

INHERITANCE TAX EVASION IN GERMANY

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Abstract: It is estimated, that between 2015 and 2024 about 3 trillion € will be inherited in Germany. Due to far-reaching tax exemptions, the inheritance tax revenue per year is only about 7 billion €. Despite the fact, that the income or value-added tax burden is significantly higher, the inheritance tax is more unpopular than other taxes. The objective of the paper is to figure out, whether there is evidence of high tax evasion in the field of German inheritance tax, with a view to the low tax revenue and the high unpopularity of the tax. Therefore, data from the official inheritance tax statistic is compared with secondary data from studies, which estimate the yearly wealth transfer to the next generation by using survey data. The assumption is, that asset classes, which are easy to evade, should be recorded with a lower amount in the official tax statistic, than in the survey-based estimations. But the results do not show evidence of high tax evasion in the field of inheritance tax. As until now, only a small part of the inheritances is recorded in the official inheritance tax statistic, for the future it is recommended to the government, to record all inheritances in the official statistic. Because of far-reaching reporting obligations, the tax offices anyway have knowledge of most inheritances and the additional bureaucratic effort to record the additional data in the official tax statistic is small.

Keywords: German inheritance and gift tax; tax avoidance; tax evasion; wealth transfer.

1. Introduction

Many approaches exist to explain or measure tax evasion in the field of income tax or VAT. In most countries of the world, these two taxes account for the biggest part of the tax revenue. Regarding inheritance or estate taxes, only a little research was done to find evidence for the amount of tax evasion or tax avoidance. On the one side, this is not astonishing, as the tax revenue from this kind of tax is rather small and many countries even don't know about this taxation. On the other side, it is expected, that about 20 trillion USD in the next 50 years (Wiktor, 2010), is to be transferred to the next generation. It should be interesting for governments to know

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more about tax avoidance and tax evasion considering such a large tax base. Oxfam reports, that 1 % of the world's population already owns about 48 % of the private wealth (Hardoon, 2015), and it is expected, that this unequal distribution still will increase in the future to the expense of the poor (Piketty, 2011). In this constellation, the inheritance tax could be part of a solution to reduce unequal distribution. It can be assumed, that the inheritance tax, therefore, is a very popular tax, in order to fight the increasing inequality and help to transfer wealth from a small group of very rich people or upper class to the large group of middle-class and underclass. Indeed, the opposite is the case. The inheritance tax is constantly evaluated as one of the most unpopular taxes (Beckert, 2008; Dowding, 2008; Prabhakar, 2008). Explanations for this phenomenon are, that the inheritance tax is seen as a kind of unfair double taxation. The feeling is, that earned money, which once was subject to income taxation, should not be taxed again with inheritance tax. Somehow the problem of double taxation is not seen in the same way as other taxes. The purchase of most goods is taxed with VAT after the necessary money was taxed with income tax. The inheritance tax or estate tax revenue in Germany and the USA decreased in the last years and make up only about 1 % of the overall tax revenue of these countries. It is reported, that only few people are affected by taxation with inheritance or estate taxes. The USA provide high tax exemptions so that 98 % of the people do not pay inheritance taxes, but profit from these taxes. (Stark and Kirchler, 2017). There are theories, that the unpopularity of inheritance taxes has to do with the interests of very rich people, who would be affected most by higher taxes and that they have the power to influence public opinion (Beckert, 2008). Another important factor for the popularity and therefore the willingness to evade taxes is, how fair a tax is perceived to be. If the tax is perceived to be very unfair, tax evasion will find more social acceptance and the decision for tax evasion will be chosen more often (Hammers et al. 2009; Franzoni, 1998). An unfair tax system is increasing the incentives for cheating (Torgler, 2003). Taxation is part of the important tools used by the state to direct economic and social activity (Dumiter et al., 2015) and tax evasion makes it more difficult for the state to fulfill its duties. Research on taxation can be done from a legal and an economic point of view, and it is useful to look at it from both sides (e.g. Dumiter and Jimon, 2020). The objective of the paper is to find evidence for tax evasion in the field of German inheritance and gift taxation.

2. Theoretical Background

The standard model for explaining tax evasion was developed in 1972 (Allingham and Sandmo, 1972). It was assumed, that a taxpayer on the one side considers the benefits of successful tax evasion and on the other side the consequences if the tax evasion was detected. Especially the risk of detection is significant. By weighting these facts, a decision is made, if tax evasion can be beneficial. If there are many tax

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audits and the punishment for tax evasion is strict, there will be only a few incentives for tax evasion. As it was recognized, that tax evasion is also based on other factors, it was tried to improve the standard model by considering more facts like avoidance strategies, tax morale, legal uncertainty, risk aversion, and tax audits which strategically focus on certain groups or alternative penalties or taxes. (e.g. Alm, 2012; Bernasconi, 1998; Phillipin et al., 2013; Sandmo, 2005; Slemrod, 2007; Slemrod and Yitzhaki 2000; Torgler et al., 2007). In Nigeria, bad governance et al. cause low tax morale, so that 50.5 million Nigerians are employed, but do not pay taxes (Johnson and Omodero, 2021). Some studies especially focused on the taxpayer's individual behavior from a psychological perspective, and looked at the reasons for certain individual behavioral patterns, for example, that taxpayers estimate the probability of audits much higher than the actual situation, or that taxpayers react differently regarding gains and losses. (e.g. Alm, 2012; Bernasconi and Zanardi, 2004; Dhimi, 2010; Snow and Warren, 2005; Yaniv, 1999). Also, it was discovered, that there is an influence on the decision to commit tax evasion, by the way, others behave. If there is low acceptance of paying taxes in general or if many people evade taxes, the probability that the individual taxpayer will also evade taxes is higher. These researchers focused more on group behavior. (e.g. Cowell and Gordon, 1988; Fortin et al., 2007; Gordon, 1989; Kim, 2003; Luttmer and Singhal, 2014; Myles and Naylor, 1996). Experimental methods mostly told the participants, that they should try to make as much income as possible. Each participant then has to decide, what part of income he wants to declare. Only on the part of the income which was declared, taxes have to be paid. The underreported income is detected with a certain probability. If it is detected, the participant has to pay a penalty. Changing circumstances like audit probabilities, tax rates, or fine rates can be examined, how these changes affect the behavior of the participants. Many experiments showed, that a higher tax rate leads to more tax evasion, a higher audit rate and higher fines on the other side lead to more compliance. The probability of being audited is always overestimated by the participants. By using empirical methods, it was also possible to prove, that a higher tax rate leads to more tax evasion and that a tax amnesty creates only comparatively small amounts of additional tax revenues and has only a small positive influence on the compliance after the amnesty. (e.g. Crane and Nourzad, 1992; Clotfelter, 1983; Dubin and Wilde, 1990; Fisher et al., 1989; Witte and Woodbury, 1985). There is also evidence, that selective audits, sharing information across governments, or imposing source taxes, reduce tax evasion. (e.g. Feinstein, 1991; Johannesen, 2010). Regarding tax evasion and tax avoidance in the field of inheritance and gift tax, one approach is, to compare estate tax returns with the wealth of the living population or to rely on data from audits. Last but not least, some papers looked at particular types of legal avoidance-related responses (Kopczuk, 2012).

3. Methodology and data

The federal statistical office of Germany publishes once a year data on the volume of the taxed inheritances and donations (IGTS). The statistic contains only part of all transfers, because only cases, in which a final tax payment is likely, are processed by the tax authorities. Personal and factual tax exemptions are taken into account in this decision. So, for many inheritances even no tax declaration is necessary. Further on, the wealth of the population already is estimated by different studies, i.a. based on survey data of the German Bundesbank or European Central Bank. Considering the number of deaths per year, it is possible to estimate how much property is transferred to the next generation by inheritances. As the records of the IGTS are not entirely, the IGTS cannot be compared directly with the results of the survey-based estimations. But the IGTS and the reports of the Bundesbank also provide information on the amount of different asset categories, like financial assets, real estate, or business property. As it is not possible to compare the absolute volume of transfers, it is compared to how the relative shares of the different asset categories differ. It is assumed, that certain asset categories are easier to evade than others and because of this, it is possible to find evidence for tax evasion, if asset categories that are easier to evade (e.g., foreign property or cash) are recorded relatively lower in the official tax statistic, than asset categories which are more difficult to evade (e.g. domestic real estate).

3.1 Estimations of the wealth transfer

Different studies already estimated the amount of wealth transferred to the next generation in Germany for certain time periods.

In 1999 for example the German Bundesbank estimated, that about 100 – 130 billion € were inherited in Germany per year. In 2004 a study that used survey data from the SOEP (Sozio-ökonomisches-Panel) estimated only 50 billion € of inheritances and donations each year in Germany for the years 1999 - 2001, which still was more than 2 % of the German annually GDP. After this 1.5 % of the German households had a yearly property gain because of inheritances of an average of 65.000 €. Another 1 % of the households received donations in the amount of 30.000 € per year. The tax revenue resulting from these transfers was about 3 billion €, which was less than 1 % of all tax revenues. In 2011 the amount of inherited property in Germany was estimated at 233 billion € by the Postbank. The Bank noticed, that in the period from 2007 – 2011 there were 3.5 billion € inherited by clients of the Bank. 250,000 clients were involved in these transfers (Meyer, 2011). From 2011 to 2025 another study from 2011 calculated with a volume of inheritances of 300 billion € per year (Sieweck, 2011). By using data on household wealth, another study from 2011 came to the result, that between 2011 and 2020 each year an amount of 258 billion € will be inherited by the next generation (Braun et al., 2011). Two studies from 2012 and

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2013 came to the conclusion, that in 2002 an amount of 141 billion €, in 2007 an amount of 191 billion € and in 2009 an amount of 220 billion € was inherited or donated. The studies based on a method used for France (Piketty, 2011) and combined data from IGTS, survey data from the SOEP and national accounts (Schinke, 2012).

The latest study which measured the yearly property transfer was made in 2016 by the DIW (Deutsches Institut für Wirtschaftsforschung e.V.). This DIW-study is based on a consistent micro-based distribution of wealth for German households in 2011 (Bach and Thiemann, 2016). The necessary data mainly resulted from the Household Finance and Consumption Survey (HFCS) of the central banks of the euro-area. The survey is based on 84,000 interviews conducted in 18 euro-area countries, as well as Poland and Hungary, which were made in 2013 and 2014 [1]. In order to consider, that very wealthy households are underrepresented in the HFCS, a supplementary estimate was made, based on data from the "Manager Magazin". The magazine periodically publishes a list of the richest German or an estimation of their wealth, like the "Forbes Billionaires List". Additionally, the volume of gifts was estimated and the number of deaths in a ten years period was simulated by using current mortality rates (Bach and Thiemann, 2016). The result of the DIW-study was an estimated net wealth of German households in 2011 of 8,600 billion €, whereby the richest 10 % of the population owned 63 % of this wealth, the richest 1 % owned 32 % of the wealth and the richest 0.1 % owned 16 % of the wealth. Corresponding to this, in the future, it is expected, that transfers will be very unequal. About one-third of the wealth after this is owned by households with an age of the reference person of over 65 years. For calculating the inheritance flow, the DIW-study made the assumption, that the estimated wealth in 2011 remains constant over the entire investigated period from 2011 – to 2020. Also, any further savings or dissaving's for consumption purposes or care expenses were disregarded. Because older people save more, this can result in an underestimation of the future inheritance flow.

The study also disregards massive increases in asset valuation (especially real estate) since 2011, despite it was recognized, that market prices for companies and real estate increased significantly in the past years due to the expansionary monetary policies of the central banks and low-interest rates. The study only mentions, that because of this, assets and their distribution are underestimated as well as the inheritance volume. From the first quarter of 2015 to the end of the second quarter of 2019 an increase in market prices for all asset classes in Germany of 22.6 % was measured [2]. From the end of 2015 until the first quarter of 2019 the prices for real estate property in Germany have increased by 22 %. In the seven biggest cities of Germany, the prices increased in the same period by 36.4 % for single-family houses and even 40.8 % for condominiums [3]. Considering this data, the inheritance flow seems to be significantly higher, if these facts are not disregarded.

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The DIW-study further considers, that very wealthy people have a "slightly higher" average age and therefore a higher inheritance volume for the next years. Even though it is not clear whether and how this effect is weighted in the study, this is problematic, as research on the connection of income or wealth to the life expectancy concludes, that a higher income or wealth leads to a higher life expectancy. For example, studies that investigated the different life expectancies in Germany depending on wealth and income, came to the result, that between the lowest income group and the highest income group there is a difference in life expectancy of 3.7 to 4.4 years for women and 6.6 to 8.6 years for men or even up to ten years (Reil-Held, 2000; Lampert et al., 2019).

Last but not least, the assets which are recorded in the HFCS, belong to households and have to be divided among the member of the households. For the study, it is assumed, that assets in couple households are divided equally. Children or grandparents were disregarded. It is assumed, that spouses both earn the same amount of money, or if the marriage ends, the property has to be divided equally according to the statutory matrimonial property regime.

The annual deaths are simulated according to the official gender-specific mortality tables of the federal statistical office of Germany [4]. This means approximately 825.000 deaths per year in Germany in the period 2011 – 2020. In total, the simulation shows 1.6 million annual inheritance cases on average, with an inheritance volume of 145 billion € per year. The number of 1.6 million in the study (probably) considers, that if a testator dies, very often there is not only one heir but several heirs, which means more cases of inheritances than deaths. This seems the explanation, why the number of inheritances exceeds the number of deaths.

Further on, the DIW-study also tried to estimate the volume of gifts each year. For this, the study referred to a letter from the German Ministry of Finance, which assumed taxable inheritances of 25 billion € per year and gifts of 20 billion € per year. In the SOPE study, information about gifts and inheritances were recorded separately and for 2004 – 2009 the average gifts reached a volume scarcely below 50 % of the inheritances. Effectively the volume of gifts was estimated at 50 % of the volume of inheritances due to the fact that better data was not available. This means annual gifts of 72.5 billion €.

In this context, two points are important, which are not reflected in the study. First, the date of a donation, other than the date of inheritance, can be determined by the involved parties. This has the effect, that transfers of property were made for example independence of changes of legislation or personal tax exemptions. The German inheritance and gift tax law was declared unconstitutional in several court decisions in the past because the privileges for certain assets or transfers were regarded as too extensive. Before new stricter rules came into effect, the amount of donations increased significantly and almost reached the volume of inheritances.

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This shows a strong discontinuity of donations. The IGTS shows a distribution between the volume of inheritances and donations regarding the taxable transfer. From 2007 to 2017 the share of donations regarding all transfers was at least 30.5 % and had a maximum of 47.9 %. On average the share of donations in this period was 40.06 %. This would mean, that the volume of donations reaches about 67 % of the volume of inheritances and not only 50% as assumed by the DIW. The current overall transfers therefore probably are at the upper end of the DIW estimations with a range of 200 – 300 € billion. Therefore, for further calculations, a transferred volume of 300 billion € per year seems realistic and is assumed.

3.2 The official German inheritance and gift tax statistic (IGTS)

The German inheritance and gift tax statistic (IGTS) is published once a year by the Federal Statistical Office. The used data comes from all German tax offices. The inheritance and gift tax revenue belongs to the states, although the inheritance and gift tax legislation is federal law. The financial authorities record the value of the officially declared property, which was inherited and donated and also publish the tax revenue resulting from these transfers. All transferred property has to be declared by the taxpayer (donator, heir, or beneficiary) in the first step and for some properties like real estate or business property, a calculation of the value, according to special valuation rules, has to be done by the taxpayer. For real estate or business property, the local tax office makes its own calculation, to verify the results of the calculation of the taxpayer. The objective of the declaration and evaluation procedure is, to receive realistic market values for all transferred property. The evaluation of real estate can be done by using information about market prices, which are recorded by the notaries and are reported to local official appraisers, who use the data of the notarial contracts to calculate average market prices. Business property is evaluated by looking at the earnings of the company in the past and by multiplying the average annual earnings with a multiplier depending on the actual interest rate and considering a risk factor. If a company has no earnings, at least the substantial value of the business property, like the value of cars, machinery and buildings are taxed as a minimum. These actual evaluation methods in particular are different from the methods used before 2010 when only very low and unrealistic values of the business and real estate properties were used as the basis for the taxation. The records in the IGTS differ between inherited and donated property, and between different forms of property, like business property or real estate. The biggest disadvantage of the IGTS is, that only a relatively small part of all transfers is recorded in the statistic, even though the financial authorities have knowledge of more cases. Theoretically, the financial authorities should be aware of all inheritances and donations, because there are legal regulations that obligate heirs, donators, donees, bank institutes, notaries and probate courts to inform the financial authorities gapless about inheritances and

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donations (§§ 30 ff. ErbStG). After receiving the knowledge of an inheritance or donation, the financial authorities decide, if they request a tax declaration from the heir, the donator, or the donee. This decision depends on, if a rough estimation of the finance office leads to the result, that the transfer is not obvious tax-free, for example, because of tax exemptions. If a tax declaration is requested, the taxpayer has to inform the financial authorities detailed about the received property. Besides the obligation to calculate the value, the financial authorities also must be informed about the family relationship to the testator or donator and about receiving gifts from the testator or donator in the past ten years. Up to this information, the tax office decides, if a tax assessment is issued. Regularly a tax assessment is not issued, if the calculation does not lead to a tax liability, whereby in some cases the tax office also issues an assessment with 0 €. The decision about this is up to the tax office. A reason for a 0 € tax assessment can be, that a local tax office still is calculating the value of assets (real estate or business property) and the responsible inheritance tax office temporarily accepts the declared values of the taxpayer until it is informed by the local tax office. Then the tax assessment can be changed according to the investigated values of the local tax office.

A consequence of this procedure is, that transfers of small property often are not recorded in the statistic, because tax allowances are granted in an amount, that exceeds the transferred property. Estimations assume, that only 20 - 25 % of all cases are recorded by the financial authorities and 75 – 80 % do not appear in the IGTS (Bach, 2007). It is not explained how these estimations were made and the assumption is questionable insofar, as in 2018 the number of deaths in Germany reached 954.874 and the IGTS recorded 139.061 inheritances. In 2017 the IGTS contains 130.967 inheritances and in 2016 137.954 inheritances, compared with 932.272 deaths in 2017 and 910.902 deaths in 2016. This means a quote of 15,1 % in 2016, 14 % in 2017 and 14,6 % in 2018, which overall indicates a "pick up" quote of only 14 - 15 % at least regarding the inheritances and therefore a quote below 20 -25 %. This 14 - 15 % probably reflects the top end of transfers, because small transfers are not included in the statistic. This is interesting, because in surveys like the SOPE panel or the HCFS the very wealthy households are underrepresented, as they are more reserved in giving information about their wealth. So, the IGTS offers information about the whole property which was donated or inherited, the taxable amount (after considering tax allowances) and the assessed tax.

Figure 1 shows the transferred property in billion € from 2010 - to 2018. In 2018 an amount of 84.71 billion € was inherited or donated regarding the records of the IGTS. In 2017 the amount was 97.07 billion € and in 2016 the amount was 108.78 billion €.

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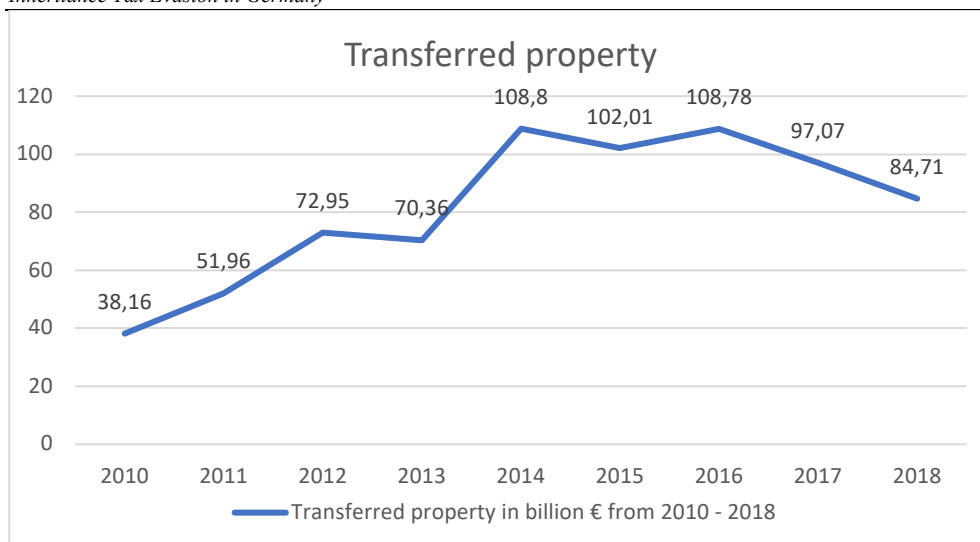


Figure 1. Transferred property in billion € from 2010 - 2018
Source: Author, based on the official inheritance and gift tax statistics (IGTS)

At first glance, it is surprising, that the transferred volume decreased from 108.78 billion € in 2016 to 97.07 billion € in 2017 and 84.71 billion € in 2018, despite asset prices increased significantly in this period. The explanation for the decline is anticipatory donations due to the tax reform which came into effect on the 30th of June 2016. For this, it is also necessary to know, that the IGTS in this context provides information about the initial assessments of the finance offices. These initial assessments temporally take place between some months after the death of the testator, up to several years, depending on the size and difficulty of the inheritance and the workload of the local tax office. In any case of inheritance, the tax office also will wait some time because of piety reasons, before starting work. This means that data that is provided by the IGTS to a certain year, in fact, refers to inheritances or donations of prior years.

Figure 2 shows the inheritance and gift tax revenue. From 2010 to 2018 the tax revenue increased from 4.58 billion € up to 6.68 billion €, whereby the lowest amount was collected in 2012 with 4.18 billion € and the highest amount was collected in 2016 with 6.84 billion €. In 2018 the tax revenue was about 81 € per inhabitant.

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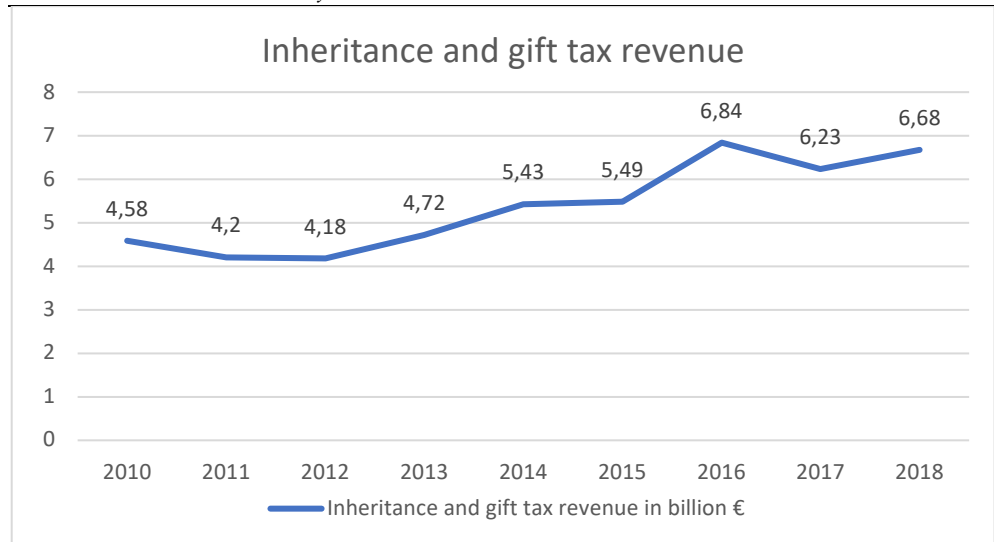


Figure 2. Inheritance and gift tax revenue in billion € from 2010 -2018

Source: Author, based on the official inheritance and gift tax statistics (IGTS)

Based on the estimation, yearly about 300 billion € are transferred in Germany, for the year 2010 this would mean a tax quote of 1.52 %, for 2014 the tax quote is 1.81 %, for 2016 it is 2.28 % and for 2018 it is 2.22 %. Comparing the recorded property in the IGTS of 84.71 billion € for the year 2018, with the whole estimated volume of 300 billion €, this would mean, that only 28.24 % of the whole transferred property in 2018 was recorded in the IGTS. Tax exemptions and tax allowances in 2018 added up to 64.40 billion €. This is a quote of 73,42 % of the recorded transferred property of 84.71 billion €. The assumption regarding these results is, that there is no incentive for tax evasion because the effective tax rate is comparatively low, at about 2 % as the granted tax exemptions and tax allowances are high. On the other side, 215,29 billion € of the transferred property, or 71.76 % is not recorded.

3.3 Legal reporting obligations of inheritances and donations

The legal reporting system, or how the tax offices receive information about inheritances or donations, is essential regarding the opportunity to evade taxes. § 30 ErbStG determines, that heirs, donators and the donees have the duty to inform the tax office if they receive property (heir and donee) or donate property (donator). As it is clear, that this duty can be circumvented, if the participants want to evade taxes, there are more reporting duties. In case of death, a medical doctor has to issue a death certificate and must inform the civil registry about the death. The civil registry office in turn has the duty, according to § 34 Abs. 2 Nr.1 ErbStG, to inform the responsible

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inheritance and gift tax office about the case. In this way, the tax office has knowledge about every case of inheritance and it is almost impossible to conceal an inheritance at all, as far as the testator died in Germany. Only if a testator dies abroad, the German tax office is not necessarily informed. But in these cases, the inheritance often will not be taxable in Germany anyway, because the application of the German inheritance and gift tax depends mainly on the residence of the testator. Further on § 34 Abs.2 Nr.2 and Nr.3 ErbStG determine the duty of probate courts, notaries and consulates to report their knowledge about inheritances and notarized contracts in cases of donations to the reasonable tax office. Last but not least, according to § 33 ErbStG, every German bank institute, an insurance company, or other company which deposits assets, has the duty to give notice to the reasonable tax office in case a client dies. The notice has to contain detailed information about the assets deposited for the decedent. The duty applies also to bank institutes abroad, if the bank institute is a branch or subsidiary of a German institute and to foreign nationals having an account in Germany. The transfer of a real estate or shares of a corporation, no matter, if donated or inherited, is only possible with the help of a notary, because the transfer must be executed by the land registry office or the commercial registry office and for this a notarized certification of the transfer is necessary. Even if the tax office is not informed directly, in many cases the tax office receives information about the transfer indirectly. This affects cases, where income is generated from the transferred property. For example, small companies without specific legal forms can be transferred without a notarized certification. The tax office is not informed in this case by the notary. But the recipient of the small company has income, which has to be declared to the tax office or the tax office receives the information from business partners, who declare earnings and expense in context to the small company in their tax declarations. Summarized, only very few assets can be inherited or donated, without that the tax office is informed about the transfer directly or indirectly. Evasion therefore most likely is possible with cash or other tangible assets like gold, foreign property, or in cases of smaller donations also bank transfers. If assets like gold are deposited at a bank institute, the tax office is informed by the bank about the fact, that a deposit box exists, but not about the content, which allows cheating about the value of the deposited property.

3.4 Distribution of property regarding different asset categories

Referring to a report of the Deutsche Bundesbank from 2019 [5] the wealth distribution of German households in 2017 was as follows:

3.4.1 Material Assets in 2017

83 % of the German households owned material assets, whereby the mean value of these real assets was 249,100 € and the median value was 106,900 €.

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Material assets include:

- Owned main residence.
- Other real estates.
- Vehicles (cars and other vehicles, such as boats, planes, or motorbikes).
- Valuables.
- Self-employed businesses [6].

44 % of the German households lived in self-owned real estate in 2017. The mean value of this real estate was 258,800 € and the median value was 199,200 €. Another real estate, which is not the main residence, was reported with a share of 18 % in 2010 and 20 % in 2014, or a mean value of 256,500 € and 228,900 €. For 2017 specific data is not provided to this point. Regarding the main residence, the share of owners remained constant from 2014 to 2017 at 44 % and the mean value rose from 231,400 € to 258,800 € (11.8 %). Therefore, the same development between 2014 and 2017 is assumed for another real estate, which would mean that 20 % owned other real estate in 2017 and the mean value rose from 228,900 € in 2014 to 255,900 € in 2017. The total number of households in Germany in 2017 was 41.304 million [7]. Hence, the total value of the self-used real estate in Germany was 4.70 trillion € and the total value of the real estate, including rented real estate or vacation homes, was 6.81 trillion €. The IGTS reports the value of transferred real estate for 2017 with 19.21 billion €, which means a reported ratio of estimated real estate to recorded transferred real estate in 2017 of 0,28 %. Inherited real estate is reported in the IGTS with 13.22 billion € in 2017, which means a ratio of 0,19 % compared with the estimated inherited value. The real estate which is used for business purposes is counted separately as business property in the IGTS or the report of the Bundesbank. All other real estates, like vacation property or if beneficiaries, testators, or donators live abroad, are included in both reports. Mortgages on real estate are not considered, because the data refers to the gross value in both reports. Liabilities are reported separately. Overall, the data from the German Bundesbank and the IGTS is comparable regarding real estate.

3.4.2 Business property in 2017

Regarding the Bundesbank report, 10 % of German households owned business property, with a mean value of 309,000 € and a median value of 26,600 €. 78 % owned vehicles and other valuable objects with a mean value of 13,600 € and a median value of 8,000 €. Business property in this context is the value of self-employed businesses of all household members, whereby not only machinery is included here, but also real estate, if it is used for business purposes (e.g. business building).

The amount of inherited business property recorded in the IGTS for 2017 is 6.00 billion € and donations are recorded at 27.46 billion € compared to 1.28 trillion €

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regarding the estimated total value which means a ratio of 0.46 % only regarding inherited property and 2.61 % regarding all transfers including donations.

A significant problem in this context is, that the IGTS and the Bundesbank have different definitions of business property. The IGTS reports property of limited liability corporations with a share of more than 25 % also in the category business property, as partnerships or other smaller self-employed businesses. If the share of a single person is below 25 %, but the shareholders sign a pooling agreement, the shares are treated as business property, no matter, if the shareholder is the managing director of the corporation or working in the corporation. The Bundesbank report on the other side differentiates between self-employed businesses (business property) or non-self-employed businesses (financial assets).

3.4.3 Financial assets in 2017

99 % of the households had financial assets with a mean value of 56,800 € and a median value of 16,900 €. 99 % had current accounts with a 7,100 € mean value and 1,800 € median value. 70 % had savings accounts with a 27,600 € mean value and 9,900 € median value. 43 % had a private pension including life insurance, with a mean value of 33,200 € and a 15,400 € median value. 16 % invested in fund shares with a mean value of 37,500 € and a median value of 12,900 € and 11 % invested in stocks with a mean value of 43,700 € and a median value of 9,900 €.

Financial assets include:

- Deposits (sight accounts, saving accounts).
- Investments in mutual funds.
- Bonds.
- Investments held in non-self-employment private business.
- Publicly traded shares.
- Managed investment accounts.
- Money owed to households as private loans.
- Other financial assets: options, futures, index certificates, precious metals, oil and gas leases, future proceeds from a lawsuit or estate that is being settled, royalties, or any other.
- Private pension plans and life insurance policies.

The value of public and occupational pension plans is not included [8]. The total volume of financial assets reported by the Bundesbank is 2.32 trillion €. The IGTS reports under the position "other property", which means other inherited property than real estate, business property and farming property, a volume of 24.00 billion € for 2017, among this 2.64 billion € are shares of corporations, 9.55 billion € are bank deposits and 9.07 billion € are bonds, securities, shares or participation certificates. 2.74 billion €, therefore, is not specified in more detail, which means, this can either be tangible assets or financial assets. The ratio between the estimated financial

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wealth and the financial assets reported in the IGTS after this is 1.03 % based on 24.00 billion € and 0.92 % based on 21.26 billion € (24.00 billion € /. 2.74 billion €). Including donations, the ratio is 1.55 % (35.85 billion € to 2.32 trillion €) without non-specified other property and 1.93 % (44.86 billion € to 2.32 trillion €) for all other property, including non-specified other property. If only the volume of reported current accounts and saving accounts by the Bundesbank is compared with bank deposits reported in the IGTS, the ratio is 0.88 % (1.09 trillion € to 9.55 billion €) for inherited property and 0.96 % (1.09 trillion € to 10.41 billion €) regarding inherited property and donations. If the position of private pensions including life-insurances, funds shares and stocks (Bundesbank) is compared with the positions shares of corporations (what means only shares less than 25 % of limited liability companies and no pooling agreement) and bonds, securities, shares or participation certificates (IGTS), the ratio is 1.13 % (1.04 trillion € to 11.71 billion €) only regarding inheritances and 2.45 % (1.04 trillion € to 25.44 billion €) regarding also donations.

3.4.4 Liabilities in 2017

45 % of the households in 2017 had liabilities, with a mean value of 65,200, whereof 21 % had real estate mortgages with a mean value of 125,100 € and 33 % had unsecured loans with a mean value of 10,800 €.

Liabilities include:

- Outstanding amount of the household's main residence mortgages and other real estate mortgages.
- Outstanding amount of debt on credit cards and credit lines or bank overdrafts.
- Outstanding amounts of other, non-collateralized loans (including loans from commercial providers and private loans) [9].

The total amount of liabilities regarding the Bundesbank report was 1.21 trillion €. The IGTS reports estate's liabilities of 8.16 billion €. This means a ratio of 0.67 %.

3.4.5 Data for 2014

In 2014 Germany had 40.22 million households [10]. The mean value of the real estate in 2014, in which the owner lived himself was 231,400 €. 44 % of all households owned such real estate, which means a total value of 4.10 trillion €. Other real estate is recorded with a mean value of 228,900 € and 20 % of all households owned this, which means a value of 1.84 trillion € and in total real estate in the amount of 5.94 trillion €. The IGTS reports the value of inherited real estate property for 2014 with 11.50 billion € and inherited property and donations with 16.08 billion €, hence the ratio is 0.19 % for inherited and 0.27 % for inherited and donated real estate property.

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The mean value of the business property for 2014 was reported at 338,800 € in the Bundesbank report from 2019; in 2016 it was reported at 348,100 €. 10 % of all households owned business property. The total value, therefore, was 1.36 billion €. The IGTS reports 4.21 billion € for inherited business property and 48.45 billion € for inherited and donated business property. The ratio is 0.31 % only for inherited and 3.56 % for inherited and donated business property together.

Regarding financial assets, a mean value of 54,200 € is reported by the Bundesbank for 2014 and 99 % of the households had financial assets. This means a total value of 2.16 trillion €. The IGTS reports "other property", which was inherited in 2014 with 22.27 billion €. 1.60 billion € of this relates to shares of corporations, 8.90 billion € relates to bank deposits and 8.93 billion € relates to bonds, securities, shares, or participation certificates. 2.84 billion € is not specified. The ratio is 1.03 % for 22.27 billion € (including all other property) and 0.90 % for 19.52 billion € (without non-specified property). Including donations, 41.65 billion € of other property was recorded in the IGTS. Among these 13.98 billion € relates to shares of corporations, 9.76 billion € relates to bank deposits and 9.78 billion € relates to bonds, securities, shares, or participation certificates. 8.13 billion € is not specified. The ratio is 1.93 % regarding all other property and 1.55 % without non-specified property.

If only current accounts and saving accounts (Bundesbank) are added and compared with bank deposits (IGTS), the ratio is 0.89 % (1.00 trillion € to 8.90 billion €) regarding inheritances and 0,98 % (1.09 trillion € to 9.76 billion €) regarding donations and inheritances together.

If private pensions including life-insurances, funds shares and stocks (Bundesbank) are added and are compared with the positions shares of corporations (what means only shares less than 25 % regarding limited liability companies and no pooling agreement) and bonds, securities, shares or participation certificates (IGTS) the ratio is 1.19 % (0.89 trillion € to 10.59 billion €) only regarding inheritances and 2.67 % (0.89 trillion € to 23.76 billion €) regarding also donations.

The total amount of liabilities regarding the Bundesbank report was 1.03 trillion €. The IGTS reports estate's liabilities of 7.18 billion €. This means a ratio of 0.70 %.

3.4.6 Data for 2010

In 2010 according to the official statistics 40.30 million households existed in Germany. This number probably is not correct, because for the past 30 years the number of households decreased only once, namely from 2010 to 2011 by 800.000 households according to the official statistics. This is due to a census in 2011 and statistical verification. Considering an increase of households in an average of 200.000 per year, the real number of households in 2010 probably was about 39.30 million households and not 40.30 million. The mean value of the real estate in 2010, in which the owner lived himself was 205,800 €. 44 % of all households owned such

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real estate, which means a total value of 3.56 trillion €. Other real estate is recorded with a mean value of 256,500 € and 18 % of all households owned other real estate, which means a value of 1.81 trillion € and in total real estate with an amount of 5.37 trillion €. The IGTS reports the value of inherited real estate for 2010 with 7.42 billion € and inherited property and donations with 10.51 billion €, hence the ratio is 0.14 % for inherited and 0.20 % for inherited and donated real estate.

The mean value of business property in 2010 was 333,600 € (333,800 € in 2016) and 10 % of all households owned business property. The total value, therefore, was 1.31 billion €. The IGTS reports 2.65 billion € for inherited business property and 7.47 billion € for inherited and donated business property. The ratio is 0.20 % only for inherited and 0.57 % for inherited and donated business property.

Regarding financial assets, a mean value of 47,400 € is reported by the Bundesbank for 2010 and 99 % of the households had financial assets. This means a total value of 1.84 trillion €. The IGTS reports "other property", which was inherited in 2010 with 16.21 billion €. 0.78 billion € of this relates to shares of corporations and 6.89 billion € relates to bank deposits. The rest of the 8.54 billion € is not specified. The ratio is 0.88 %. Bonds, securities, shares, or participation certificates are not reported separately in 2010. Including donations 22.20 billion € other transferred property was recorded in 2010. Among these 2.63 billion € is related to shares of corporations and 7.49 billion € is related to bank deposits. 12.08 billion € is not specified. The ratio is 1.21 %.

If only current accounts and saving accounts are added and compared with bank deposits reported in the IGTS, the ratio is 0.84 % (0.82 trillion € to 6.89 billion €) for inheritances and 0.91 % (0.82 trillion € to 7.49 billion €) regarding also donations.

The total amount of liabilities regarding the Bundesbank report was 1.05 trillion €. The IGTS reports estate's liabilities of 5.35 billion €. This means a ratio of 0.51 %.

3. Discussion and Conclusions

The IGTS records only part of all inheritances or donations. This part is 14.6 % in 2018 regarding the number of cases and 28.2 % in 2018 regarding the volume of the transferred property. By comparing the estimated yearly wealth transfer with the amount of tax revenue, it is viewable, that the tax quote in 2018 was 2.22 % and over the past years between 1.5 % and 2 %.

Figure 3 shows a proportion between estimated overall property distribution (not only inherited or donated property) and recorded property in the IGTS (only inherited or donated property) for real estate of 0.14 % (2010), 0.19 % (2014) and 0.19 % (2017) only for inheritances and 0.20 % (2010), 0.27 % (2014) and 0.28 % (2017) for inheritances and donations together. This means, that regarding the overall

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estimated volume of transferred real estate this percentage was only recorded in connection with inheritances or donations in 2018.

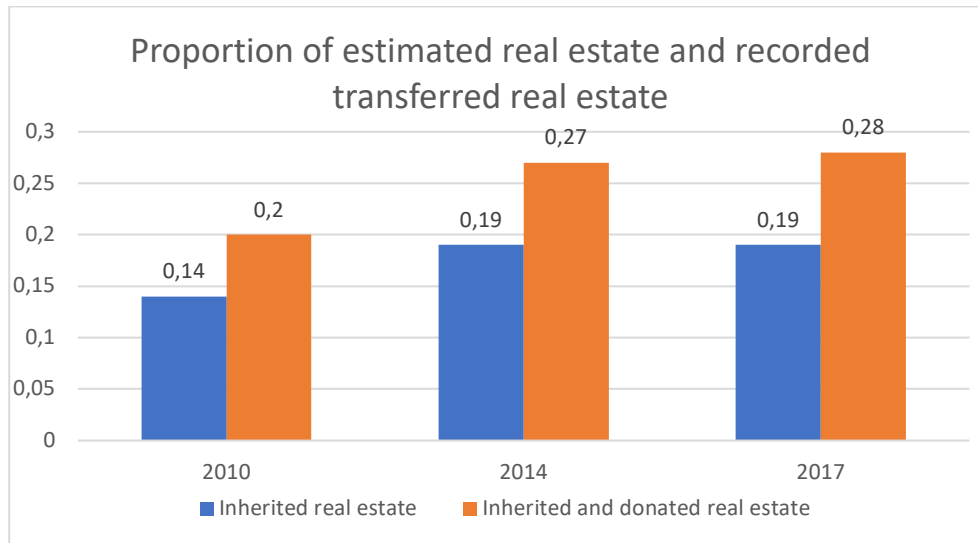


Figure 3. Proportion of estimated real estate and recorded transferred real estate
 Source: Author, based on the official inheritance and gift tax statistic (IGTS) and the household finance and consumption survey (HFCS)

Regarding business property Figure 4 shows that the ratio is 0.20 % (2010), 0.31 % (2014) and 0.46 % (2017) for inheritances and 0.57 % (2010), 3.56 % (2014) and 2.61 % (2017) for inheritances and donations. Whereas the ratios regarding inherited business property still are relatively low, the ratios regarding the donated business property are significantly higher in 2014 and 2017.

Figure 5 shows, that bank deposits have ratios of 0.84 % (2010), 0.89 % (2014) and 0.88 % (2017) for inherited property and 0.91 % (2010), 0.98 % (2014) and 0.96 % (2017) for both inherited and donated property.

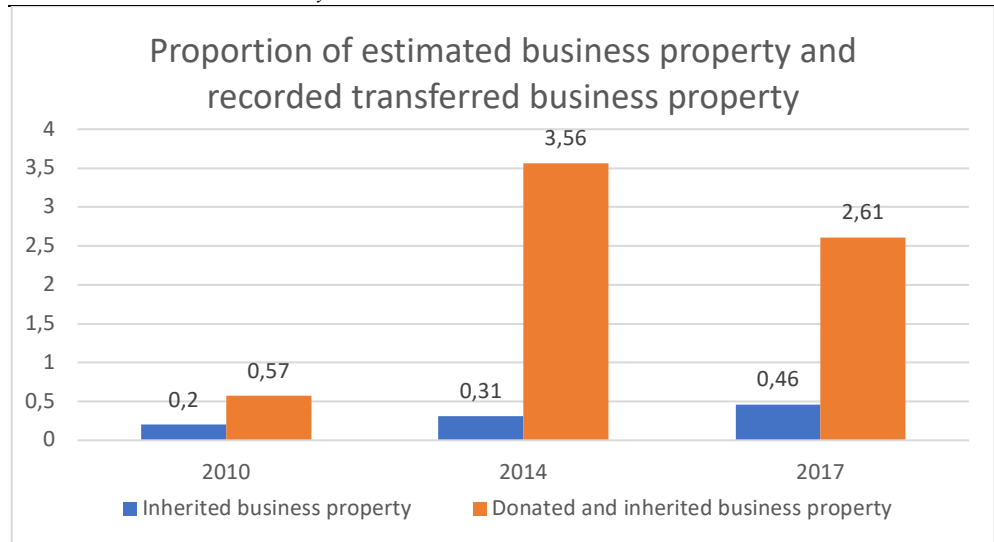


Figure 4. Proportion of estimated business property and recorded transferred business property

Source: Author, based on the official inheritance and gift tax statistic (IGTS) and the household finance and consumption survey (HFCS)

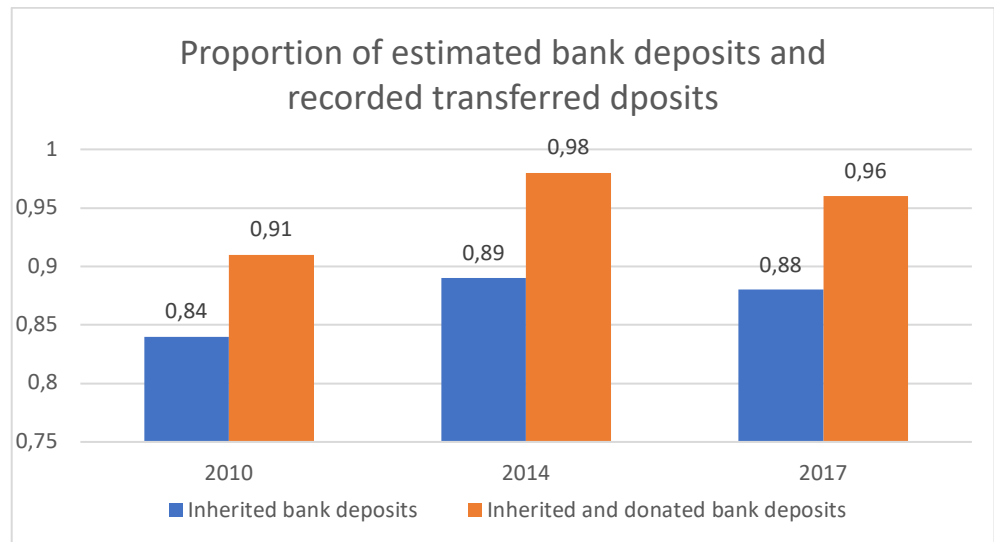


Figure 5. Proportion of estimated bank deposits and recorded transferred bank deposits

Source: Author, based on the official inheritance and gift tax statistic (IGTS) and the household finance and consumption survey (HFCS)

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If the estimated financial assets are compared with the position of "other property" in the IGTS the ratio is 0.88 % (2010), 1.03 % (2014) and 1.03 % (2017) for inherited property and 1.21 % (2010), 1.93 % (2014) and 1.93 % (2017) for inherited and donated property.

Private pensions including life-insurances, fund shares and stocks (Bundesbank) have a ratio compared with the IGTS positions shares of corporations and bonds, securities, shares or participation certificates of 1.19 % (2014) and 1.13 % (2017) only regarding inheritances and 2.67 % (2014) and 2.45 % (2017) regarding also donations. For 2010 no data is provided by the IGTS. The ratio regarding liabilities is 0.51 % (2010), 0.70 % (2014) and 0.67 % (2017). So overall the investigation, if tax evasion with assets, which are easier to evade is higher than with assets, which are harder to evade showed, that is contrary to the assumption, there was no difference in the amount of tax evasion. The recorded amount of financial assets in the official inheritance and gift tax statistic was not relatively lower than the recorded amount of real estate. The most obvious explanation for this is, that the financial authorities pick up and record the cases very disproportional due to factual tax exemptions. Self-inhabited real estate, which is inherited or donated to spouses, or which is inherited by children, in most the cases is tax-free. But for 2018 the IGTS only reports an amount of 0.79 billion € as tax-free transferred real estate. Regarding the estimated wealth distribution of the real estate and the assumption, that most real estate is inherited or donated to spouses or children, this can only be a fraction of the actual tax-free transferred real estate. Tax offices in general a free to issue tax assessments. If real estate is part of a tax assessment, the value of the real estate has to be evaluated. But, if the transfer is tax-free anyway due to tax exemptions, probably many tax offices don't issue tax assessments and avoid the effort. On the other side, for financial assets, no evaluation has to be done by the tax office. The balances are reported by the banks and can easily be recorded in the tax assessment, so this asset category is recorded as relatively higher. It is also likely, that tax evasion regarding real estate, contrary to the expectation, indeed is relatively higher. In case foreign real estate property is inherited or donated, for example, vacation property, this is not automatically reported to the German tax authorities, but the reporting obligations of foreign banks for financial assets are very strict in the meanwhile, due to a series of scandals (e.g. US Foreign Account Tax Compliance Act or Common Reporting Standard). Banks in former tax havens like Luxembourg, Liechtenstein, or Switzerland usually do not anymore transfer inherited or donated property, without having the certainty, that the assets are taxed lawfully in Germany. The results do not contradict other studies which found clear indications of tax evasion in the field of inheritance tax (e.g. Escobar, 2017), but these results cannot be confirmed either.

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Author Contribution

The author solely conceived the study and was responsible for the design and development of the data analysis. The author also solely was responsible for data collection and analysis and for data interpretation and her further was responsible for the literature review.

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