-Green Order], he depicts the internal discussions among the government and the coalition parties about the inheritance, gift and wealth taxes.⁴² According to Olsen, a majority in the Green Party parliamentary group believed the wealth tax no longer served any purpose. "It was peppered with exceptions, including for billionaires, did not deliver especially significant income to the state and induced many wealthy Swedes to invest their capital abroad and thus

³⁸ Lodin, 2009.

³⁹ Persson, 2007.

⁴⁰ Personal communication (13 October 2014).

⁴¹ Personal communication (21 January 2015).

⁴² Olsen, 2007.

took significant sums out of the Swedish venture capital market.” Olsen describes the inheritance tax in a similar way: “It had been undermined through various forms of tax planning and the tax also made generational succession in small businesses much more onerous.”

Olsen also describes how the matter was discussed internally. Minister of Finance Bosse Ringholm invited Mats Sjöstrand, then director-general of the Tax Agency, to a morning seminar. When Lennart Olsen asked Sjöstrand about the gift tax, Sjöstrand answered by calling it “a massive joke.” Lennart Olsen also writes that his understanding was that the Social Democrats had roughly the same view on the wealth tax as the Green Party, but that tax was not repealed until 2007 by the Alliance for Sweden government.

Today, ten years later, Peter Eriksson, Per Landgren and Per Rosengren are happy that the inheritance tax went by the wayside. Eriksson, now a European MP for the Green Party, says that it was utterly necessary to repeal the inheritance tax.

Rosengren, now a local politician for the Left Party in Mariestad, says:

“The proposals we made in the committee were not without their complications either. Having an inheritance tax but also making generational succession in family businesses easier was a complicated matter and there was risk of lock-in effects.”

Per Landgren concurs with Rosengren that it probably would have been impossible to establish a system to differentiate among assets in order to exempt business activities from inheritance tax.⁴³

There is probably considerable truth to Rosengren and Landgren’s arguments. The attempts to create rules to exempt businesses from inheritance tax faced insurmountable difficulties. In practice, business capital would have had to be exempted. This would then create the possibility that private individuals would use companies to avoid the inheritance tax. Preventing this would have required legislation that differentiated between working capital and other business capital. That might sound easy, but is virtually impossible in practice.

The overall picture that emerges is that the responsible politicians realised how complex matters would inevitably become and what unreasonable consequences such legislation would have. While there certainly would be obvious cases where private individuals bundled their capital in companies to avoid inheritance tax, the Tax Agency would also be forced to make very difficult decisions about which company assets should be regarded as business-related and which should be taxed. The situation was thus intractable and rather than coming any closer to a solution, the copious studies had confirmed that the situation would become untenable in the long run.

A few years later, the debate concerning “Lex Ugglå” (the name originated with a tax case that involved musician Magnus Ugglå) made a strong contribution to the repeal of the wealth tax. Lex Ugglå referred to the problems related to defining which assets in a company are business assets and which are not. The Tax Agency was forced, for instance, to determine whether a company’s investments were truly relevant to its business activities or were concealed private savings in the company. This assessment was very difficult in practice and one that the Tax Agency itself later sharply criticised.

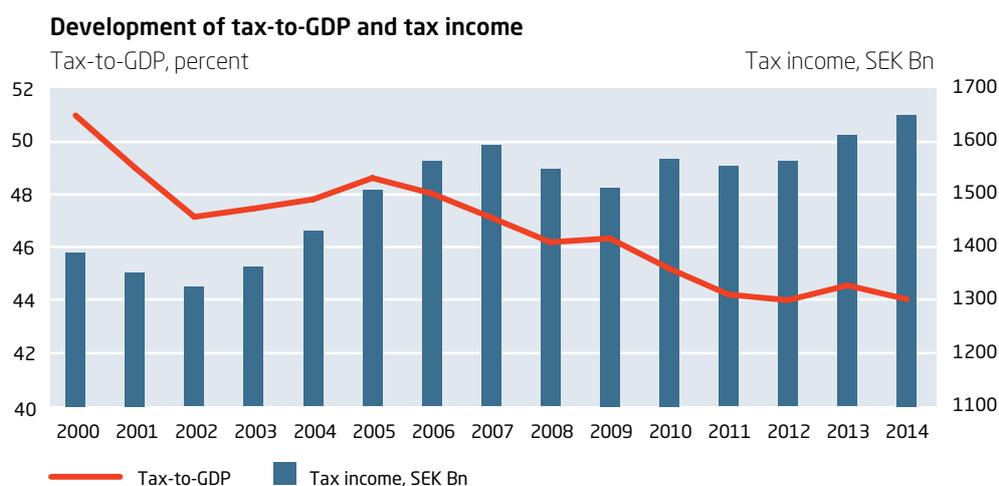
⁴³ Personal communication (18 December 2014).

The discussion about Lex Uggla also illustrates the problems that are the reason many of those who currently advocate an inheritance tax for ideological reasons nevertheless realise that such a tax is impossible to combine with necessary exemptions that liberate family businesses.

Ten years free of inheritance tax

It has now been more than a decade since the inheritance and gift tax was repealed. Although perhaps not such a hot-button issue now, the reform was profoundly important to the entrepreneurs whom it affected.

It is difficult to determine the effects of the repeal on government finances and jobs because several other reforms were implemented during the same period, which also coincided with a global financial crisis. In purely fiscal terms, the inheritance and gift tax was relatively unimportant. In its last year, the inheritance and gift tax generated income of SEK 2.5 billion for the state, less than two thousandths of one percent of total tax income. Several major tax reductions have been implemented since 2000 and the total tax ratio has declined from 51 to 44 percent of GDP. In parallel with the repeal or reduction of several taxes, tax income has increased by SEK 260 billion in constant prices. This is partially the result of the repeal of destructive taxes like the inheritance and gift tax in 2004 and the wealth tax in 2007, along with the several phases of the in-work tax credit that gave more people jobs to go to. The economy has outgrown the taxes.



Source: Fall J. & Witterblad M., Tax reductions and public resources, Confederation of Swedish Enterprise, 2014.

The Tax Agency has reported on several occasions how capital is finding its way back to Sweden from other countries. During the period of 2010 to 2014, the Tax Agency received almost eight thousand “self-corrections” from individuals who have elected voluntarily to report capital previously kept abroad. The media have also noted the return of well-known entrepreneurs who once left Sweden due to the inheritance and gift tax, including Ingvar Kamprad. It was big news in Finland when financier Björn Wahlroos recently chose to leave the country and move to Sweden because the inheritance and gift tax had been repealed in Sweden.

The repeal of the inheritance tax has also reduced the Tax Agency’s administration of estate inventories. The work required to calculate and manage the tax and to

re-examine and in some cases recalculate inventories in the Tax Agency's system has been reduced since the repeal.⁴⁴

The personal finances of business owners are important to business

The inheritance and gift tax had critical impact on owner-managed companies – but how important are these companies, really? And what impact does the owner's financial situation have on a business?

A very large piece of the Swedish business and industry pie is made up of owner-managed companies that create numerous jobs and account for a significant share of economic growth. Despite this, there is relatively limited understanding of family businesses as a social phenomenon.

It is easy to underestimate the importance of owner-managed companies, since the media primarily covers listed companies because the latter have numerous owners and have both an interest in and a duty to report information that affects share prices.

Listed companies are vitally important too, of course, and in Sweden there are virtually always “flesh and blood” owners with controlling influence in these companies as well. The taxation of ownership is thus also critically important to the control function of listed companies.

There are many definitions of what is considered an owner-managed company. One simple division is that owner-managed companies are owned and controlled by a single person, a group of family members or a group of partners. According to the now dismantled government agency Nutek, a full 90 percent of all Swedish companies are owned by people related to each other⁴⁵ and more than half of all jobs in the private sector are found in family-owned companies.⁴⁶

There are prejudices against owner-managed companies, such as the notion that companies that do not have employed, “professional” management are less interested in growth, technology and developing new business methods. Yet many pioneering companies that have the courage to invest in entirely new concepts and for the long-term are owner-managed, such as H&M and IKEA.

It is sometimes said that what is built up by the first generation in a family business is torn down by spoiled heirs, and that family businesses are as a result seldom long-lived. This can certainly happen, but successful family businesses also work to deliberately foster the next generation to take over the owner role. Entrepreneurship becomes an important tradition to preserve and developing the business for the long term becomes a lifelong mission that no one wants to abandon.

Even when there is passionate commitment, generational succession is a major challenge for owner-managed businesses. Globally, about one third of all companies are passed on from the founder to the next generation, but the percentage then increases in the next generational succession.⁴⁷

⁴⁴ Email communication from the Tax Agency, 21 January 2015.

⁴⁵ Nutek, 2007.

⁴⁶ Nutek, 2004.

⁴⁷ Sund & Ljungström, 2011.

The inheritance tax was a huge obstacle in Sweden, but generational succession involves more than the inheritance tax. A number of business owners describe ownership changes before and after the repeal of the inheritance and gift tax in the book, *Generation Ä, som i Ägarskifte* [Generation T as in Transfer of Ownership].⁴⁸ The book makes no bones about it: transfer of ownership is a very difficult process to manage. The inheritance and gift taxes were not only a financial obstacle to transfers of ownership; they were also energy thieves that took attention away from other important matters. The taxes often forced entrepreneurs to execute the transfer of ownership in a way that was perhaps not in the best business interests of the companies.

Generational succession checklist

Prepare for the generational succession in time. The earlier you start, the better your chances of a good outcome - but make sure the company's ordinary business and your colleagues are not neglected due to the work involved in the transfer of ownership. It is easy for the business to lose steam if your focus is elsewhere.

Tune up the company. Regardless of whether you are aiming for an internal or external transfer, the company must be prepared. This may involve, for example, documenting procedures and processes, waiting for a good project and resolving any ongoing disputes.

Are the children going to take over? Talk about generational succession with the entire family, even those who are not expected to be involved in the company. Be prepared for emotional reactions. Do not hesitate to seek help from experts.

Where are the buyers? The buyer may be found among your customers/suppliers, competitors, employees, partners or business relationships or private individuals. Seeking help from a corporate broker is a good idea.

Tax issues for the family business. The inheritance and gift taxes have been abolished, but a sale may result in taxable capital gains. Pension withdrawals should also be planned in advance. Seek help from pension and insurance advisers.

Business advice in relation to an external sale. Write a brief prospectus; think about whether you should avoid disclosing the identity of the company. Appoint someone to manage contacts with prospective buyers.

What is the company worth? The price depends upon what the seller wants and how the buyer benefits. Careful preparations are important and the final price will be determined by how well the negotiations were handled.

Who can advise you? Accountants, corporate lawyers, tax consultants, corporate brokers and banks can all help with the transfer of ownership. Keep in mind that other business owners in other sectors can provide valuable support in the process.

What happens to me? Just as a company sale requires a plan, you need a "mental plan" for how you are going to use your time once the company has been sold and for how you will replace the social contacts

The advice above is taken from *Generation Ä, som i Ägarskifte*.⁴⁹

⁴⁸ Ydstedt, 2005.

⁴⁹ Ydstedt, 2005.

Because owner-managed companies dominate the Swedish business sector, many employees are affected by transfers of ownership, even though only a small percentage of the population are business owners.

The percentage of entrepreneurs in Sweden is relatively low compared to other countries. Just under one out of ten Swedes of working age (15-74) are business owners, which is clearly lower than the EU average.⁵⁰

Only 28 percent of all entrepreneurs who own companies with 50 or fewer employees are under 40. The share of all business owners aged 50+ is 43 percent, which is lower than it was before the repeal of the inheritance tax – the figure was three percentage points higher in 2004. This combined with the fact that the average age of business owners is relatively high means that it is still important to facilitate generational succession.

Sweden's preeminent researchers in the field are found at CeFEO, the Centre for Family Enterprise and Ownership at the Jönköping International Business School. They often emphasise the problems related to business owners who delay allowing the next generation to become partners or take over the business. According to Professor Leif Melin, about half of all Swedish companies are facing a generational succession in the next ten years. As the succession is postponed, according to Melin, it becomes increasingly common for the next generation to succeed only as owners and not as active entrepreneurs. The age of retirement for entrepreneurs is often 70-75.

“This is not altogether a good thing. In quite a lot of companies facing this process, we have entrepreneurs that are still holding the reins of power at 70 or thereabouts and children who are 40 or 50 years old and still haven't been given the responsibility. Some of them get tired of waiting and lose interest in the company,” said Leif Melin to Swedish Radio in January 2015.⁵¹

According to a 2011 report from Företagarna, about one out of ten small businesses in Sweden do not survive the generational succession. Most of those that do not survive are found in the contracting and consulting sector, which is highly dependent upon individuals.⁵²

The repeal of the inheritance and gift taxes was intended to facilitate generational succession within the family. The Swedish Agency for Growth Policy Analysis performed a descriptive study of all forms of transfers of ownership during the period of 2004-2007 which showed that both external and transfers of ownership increased after the reforms.⁵³ The study also showed that internal transfers of ownership are more common when the owner is elderly, while external transfers of ownership are more common in companies with more than ten employees. Companies that are transferred internally also have a higher survival rate. SAGP also points out that the tax rules for the sale of closely held companies favour external sale, which can affect the distribution.

The Confederation of Swedish Enterprise has also studied transfers of ownership. In a survey study carried out by SKOP in 2014, more than one out of four (27 percent) business owners/executives had been personally involved in a transfer of ownership in

⁵⁰ Jakobson & Herin, 2012.

⁵¹ Swedish Radio, 7 January 2015.

⁵² Företagarna, 2011.

⁵³ Swedish Agency for Growth Policy Analysis, 2013.

the last three years⁵⁴. A corresponding study was performed in 2007 that also covers the period before repeal of the inheritance and gift tax.⁵⁵ The percentage of business owners/executives who have been involved in a transfer of ownership has increased by six percentage points since 2007.

Private capital is critical to entrepreneurship

The personal finances of business owners are important to companies and modern research has established that the owner's tax situation has critical impact on how the business is operated.⁵⁶

For a very long time in Sweden, we had a tax policy that favoured large companies and discouraged entrepreneurship and private capital formation.⁵⁷ The repeal of the inheritance, gift and wealth taxes has entailed a re-examination of this policy. However, taxation of returns on capital in Sweden remains twice as high as the average in EU, OECD and BRIC countries.

Discussions of business financing often still concentrate on the need for external venture capital or bank financing even though the business owner's personal capital is actually the most important to new companies. Entrepreneurs understand their business idea better than anyone else and are thus better equipped to judge whether or not something is a good investment than are banks, for example. For this reason, the entrepreneur's own money is absolutely critical to the business venture, although other sources of financing may become more important as the company grows.

In a comprehensive study by Jan Herin and Ulf Jakobsson, 2000 entrepreneurs were asked by SIFO about how they finance their businesses.⁵⁸ The study surveyed owners of both new and established companies. It proved that the business owner's personal capital is the most important financing factor by far. Two thirds of the respondents report that personal savings are the most important source of financing, while public capital, such as financing from ALMI or small business grants, play a relatively subordinate role in financing, especially for new businesses. As companies grow, their own profits and bank loans gradually become increasingly important sources of financing.

One striking result of the survey is the limited significance of external equity. Neither corporate angels nor the business owner's family play anything other than a very minor role in the financing of business start-ups.

Naturally, external capital may have great or critical importance in individual cases, but as a whole, personal capital dominates the financing of Swedish owner-managed businesses.

A partial explanation is probably that entrepreneurs are reluctant to bring in external partners because this would require them to give up control of the company. In a study by Dan Johansson, the researcher concluded that control over their own company is important to entrepreneurs and that the price of that control is high – that is, entrepreneurs want a high reward for allowing external partners into their companies.⁵⁹

⁵⁴ SKOP for the Confederation of Swedish Enterprise, 2014.

⁵⁵ Synnovate for the Confederation of Swedish Enterprise, 2007.

⁵⁶ Henrekson & Sanandaji, 2014.

⁵⁷ Henrekson & Jakobsson, 2001.

⁵⁸ Jakobsson & Henrin, 2012.

⁵⁹ Johansson et al, 2013.

Personal funds are thus critical to entrepreneurship and Swedes are – on paper – relatively wealthy. Average private household wealth in Sweden is on par with that in the wealthiest industrialised countries, but a large part of that wealth consists of non-financial assets.

Herin and Jakobsson cite a report from Credit Suisse that includes wealth statistics from various countries.⁶⁰ The report shows that the average financial wealth among Swedes is 43 percent of total wealth, which can be compared with the United States, where the share is 85 percent, or Denmark at 69 percent. The European average is also higher, at 57 percent. Only the United Kingdom, with its high real estate prices, has a lower share, 34 percent, but it should be noted that the total wealth per capita is one third higher in the United Kingdom than in Sweden.

In addition, Swedes have a large portion of their financial wealth tied up in pension savings, which are difficult to access in practice for the purposes of starting a business. Swedes are fairly rich on paper, but their capital is tied up in home ownership and pension savings.

A much-appreciated reform

Few tax issues have engaged Swedish entrepreneurs as much as the problems related to the inheritance and gift tax. For decades, the tax induced many entrepreneurs to make the life-changing decision to leave the country. When the question of repeal became a topic of political debate in the early 2000s, many business owners expressed their opinions in the media and at meetings, as discussed in the preceding chapter.

The aforementioned CeFEO, the Centre for Family Enterprise and Ownership, at the Jönköping International Business School, has closely followed the inheritance and gift tax issue. In a 2011 study, CeFEO carried out in-depth interviews with entrepreneurs, 92 percent of whom agreed that the repeal of the inheritance and gift tax had facilitated transfers of ownership in general.⁶¹

The Confederation of Swedish Enterprise has conducted several survey studies on taxes on ownership. In December 2007, the organisation asked entrepreneurs, via Synnovate, for their views on taxation of property.⁶² This study was followed up in 2014 by SKOP.⁶³ The questions were asked of business owners or executive managers, which may have some impact on the answers, since an employed executive may conceivably have a different view on the matter than the owner of the company.

One difference between the results in 2007 versus those in 2014 is that at the later date, more respondents had had experience of transfers of ownership. In December 2014, 27 percent of respondents had had personal experience of a transfer of ownership in the preceding three years – six percentage points higher than in the study performed in 2007. Respondents who were full or part owners of their companies had been involved in transfers of ownership to a lesser extent than those who did not own their companies. Respondents who represented the smallest companies had been involved in transfers of ownership to a lesser extent than others.

⁶⁰ Credit Suisse, 2011.

⁶¹ Sund & Divesh, 2011

⁶² Synnovate for the Confederation of Swedish Enterprise, 2007.

⁶³ SKOP for the Confederation of Swedish Enterprise, 2014.

The repeal of the inheritance and gift tax is a much-appreciated reform among Swedish entrepreneurs. A full 83 percent now think it was either very good or fairly good that the inheritance and gift tax was repealed. This is essentially unchanged since the results of the 2007 study; slightly fewer answered “very good” and slightly more “fairly good” in 2014. The difference is probably connected to the fact that ten years have passed since the taxes were repealed and the absence of inheritance and gift taxes has become the “new normal.”

Unsurprisingly, business owners are somewhat more enthusiastic about the reforms than non-owners. This may also be the explanation for the difference in results between the two studies carried out by the Confederation of Swedish Enterprise, which also included employed executives, and the one carried out by the International Business School in Jönköping, which was restricted to business owners.

The 2014 SKOP survey also asked whether the respondents’ interest in transferring ownership was affected by the repeal of the inheritance and gift tax. Fifteen percent of the business owners/executives surveyed reported greater interest in a transfer of ownership. This was most prevalent in companies with 10-49 employees, where about one out of four companies reported greater interest in a transfer of ownership.

Reflections on the inheritance tax

In preparation for this book, several people were afforded the opportunity to share their views about the inheritance and gift tax, its repeal and its potential reinstatement. They include family business owners who are undergoing or planning for estate distribution, researchers who have studied the consequences of the inheritance and gift tax both before and after the repeal in 2004, accountants and corporate advisers who have encountered both relief and worry in their work. The individual interviews follow in this chapter, but there seem to be a few main elements in common among all respondents.

The respondents believe they will remember the difficulties that the inheritance and gift tax entailed; several of them had forgotten what it was like until they were asked to think about it. Everyone knows of instances where a transfer of ownership was simply impossible due to the inheritance and gift tax and the company had to be sold or shut down instead. All respondents agree that estate distribution is always a complex and sensitive matter and that the inheritance and gift tax made matters so much worse that it weakened companies and had adverse impact on their futures.

Entrepreneurs who are currently planning their own futures do not know what they would do if the inheritance and gift tax were reinstated; they are not at all sure they would have the energy to deal with the matter or the wherewithal to carry out their plans.

None believe that the inheritance and gift tax, in and of itself, discourages people from wanting to start a business – but they do believe it affects willingness to do so in Sweden, as well as to continue operating the business or investing in it and developing it further.

All respondents agree that family businesses are necessary, that they are where a large percentage of jobs are found today and will be in the future, especially in rural areas and small towns.

The inheritance tax was repealed in Norway in 2014 and the future of the Norwegian wealth tax is under discussion. Jacob Wallenberg, chairman of Investor, remarked on Swedish experiences with the repealed taxes at a conference on ownership issues held in Stockholm.

“Our problem in Sweden is not that we have had too much private wealth. As a result, there has not been any debate about the reinstatement of tax on wealth or inheritance tax, either.”

The entrepreneurs

Maud Spencer is the managing director of Svalson AB, which manufactures and sells electronically operated sliding windows. The company was founded 34 years ago by her father and his brother-in-law. The brother-in-law died suddenly a few years after the company was founded and his sons, Maud's cousins, were faced with a difficult choice.

The inheritance tax was a severe blow to a company that was still in the start-up phase and the sons considered not accepting their share of the company. In that situation, there were few, if any, prospective buyers and the company would have had to be shut down.

Luckily, the sons decided to gamble on the company and took out a loan to pay the inheritance tax. That turned out to be the right decision. The company has grown slowly but surely and is still growing by about one employee per year – the present count is 38.

“After a sudden death, the heirs have very little time to decide what to do. The company is already in a tough situation – a great deal of expertise is lost when an owner dies. Being forced to come up with the money to pay the inheritance tax in that situation may be more than the company can bear. And the loss of an owner in a family business is also the loss of a member of the family.”

Maud and her brother, who also works for the company, each own 12.5 percent. Their father still owns 25 percent. But if the inheritance and gift tax still existed, it is highly unlikely that she would still be a partner and it cannot be denied that that has an effect. “When you are a partner, you work differently,” says Maud, “especially when you are the managing director. You think long-term.” The company is her responsibility now and she hopes to be able to eventually pass it on to her children.

Maud hopes the kids will be interested, but they have many options and joining the family business is not nearly as self-evident as it once was. Nor does she want to put pressure on them – it is a huge commitment and the willingness and interest must grow naturally. If the inheritance tax still existed, the generational succession would have had to have been planned and begun much earlier, before the children had had the time to grow up and decide for themselves what they wanted.

Maud does not believe reinstatement of the tax would affect people’s willingness to start and run a business, but it would affect how they run it. “When you start a business, you think about the immediate future, how you will make it work in financial terms. Later, you think about how you want to go on, how you can create something to pass on to the next generation. But in most family businesses, there is already concern about whether the children are the least bit interested in taking over.” If the tax is reinstated, she believes that most people will take a more short-term approach to running their businesses, without planning for the next generation.

Christina Wahlström founded Mama Mia in 1988. With the entire family pitching in, the company has since grown to become the largest women’s and children’s health clinic in Scandinavia.

The company began to grow in the mid-90s, which was when she began worrying that the children would have to pay a high price when they took over one day. They chose to consult with an accountant and began transferring shares to the children incrementally. All three are active in the company; the youngest son started a few years ago and works in the company’s IT department. The daughters are currently the managing director and deputy managing director. Together, the children own fifty percent of the company and Christina owns the other half. Eventually, the children will take over entirely, but that is a long and involved process even without inheritance tax.

“If the inheritance and gift tax still existed, the transfer of ownership would have been both more complex and more expensive,” Christina says, “But, perhaps above all, more turbulent. We might have been forced to sell out.”

The company has been approached by many people over the years who were interested in buying the company, but Christina has always feared that the soul of the company would be lost if the wrong owner took over. The children understand the philosophy behind it all – they have been there and helped with everything from cleaning and sewing curtains since they were knee-high to a grasshopper.

“Running a company so that you can eventually pass it on to your children leads to a long-term approach and instils a sense of pride. You are determined to maintain high quality and ensure customer satisfaction.”

Christina believes many companies and a great deal of capital would move abroad again if the inheritance and gift tax were reinstated. “You get tired of being constantly under suspicion,” she says. “It saps your energy and interest. Sure, it makes a difference to be able to feel that hard work pays off, that you can drive growth and become successful.”

She remembers what it was like in the Seventies, when politicians were crying out for venture capital and investments, but few companies were started due to high and complicated business taxes.

If the inheritance and gift tax is reinstated, Christina is convinced history will repeat itself and she is worried about how things will go for Sweden in that case. “It is crucial that the country is able to maintain its vibrancy. Certainly, there are crooks in the private business sector, but they are so few that the problem can be dealt with in another way – without strangling all the entrepreneurs who only want to work hard and do the right thing.”

Mama Mia’s business concept of having a wide range of expertise gathered under one roof has proved successful and the plan now is to export the idea. Christina wants what she has learned to benefit others and there are plans to work with the Swedish International Development Agency to establish clinics in countries including Bangladesh, Tanzania and Romania. With the company safe in her children’s hands, she has the opportunity to help ensure safe maternity care for more women outside Sweden.

Olle Schönström is the managing director of S-Schakt, a company he started in 1980 with a partner, who was later bought out. The company began planning the generational succession in earnest six years ago with a family pow-wow to discuss what each member of the family wanted to do.

Olle has three sons who all worked for the company at one time or another during their youth, but have since chosen different paths. Daniel, the eldest, owns thirty per cent of the company and the plan is for him to take over entirely in a few years. The second son seems to have found his place outside S-Schakt and the youngest has not yet decided what route he is going to choose after his studies. Olle thinks it is important that his sons are allowed to develop according to their own wishes and to compensate the children who choose not to stay with the company. But, according to him, if the inheritance tax is reinstated, there will be nothing left to inherit.

If his sons want to be part of the company, they must be actively involved. S-Schakt has deliberately ruled out the idea of so-called sleeping partners, who are not involved in day-to-day operations. Olle says he has seen this go wrong far too many times and does not want to risk either creating bad feeling among the children or harming the company when conflicting desires must be reconciled.

Sufficient time has been allotted for the generational succession and Daniel is already active in the company, which is providing for a smooth handover. Contacts with suppliers, customers and banks can be arranged on an ongoing basis, without hurry or anxiety. The employees have also been informed of the family's plans, which instils a sense of security and continuity.

Before the inheritance tax was repealed, minor gifts of shares were given to the children each year in preparation for the future inheritance. Under the rules then in effect, gifts valued at more than SEK 10,000 were taxed in Tax Class 1, the class that included spouses and children, at 30 percent. In periods when the liquidity situation was good, Olle withdrew profits from the company and invested the funds, among else in forests, in order to compensate the children who did not see their future in the business.

However, these withdrawals also reduced the company's buffer capital and the planning stole time and energy that could have been put to better use in further developing the company. The only people who profited by the old laws were the finance companies.

Olle has been a member of the Confederation of Swedish Enterprise's SME Committee for many years and believes the interaction with other companies has been very worthwhile. He has observed what has worked well and what has worked poorly in other generational successions and has had the time and opportunity to consult with others in similar situations and decide what he wants to do with the family business. Successions are hard enough without further complications in the form of complex tax systems.

“Running a family business is a lifestyle; the children are brought up to it. If you cannot afford to let the children take over, or if they do not want to, it is hard to find an outsider who has both the will and the ability to take the company forward. And if you are forced to wind up the company for some reason, a great many jobs are lost.”

“Simplifying the generational succession process lets business owners focus their time and energy on developing the company instead, which improves the financial situation and creates more jobs.”

Fredrik Gustafson is the managing director of UBAB Ulricehamns Betong AB, the second generation of Gustafsons to run the company – an organised transfer of ownership has thus already been carried out. Fredrik's father Bengt became a partner in the company in 1990, and the sole owner in 1993. Fredrik and his siblings were each given a 10 percent stake early on, as part of the preparations for the future transfer of ownership and additional shares when Bengt took over the entire firm.

Initially, Fredrik had no plans to work for the company, but he changed his mind and started working for his father in 1995. He now runs Ulricehamns Betong together with one of his sisters. The others have chosen to be bought out. Bengt still works for

the company, now in the marketing department, and several other family members are actively involved in the business.

The plan from the outset was to grow swiftly, increase the company's sales to SEK 100 million and then sell. But when the inheritance and gift tax were eliminated, there was no longer any hurry with the plans and the sale was postponed indefinitely. These days, the company has sales of SEK 400 million and 250 employees – and the family intend to continue developing the business.

Fredrik and his sister both have children, but there are no plans for the company to become a family dynasty. They do not know what the future holds, but if the inheritance and gift tax were reinstated, it would take time and energy away from the core business – time and energy they are not willing to spend. Generational successions are expensive and they have no desire to go into debt. Based on their own experience and knowledge, the scales would then definitely tip towards a sale.

And there is worry about the return of the inheritance and gift tax, Fredrik admits. The discussion has come up again in both Swedish and international political circles. There is talk in several circles about paving the way to reinstatement, with fairness cited as the primary reason.

Fredrik believes that most employees do not understand how the issues related to the inheritance and gift tax affect their own job prospects. But family businesses that want to protect and develop the business are where the jobs are – and where job growth is found. The risk is that the same thing would happen if the tax were reinstated that happened before 2004 – that large family businesses like IKEA will leave the country to avoid time-consuming and costly succession planning and that small companies will be sold to avoid costly estate distributions – perhaps mainly to institutional owners, which are more likely to leave the country and take the jobs with them. His feeling is that fewer sales of this kind have occurred since the inheritance and gift tax was repealed.

Making money – and a profit – are prerequisites for running a business. But this is also a matter of security for the company and its employees, as well as a key to avoiding dependency on banks. As things are, they do not have to think about how they should manage capital in the company to prepare for a possible generational succession and future taxation. The money does the most good in the company and is there when it is needed.

He does not believe the inheritance and gift tax is the critical factor in whether an entrepreneur chooses to realise a business idea, but it affects existing companies and the willingness to forge ahead and grow. The inheritance and gift tax has been a non-issue for many years, but now, ten years after the repeal of the tax, it no longer feels certain that it will remain so. If the issue comes up again, it changes the focus, according to Fredrik.

“It's nice not to have to focus on that, to be able to put your energy into developing and growing the company. Inheritances and estate distributions are tricky enough as it is.”

He has learned a great deal within the company, the business of course, but also things like laws and structures. This kind of knowledge is difficult to acquire in any other way. That is yet another reason that family businesses are needed.

It was Bertil Wahlström's grandfather who started B. Wahlströms förlag, the publisher behind the Young Adult books with the familiar red and green spines. The family started a second company in 1989, FörlagsSystem, which works with logistics for publishers. They decided to sell the publishing house in 2006 and concentrate on FörlagsSystem, the company they are now in the process of transferring to the next generation.

The family began planning and discussing the future estate distribution before the inheritance and gift tax was repealed, but chose to postpone the implementation, since the children were still fairly young. Now all three are involved in FörlagsSystem; one works for the company and the other two are about to join the board of directors.

When the inheritance and gift tax was repealed, the starting position for a transfer of ownership was much improved, as it no longer cost anything to transfer assets. Under the old tax rules, it is by no means certain that the phased transfer now in progress would have been possible. The plan is to successively transfer the company over the next four years. But if political attitudes change and the issue of inheritance and gift tax comes up again, the plan may be brought forward.

“Thoughts about what the future holds are naturally always there,” says Bertil. “If the tax had been reinstated, the planned generational succession would have been very costly and probably impossible to carry out.”

In the past, many family businesses were sold instead, because the owners could not afford a heavily taxed succession. There is no reason things would be any different now, according to Bertil.

He does not believe reinstatement of the inheritance and gift tax would affect anyone considering starting a business, but it does affect whether or not they continue into the next generation. And plans for the future of the company also naturally affect willingness to invest in and develop the business.

The inheritance and gift tax carried heavy costs in terms of consultant fees, time and energy – resources that can now be kept in the company.

“Instead of being weakened when the money needed to come up with the cash to pay the inheritance tax is taken out of the company, businesses are now moving forward intact after an estate distribution. Companies will lose a great deal of strength and capital if the tax returns.”

The advisers

The taxes on inheritances and wealth gave rise to many less productive tasks for both business owners and advisers. Helena Robertsson, partner at EY Tax Sweden, relates how the role of adviser to family businesses has changed considerably since the repeal of the inheritance, gift and wealth taxes.

“The work done with what was called ‘year-end positioning’ has been eliminated. In order to avoid wealth tax, supplemental payments of taxes and assets were placed in OTC shares, which were taxed at a lower rate. The large transfers before the end of the year sometimes had the effect of driving up share prices.”

“In the planning prior to an estate distribution, business owners had to utilise the annual nil-rate amount for gifts to the children. People never reckoned on the fact that all of these transactions entailed risks.”

“Today,” says Helen, “advisers can instead focus on giving more constructive advice that promotes entrepreneurship.”

She relates that after the repeal of inheritance and wealth tax, Swedish tax advisers have filed a great many self-corrections for wealthy Swedes who have had their assets in Switzerland, for example; that is, the Swedish Tax Agency has been informed about the assets.

This would have never happened if the inheritance and wealth taxes had not both been repealed. Certainly, it has become more difficult to keep assets in Switzerland secret since the banks were forced to change their procedures, but according to Helen, it is the Swedish changes that have induced Swedes to bring their money home.

“If the inheritance and wealth taxes had not been repealed in Sweden, many business owners would probably have chosen to move and join their money in Switzerland or to have transferred the funds to other countries.”

She believes that many people have forgotten that the extremely wealthy never paid inheritance, gift or wealth tax. The people who had to pay were those who were fully engaged in running their businesses and could not afford the time or the money required to eliminate the taxes through planning.

“I was flipping through *Generation Ä, som i Ägarskifte*⁶⁴ the other day; before that, I had actually forgotten how much work it involved. And sometimes it was impossible; the matter just couldn't always be resolved.”

Tomas Lindgren at PWC says that there is still a great deal that has to be dealt with before a generational succession – tax issues, fairness issues – but gift and inheritance taxes are no longer a problem.

“Nobody remembers any more what a hassle it was; now things simply work.”

In the past, many people were forced to sell off part of the company in order to pay the tax, which brought up other issues, according to Peter Hellqvist, also with PWC. “How do you go about it? Which part do you carve out? As well, insurance solutions were often used that could be both expensive and complicated.”

The role of family business adviser has now changed, he says, and advisers can focus more on business issues. “There are still just as many meetings, but now they have to do with the company's development and practical planning ahead of the succession. Fundamental issues like fairness aspects and who will continue running the business will always come up; perhaps involving two or more generations that will run the business together. Now that the inheritance and gift tax are no longer the central topic, the discussions are often more positive than they used to be.”

⁶⁴ Ydstedt, 2005.

Prior to the repeal of the inheritance and gift tax, it was estimated that 100,000 businesses with 1.5 million employees would be changing owners – something simply had to be done if the owners were to be able to continue running the business. Several family businesses actually left Sweden, including IKEA and Tetra Pak.

“But the age curve has actually just shifted,” says Tomas. “The generation born in the 1940s are still working. The succession boom in small and medium-sized enterprises is still ahead of us and any new inheritance and gift taxes would entail a necessary structural transformation of Swedish business and industry. This is often a matter of demographics.”

“Somewhat jokingly, we talk about the immortality of entrepreneurs and the eternal incompetence of the children,” Peter adds. “It is hard to let go of your life’s work and trust the kids to be good stewards of their inheritance. That is why many entrepreneurs postpone the succession beyond what is optimal. And it can be difficult to persuade the next generation to take over when the children have seen how hard their parents had to work for the family business.”

“A reinstatement of the inheritance and gift tax would further complicate transfers of ownership. Four out of five new jobs are expected to be created in small businesses. Facilitating generational succession and making it possible for small family businesses to survive is, to put it bluntly, a must.”

They both relate that after the repeal of the inheritance and gift tax many people moved their companies back from the Benelux countries, for instance, even before taxes were raised and rules tightened there.

But now the pendulum has begun to swing and business owners are expressing worry about regulatory changes that might lead them to move abroad. Many family business owners were anxious to have their successions and transfers of ownership accomplished before the general election last year because they did not really trust that the politicians understood the difficulties that, for example, a reinstatement of the inheritance and gift tax would entail. This occurred even though none of the potential governing parties had proposed a reinstatement of these taxes.

The academics

Mattias Nordqvist is a professor of business administration at the International School of Business in Jönköping and director of CeFEO, the Centre for Family Enterprise and Ownership.

“Before the inheritance and gift tax was repealed, business owners devoted so much time and energy to tax planning that they risked neglecting the other aspects,” he relates. “The succession could be resolved technically, and the tax planners made millions, but there was still a risk that the succession and transfer would work out poorly because so much else was left unprepared.”

“Back then, there was an entire industry built up around planning, advisers and tax consultants whose services were very costly, but did not actually generate any value. When the inheritance tax was repealed, the industry vanished overnight.”

If the inheritance and gift tax were reinstated, he believes the same thing would happen again. Time that should be devoted to the company and to preparing the

younger generation would be spent on tax planning. And the entire industry surrounding estate distribution would surely pop up again, considering how much money it brought in.

Today, business owners can devote their time and energy to the business, to their employees and to preparing the next generation – instead of planning to eliminate the tax.

According to Professor Nordqvist, the inheritance and gift tax hit businesses the hardest; the entrepreneurs who do not have capital socked away and cannot afford to withdraw capital to pay the tax. This would still be true today and would also have huge impact on local, committed ownership – reinstatement of the inheritance and gift tax would hit rural communities much harder than it would Stockholm.

Mattias says there must be conditions in place that make locally owned businesses possible; this is incredibly important to rural Sweden and a prerequisite for the entire country to thrive. Many municipalities are dependent upon businesses staying in the area and prospering to keep jobs and hope for the future alive in the district.

He is convinced that reinstatement of the inheritance and gift tax would lead to more businesses being sold off, often to foreign owners with no links to the community or even to Sweden. Although it is true that companies sold to owners with no local commitment often demonstrate better short-term profitability because they gain an injection of capital in connection with the sale and efficiency is improved, there is also risk that this will lead to ownership that is managed from afar, without commitment and for the short term.

“Family-owned businesses generally survive longer. The owners are genuinely interested in the communities in which they operate and in their employees,” Mattias relates. “They are socially responsible and not interested in selling to holding companies that might want to downsize and lay off employees.”

“I have heard owners say ‘sure, I could sell and realise a few hundred million kronor, but what would I do with the money?’ Most family businesses make a profit, but they are relatively content with what they have; they are not greedy,” says Mattias.

“The inheritance and gift tax is a thing of the past and the business tax rate is relatively low. Yes, there are still things that need to be done, but most people believe running a business in Sweden works well – as long as the conditions do not deteriorate.”

Lars-Göran Sund is a professor of law at CeFEO.

“The rationale for the Swedish inheritance and gift tax was purely political,” he declares. “In purely economic terms, the tax cost far too much in administration to justify the small amount collected, and large companies eliminated the tax through planning or, like IKEA, exited the country.”

Lars-Göran relates that one of the leading accountancy firms in Småland once confided in him that they had lost hundreds of billable hours per year overnight when the inheritance and gift tax was repealed.

This is perhaps no surprise, considering that more than 90 percent of business owners surveyed by CeFEO shortly after the inheritance and gift tax was repealed reported

that they believed succession had been made easier. It also helped that gifts were no longer taxed, which made it possible to carry out the succession little by little.

However, Lars-Göran was not personally happy about the change in the law, or at least not at the time.

“I suppose it was only me and one or two others who did not celebrate, which was for two reasons: it was fun to teach about the inheritance and gift tax because it was so complex, and it was a fascinating subject of research because it was so important to so many people.”

“In order to run a family business and make it flourish, you almost need someone who has walked alongside you and gotten to know everyone who can take over. It is hard to find external prospective owners who are willing and knowledgeable enough to continue running the business.”

Lars-Göran notes that a succession in a family business is more than a transfer of ownership – you also change the management and managing director at the same time. “This is complicated enough without having to plan for the inheritance and gift tax – especially because many companies still have to withdraw funds from the business in connection with a succession to compensate siblings, for example, but also parents. Not everyone has the wherewithal to simply leave the company to their children.”

He certainly believes it is something else that makes people want to start a business, but that any reinstatement of the inheritance and gift tax would affect whether they want to do it in Sweden – and how long they would continue to run the business thereafter.

Inheritance tax in other countries

Sweden's repeal of the inheritance tax is sometimes described as unique and aberrant, but nothing could be further from the truth. Many other countries have no inheritance tax or at least none within the family. A nearby example is our neighbouring country of Norway, which repealed the inheritance tax in 2014.

In this chapter, we describe the inheritance tax and the debate on the same in a number of countries. Several European countries have no inheritance tax regimes, including Austria, Cyprus, Czech Republic, Estonia, Liechtenstein, Norway, Russia and Slovakia. Countries outside Europe that have no inheritance tax include Australia and India. The effective taxation of inheritances has also been reduced through lowering the tax rate, increasing the nil-rate threshold, or both. Many countries that still have an inheritance tax also have high nil-rate thresholds or rules aimed at facilitating generational succession in family businesses. In practice, however, there are significant difficulties attached to crafting viable exemptions and Germany is a particularly glaring example.

There is lively debate ongoing in Denmark, Germany and the United States concerning the destructive impact of inheritance taxes on entrepreneurship. In countries where inheritance tax is still levied, it is often a highly complex tax, as it was in Sweden. Beyond the fact that it does more harm than good, in purely fiscal terms, this also makes it difficult to make comparisons between countries.

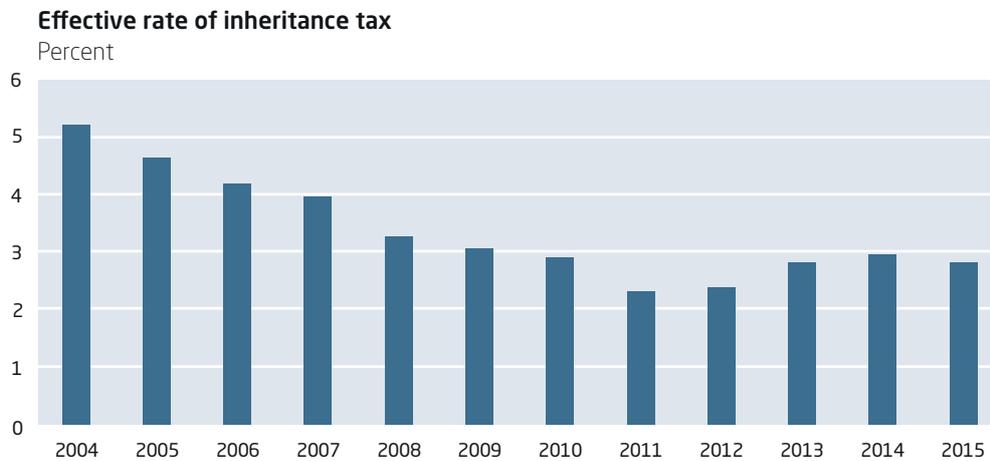
The descriptions in this chapter of inheritance taxes in other countries are primarily intended to provide a general picture of trends, differences and the political debate. Readers are recommended to contact tax authorities or special tax advisers in the respective countries to determine definitive positions and assessments of that which applies to individual countries. Good sources of information include EY's *Worldwide Estate and Inheritance Tax Guide*, which is produced every year, and AGN Europe's annual reports that show the effective inheritance tax for a specific scenario.

The effective inheritance tax is often lower than the nominal rate

AGN Europe, an association of independent accounting and consulting firms, has been performing studies of the effective inheritance tax in a number of European countries for many years.⁶⁵ AGN uses a scenario in which a married individual dies, leaving a spouse and two children with the same assets in the estate, which makes it possible to compare the effective tax rate between countries and over the years. An initial important observation that can be made in the most recent surveys is that in most countries that have an inheritance tax regime, the effective rate is nevertheless zero when a concrete scenario is studied. It should be noted that assets are relatively large in the AGN scenario, totalling €2.6 million. Countries that have an effective rate of zero in the AGN scenario include Croatia, Italy, Luxembourg, Poland and Switzerland. Switzerland is often mentioned in the debate as an example of a country that still has an inheritance tax, but where in this concrete case, the effective rate is zero.

⁶⁵ AGN Europe, 2013.

AGN Europe has performed the same scenario study for several years, covering a varying number of countries in Europe. The chart shows the average effective tax rate from 2004 to 2015. The trend towards a declining effective rate of inheritance tax is due to both lower tax levels and that countries have abolished the inheritance tax.



Source: Effective rate of inheritance tax, average for some European countries, based on reports from AGN Europe.

United States from 55 to 0 to 40 percent - and perhaps once again to 0?

An inheritance tax was enacted in the United States in 1916 and the tax remained high and enjoyed strong public support for a long time. In *Death by a Thousand Cuts*, the authors describe the history of the inheritance tax and the political process that led to its temporary repeal in 2010.⁶⁶ For many years, there was widespread support for the legitimacy of inheritance tax, probably based on strong distrust of dynasties whose wealth built various kinds of monopolies, such as those in the rail and energy supply sectors. Starting in the 1990s, however, the inheritance tax came under increasing fire, primarily from owners of family businesses. Popular support had proven to be on the decline. The authors, who are personally in favour of inheritance tax, see two explanations for the change in public opinion. The first is that the people who currently create the greatest fortunes in the US are not the robber barons of yesteryear, but rather ordinary Americans with clever ideas, but no significant start-up capital. The founders of Apple, HP and Microsoft began building their wealth with their own two hands at home in the garage, which means many Americans can identify with them. The second explanation is that Americans are optimistic about their own opportunities to succeed and thus also recognise the risk that their families might be affected by the inheritance tax as well. Ironically, while the success of Bill Gates has contributed to reducing support for the estate tax, his father William H. Gates, an attorney, is an outspoken supporter of inheritance tax and has written books on the subject.⁶⁷

The U.S. federal inheritance tax was a full 55 percent for a long time, but the tax was lowered in several stages and the nil-rate threshold, or “exclusion amount” increased under George W. Bush. By 2010, the federal inheritance tax was finally down to zero percent. However, the phase-out was not permanent and had been based on the allocation of special funds in the budget to finance the reductions. After the budget crises of 2010, Democrats and Republicans hammered out a compromise on several tax

⁶⁶ Graetz & Shapiro, 2005.

⁶⁷ Gates & Collins, 2002.

issues and at present (2015), the top federal inheritance tax rate is 40 percent, with an exclusion amount, of \$5.43 million.⁶⁸ Additional state-level inheritance taxes may apply depending on the state of residence.

The high inheritance tax in the U.S. has also impacted the business ownership model. Very large family businesses are less common than in other countries and ownership of public companies is often fragmented, with governance in the hands of executive management. The inheritance tax has been a factor in that public companies with this ownership model have avoided taxation compared to family businesses, which are heavily taxed with each generational transfer. Successful entrepreneurs move their wealth into special foundations and there is a large industry devoted to providing insurance solutions to facilitate generational transfers in family businesses. Oddly enough, opposition to repealing the inheritance tax is strong in the insurance industry.

Criticism of inheritance, often referred to as “death tax” in American debate, is widespread among family business owners. Nevertheless, President Obama favours even higher taxation of ownership, including the inheritance tax. Since the Republicans won control of both the Senate and the House of Representatives in the autumn of 2014, however, it is less likely that Obama will enjoy any success in his efforts to increase taxes on ownership.

“The Obama plan is effectively a dagger in the heart of family-owned businesses” said Dick Patten of the American Business Defense Council, who is leading an effort in Congress to eliminate the death tax altogether.⁶⁹

In the House of Representatives, a majority consisting mainly of Republicans along with a few Democrats have voted to repeal the federal inheritance tax. There is probably also a majority in the Senate in favour of repealing the tax again. It remains to be seen whether this time it will again be a temporary reduction or a permanent repeal.

Norway repealed the inheritance tax in 2014

Norway repealed the gift and inheritance tax effective 1 January 2014. One of the aims of the reform was to facilitate transfers of ownership in family businesses. When the inheritance tax was repealed, rules were instituted under which the heir assumes liability for any capital gains tax incurred upon later sale of the assets.

Before 2014, Norway applied an “inheritance charge” that covered both inheritances and gifts. The level of the tax depended upon the family relationships and the size of the inheritance and was set each year by the parliament, *Stortinget*. The last year that Norway had an inheritance tax, the nil-rate threshold was NOK 470,000 and the tax on inheritances between NOK 470,000 and 800,000 was 6 percent within the family and 8 percent outside the family. On inheritances above NOK 800,000, the inheritance tax was 10 percent within the family and 15 percent outside the family. Inheritances between spouses were exempt from inheritance tax even before 2014. In the scenario study by AGN Europe, the effective tax rate was 3.8 percent in the last year that Norway had an inheritance tax.⁷⁰

⁶⁸ IRS.gov (6 January 2015).

⁶⁹ *Investor's Business Daily*, 2015.

⁷⁰ AGN Europe, 2013.

Germany - illegal relief for family businesses

Germany has federal legislation on taxation of inheritances and gifts, called *Erbschaft und Schenkungsteuer*. The tax level depends upon the size of the inheritance and the relationship of the heir to the deceased person. There are three tax classes, where immediate family members the lowest rate and unrelated heirs pay the highest rate. The lowest rate is 7 percent and the highest possible rate is 50 percent on inheritances worth more than €26 million to non-relatives. An exemption applies to bequests to charity and the family home is tax-exempt if the heirs continue living in the home.⁷¹ In AGN Europe's scenario study, the effective inheritance tax rate for Germany was 5.25 percent in 2014.

The debate about the inheritance tax in Germany is, not unexpectedly, characterised by the country's dependence on the many medium-sized family-owned businesses, referred to as the *Mittelstand*. There are about 4,400 family-owned businesses with annual turnover of more than €50 million and strong support for maintaining favourable conditions for these companies.⁷² There is a special rule in the federal legislation applicable to companies owned by family foundations, which is common in the *Mittelstand*, by which foundations are fully liable for inheritance tax every thirty years.

In the latest major reform of the inheritance tax in 2009, special relief was instituted for family-owned businesses that maintained operations in Germany after a generational transfer of ownership. If the company is still operating after five years and the company also maintains a payroll total of 400 percent of the average of the total for the last five years, the inheritance tax could be reduced by 85 percent. If operations were maintained for seven years with equal or higher payroll totals, however, the discount was 100 percent. German business organisations were fairly pleased with the opportunities this reform created for family businesses, but the reform was criticised for creating unfairness between those who could qualify for exemptions and those who could not. The German constitutional court reviewed the rules and ruled in 2014 that the design of the inheritance tax was unconstitutional.⁷³ Since the ruling, German politicians from most parties have expressed support for finding solutions by which family businesses will not be subject to higher taxation. The ruling in the constitutional court means that new legislation must be enacted by June 2016. The ruling has triggered extensive political debate about the inheritance tax and generational transfers of ownership in family-owned businesses.

In the uncertainty that prevailed during 2014, an unusual number of family-owned businesses decided to carry out transfers of ownership ahead of time. Minister of Finance Wolfgang Schäuble (CDU) has presented a proposal for a new model to limit the inheritance tax for family businesses, which is supported by SPD but has been sharply criticised by coalition partner CSU and the private business sector, with particular objections to Schäuble's proposal to introduce new criteria for granting exemptions.⁷⁴ The criticism has been especially scathing from German family-owned businesses.⁷⁵

Lutz Goebel, chairman of the family business association *Die Familienunternehmer*, believes that instead of adjusting the inheritance tax so that it complies with the law,

⁷¹ E&Y, 2014.

⁷² BDI, 2013.

⁷³ Manager-magazin.de (accessed 16 February 2015).

⁷⁴ *Handelsblatt*, 2015.

⁷⁵ *Die Welt*, 2015.

Schäuble is paving the way to legislation that will weaken Germany’s “hidden champions”, who account for a large portion of German innovation and German jobs.⁷⁶

Denmark - moving towards an exemption for family businesses?

Denmark has inheritance tax at three levels, 0, 15 or 36.25 percent. Inheritances within the family of estates worth less than DKK 272,900 are tax-exempt. Estates worth more than DKK 268,900 are taxed at 15 percent.⁷⁷ In addition there is a tax of 25 percent on bequests to heirs outside the immediate family, which in this case results in a total tax of 36.25 percent.⁷⁸ Estate taxation was introduced in 1995. Before then, Denmark had a progressive inheritance tax that was also dependent upon kinship. The inheritance tax generates relatively limited tax income equal to 0.2 percent of GDP.

There is also discussion ongoing in Denmark about creating exemptions to the inheritance tax for generational transfers of ownership in family businesses. The centre-right opposition has promised such an exemption if they win the next election. There are also parties who are advocating the complete repeal of the inheritance tax. Only the extreme left is pursuing the issue of increasing the inheritance tax.

CEPOS, a Danish think tank, has emphasised the serious consequences of the inheritance tax. According to CEPOS, the inheritance tax is a profoundly destructive tax on capital income that reduces both incentives to save and access to investment capital for business. The inheritance tax in Denmark accounts for only about 0.4 percent of the state’s total taxes and fees.⁷⁹

The United Kingdom - complicated, but an exemption for charity

The United Kingdom’s cohesive Inheritance Tax (IHT) legislation covers taxation of both inheritances and gifts. Under this law, gifts are taxed retroactively as inheritances if death occurs within seven years. The level of the inheritance tax is 40 percent on inheritances above £325,000 (until 2018).⁸⁰ The legislation is complex and provides many opportunities for reductions. Bequests and gifts to charity and to spouses are tax-exempt. If 10 percent of the estate goes to charitable purposes, the inheritance tax on the rest of the estate is reduced to 36 percent.

Aimed at facilitating generational transfers of ownership in business and agriculture, there are also reductions of 50 to 100 percent of the tax on certain types of business-related assets.

The debate about the inheritance tax in the UK focuses primarily on the need to increase the nil-rate threshold. As a result of the huge increases in property values in recent years, the value of an average home in south-western England is higher than the nil-rate threshold for the inheritance tax.

In the latest election campaign, the Conservatives promised an increase in the nil-rate threshold, but this did not occur after the coalition negotiations with the Liberal Democrats.

⁷⁶ Familienunternehmer.eu (9 March 2015).

⁷⁷ Skm.dk (10 February 2015). The exclusion amount is index-linked.

⁷⁸ E&Y, 2014.

⁷⁹ Kyed, 2014.

⁸⁰ E&Y, 2014.

Belgium - complicated inheritance tax that also applies to foreigners

Belgium has both inheritance and gift tax. The inheritance tax is divided into two parts: succession tax and transfer tax. The transfer tax is a tax on inheritances of real estate in Belgium owned by people who are not permanent residents of the country. The succession tax applies only to permanent residents. The level of the succession tax and nil-rate bands depends upon the size of the inheritance and the family relationships. There are also regional variations in the levels, with higher taxation in Brussels and Wallonia and lower rates in Flanders. The lowest rate of 3 percent applies to bequests to spouses and children. The top rate is a full 80 percent on bequests in Wallonia of more than €175,000 to a non-family member.⁸¹ Due to the complicated system and high tax rates, it is common to take advantage of gifts under the nil-rate threshold, which are taxed at a lower rate, in the same manner that occurred in Sweden before 2004.⁸² According to the 2014 study by AGN Europe, the effective tax on an inheritance of €2.6 million was 21.9 percent.

Finland - estate share tax and exit to Sweden

Finland has had an inheritance and gift tax regime since 1940. The inheritance tax is based on the individual's share of the estate and does not take the total size of the estate into account. The Finnish system has two different inheritance tax classes based upon the family relationship. The tax level depends upon the inheritance tax class and the size of the inheritance. The lowest rate is 7 percent and the highest is 35 percent, which applies to inheritances above €315,000 in Class II. Religious communities and non-profit associations are exempt from the inheritance tax.

A number of successful entrepreneurs have chosen to move to Sweden since the repeal of the inheritance tax, for that very reason. Financier Björn Wahlroos moved to Sweden about a year ago, which reignited the issue of the repeal of inheritance tax in Finland. The Swedish People's Party of Finland and the National Coalition Party called for a repeal in the government negotiations in 2014, but no decision has yet been taken on the issue.⁸³

During the 2015 election campaign, another well-known businessman, Karl Fazer, announced that he saw no alternative but to leave Finland in order to survive the coming generational succession in Fazer.

⁸¹ E&Y, 2014.

⁸² Thierry Afschrift, email, 21 November 2014.

⁸³ *Hufvudstadsbladet*, 7 June 2014.

Summary and conclusions

When Sweden repealed the inheritance tax in 2004, it was the final step of a gradual phase-out that had begun long before. The inheritance and gift tax regime was instituted in 1915 and reached its zenith in 1983, when the top rate was a massive 70 percent. It was thereafter lowered in several stages, first in 1987 to 60 percent, then in 1992 to 30 percent, before it was repealed altogether in 2004. The Swedish repeal of the inheritance tax is sometimes described as unique and aberrant, but nothing could be further from the truth. Many other countries in Europe do not have an inheritance tax either; the latest to join the fold is Norway, where the tax was repealed in 2014. Other large countries like Australia and India have no inheritance tax at all, while the effective tax rate can be zero even in countries that formally have an inheritance tax, or at least lower than it appears to be on tax rate tables. This applies in Switzerland, for example, where the effective taxation of a relatively large inheritance within the family is zero in practice (the scenario of an estate worth €2.6 million, AGN Europe 2014). Studies of effective tax rates show that the trend is generally moving towards lower taxation of inheritances in Europe.

Great harm but minor fiscal significance

In their various permutations, inheritance and gift taxes have never been a substantial source of income for the state. The highest contribution from the inheritance and gift tax was in the 1930s, when the taxes generated 2.5 percent of tax income. By the time the inheritance tax was repealed, the share had declined to about 0.15 percent of total tax income.

The arguments in favour of keeping the inheritance tax in the Swedish tax system have instead had to do with redistribution and the “capacity to pay tax” principle. In practice, this principle concerning the ability to pay tax could be difficult to apply if the taxed assets consisted of real estate or a business.

The political reasons have been based on fairness and redistribution policy. The Property Tax Committee wrote, for example, that the taxes had an equalising effect on the distribution of income and wealth in society, even though they constituted a minor portion of the state’s finances.

However, the inheritance tax had severe consequences on business and entrepreneurship. Several successful entrepreneurs left Sweden to escape the threat of inheritance, gift and wealth taxes, including Kamprad and Rausing. In addition to the most famous emigrants, many other entrepreneurs and a great deal of capital exited Sweden in the 1970s and 1980s.

For the entrepreneurs who remained in Sweden, the inheritance tax was not only a financial obstacle to transfers of ownership; it was also an energy thief that diverted attention from other important matters in connection with generational succession. Not infrequently, the taxes forced business owners to execute transfers of ownership in a way that was perhaps not in the best business interests of their companies.

Many people have now forgotten how much effort was expended on containing the damage caused by the inheritance and wealth taxes. Large family businesses were able to limit the inheritance tax by establishing foundations or listing the company on the stock exchange. This affects the ownership structure of many Swedish companies to this day. These opportunities were unavailable to ordinary families and in the worst case scenario, the inheritance tax could force survivors to leave the family home to raise the money to pay the tax.

Increasing numbers were gradually affected by the inheritance tax as inflation, higher median incomes and rising appraised values for taxation purposes meant that more Swedes were leaving legacies whose value exceeded the basic deduction. During the late 20th century, between one quarter and one third of all Swedes were affected by the inheritance tax.

A welcome reform

The repeal of the destructive inheritance and gift tax was very popular among Swedish business owners. Even though many today no longer remember just how devastating the consequences could be, 92 percent of business owners reported in an academic study that abolishing the inheritance and gift tax has made transfers of ownership easier in general. The study was performed in 2011 by the Centre for Family Enterprise and Ownership at the Jönköping International Business School, CeFEO. In another survey carried out by SKOP in 2014 on behalf of the Confederation of Swedish Enterprise, 83 percent of respondents said that it was very good or fairly good that the inheritance and gift taxes were repealed. Employed executives were also able to participate in the latter survey, however. Unsurprisingly, the people who actually owned the businesses were somewhat more positive towards the reforms. In the interviews conducted for this book, none of the respondents believe that the inheritance and gift tax, in and of itself, affects willingness to start a business, but they do believe it affects the willingness to do so in Sweden, to continue doing so, or to invest in and develop the business. Several of the people interviewed had forgotten how the tax affected them and others until they were asked to think back.

One of the people who have truly delved into the matter is Professor Göran Grosskopf, who has been an adviser to major Swedish companies and has served, among else, as chairman of the board of IKEA. In an interview in 2010, he said that the wealth, inheritance and gift taxes had had direct influence on the decisions of companies including IKEA and Tetra Pak to exit Sweden – but that he would have advised them to stay in Sweden under current tax rules. And ultimately, Ingvar Kamprad indeed moved back to Sweden in 2014.

It is difficult to determine the impact of the repeal on tax income because several other reforms were implemented during the same period – which also coincided with a global financial crisis. In purely fiscal terms, inheritance and gift taxes were of marginal importance. In the final year, 2004, inheritance and gift taxes accounted for less than two thousandths of one percent of total tax income. Several major tax reductions have been implemented since 2000 and the total tax ratio has declined from 51 to 44 percent of GDP. Even as several taxes have been repealed or reduced, tax income has increased by SEK 260 billion in constant prices. This is partly the result of the repeal of destructive taxes like the inheritance and gift tax in 2004 and the wealth tax in 2007, along with the phased implementation of the in-work tax credit, which meant that more people had jobs to go to. The economy has thus outgrown the taxes. The Swedish Tax Agency has also reported on several occasions how

capital is returning to Sweden from other countries. In the period of 2010-2014, the Tax Agency received almost eight thousand self-corrections.

Repeal of the inheritance tax has also reduced the Tax Agency's administrative burden connected to estate inventories. The work required to calculate and manage the tax, carry out re-examinations and perform any necessary recalculations in the Tax Agency's system has been reduced.

Transfers of ownership facilitated

The high average age of Swedish business owners was an important issue when the inheritance tax was repealed. Statistics compiled by Statistics Sweden over business owners classified as partners in closely held companies show that the share aged 50+ has decreased by three percentage points since 2004. Sweden still has a challenge to overcome in this area. The number of transfers of ownership has also increased due to the reform. In a 2014 survey conducted by SKOP, more than one out of four (27 percent) business owners/executives reported that they had had personal experience of a transfer of ownership in the last three years. A corresponding survey was conducted in 2007 that also covered the period before the inheritance and gift tax was repealed. The share of business owners/executives who have been involved in a transfer of ownership has increased by six percentage points since 2007. The Swedish Agency for Growth Policy Analysis has also studied all forms of transfers of ownership during the period of 2004-2007. The study results showed, among else, that both external and internal transfers of ownership increased after the reform.

Unique political consensus on the repeal

Fiscal policy has often been associated with major political battles in Sweden, but that did not apply to the repeal of the inheritance and gift tax. When the Riksdag decided on the bill presented by the Persson government, all parties voted in favour of repealing inheritance and gift taxes. There were two bills in the vote that both dealt with repeal of the inheritance and gift tax, the difference between them being that one presented the reasons for the repeal with greater clarity. Representatives of all parties participated in the parliamentary debate except the Green Party, which probably had a decisive influence on the government's decision to present the bill. Left Party MP Per Rosengren reported in the debate that the party's executive committee and governing board supported the bill. There are several versions of how it came about that the Social Democratic government chose to propose the repeal of the inheritance and gift tax. Peter Eriksson, who was the spokesperson for the Green Party at the time, says today that he was the one who suggested the repeal to Göran Persson during the summer of 2004.

The political dilemma that the Property Tax Committee sitting at the time was wrestling with was how the tax could be designed so that it exempted businesses from the inheritance and gift tax. Today, Per Rosengren of the Left Party and Per Landgren of the Christian Democratic Party, who were also members of the committee, both say that the attempts to draft regulations to exempt businesses from inheritance tax faced insurmountable difficulties. In practice, the country would have been forced to exempt all business capital.

The overall picture is that the politicians responsible for the issue, wisely enough, understood how complicated the matter was bound to be and what unreasonable consequences such legislation might have. A year or two later, the same set of problems

in the Lex Uggla matter – that is, the difficulties of identifying working capital in a company – also contributed to the repeal of the wealth tax as well. Many people who might like to see an inheritance tax for ideological reasons nevertheless understand that it is impossible to combine such a tax with the necessary exemptions to relieve family business from the tax.

Mattias Nordqvist, a professor with the Centre for Family Enterprise and Ownership at the Jönköping International Business School, is convinced that reinstatement of the inheritance and gift tax would lead to the sale of more family businesses, often to foreign owners with no ties to Sweden and the local community.

The repeal of the inheritance and gift tax also triggered a more intense discussion about the impact of taxes on ownership. Taxation of ownership was considered a “free lunch” for a long time. Much of the Swedish business sector is made up of owner-managed businesses that create a great many jobs and account for a significant share of economic growth. In Sweden, even most listed companies have controlling owners who take active responsibility for the company’s development. Where the owner is domiciled has impact on decisions concerning the location of head offices, R&D and production. People increasingly began to understand that the taxation of ownership was more important than previously estimated and Sweden ultimately also repealed the wealth tax in 2007.

Today, the capital income tax – tax on returns and capital gains – still remains on the list of destructive taxes on ownership. Capital income tax is nearly twice as high in Sweden as in other EU, OECD and BRIC countries. Moreover, short-term transactions and long-term ownership are subject to equal taxation, which essentially means that inflation is taxed. It remains to be seen whether we will see a similar development to that surrounding the repeal of the inheritance and gift tax in this area as well.

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