

The Impact of Bequest Taxation on Human Capital Accumulation

Authors : Maciej Dudek, Robert Kruszewski, Janusz Kudla, Konrad Walczyk

Abstract : In this paper, we study how taxation of bequests affects human capital formation in the long term and short term horizon. Our underlying model is an overlapping generation model (OLG) with some degree of altruism on the part of the ancestors' generation towards their descendants. We ask the question in three separate frameworks. First, we study a simple one-sector model where a proxy of human capital is wage income. In the steady-state -for CRRA utility function and human capital produced with non-decreasing returns -the taxation of bequests is neutral to the accumulation of human capital. In the second framework, neutrality applies to the growth rates of human capital, physical capital, and consumption. In this case, taxation increases the level of bequests, leading to a lower value of current consumption. Finally in we consider two periods model instead of infinite horizon model as long as the tax revenue is at least partially rebated back to the public, the fraction of human capital engaged in the process of formation of human capital increases with the tax rate on bequests. In other words, taxation of bequests is partially offset by an increase in human capital formation. Higher human capital allows the future generation to earn higher wages, and today's generation can find it optimal to endow the future generation with more human capital when taxation is imposed on physical capital transferred to the next generation.

Keywords : taxation, bequests, policy, human capital

Conference Title : ICT 2020 : International Conference on Taxation

Conference Location : Miami, United States

Conference Dates : March 12-13, 2020