



# Transition of Inheritance Tax from Estate Tax to Inheritance Acquisition Tax System

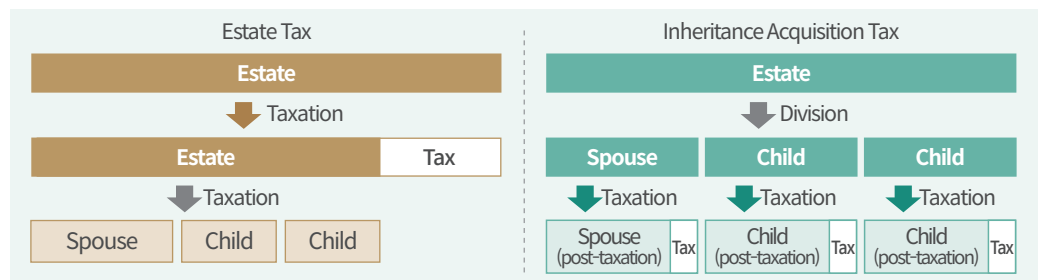
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## Inheritance Tax Systems

### ▪ Inheritance tax systems are classified into the estate tax method and the inheritance acquisition tax method based on taxation criteria.

- Estate tax method: Taxes based on the entire estate of the testator<sup>1)</sup>
- Inheritance acquisition tax method: Taxes based on the value of inherited assets acquired by each heir<sup>2)</sup>

[Figure 1] Inheritance Taxation Flow



Source: National Assembly Budget Office, "Tax System of the Republic of Korea 2024," 2024

### ▪ Among 24 OECD countries imposing inheritance tax, four use the estate tax, whereas 20 employ the inheritance acquisition tax.

- Korea has employed the estate tax method since the introduction of inheritance tax in 1950.
- Most countries have not changed their taxation method; however, Japan transitioned from estate tax to inheritance acquisition tax method in 1950, and then to the statutory share taxation method<sup>3)</sup> in 1958.
  - Japan's statutory share taxation method is a hybrid of estate tax and inheritance acquisition tax methods, but is internationally classified as an inheritance acquisition tax method.

[Table1] Inheritance Tax Systems in OECD Countries

Estate Tax Countries	Inheritance Acquisition Tax Countries
• Korea, United States, United Kingdom, Denmark (4 countries)	• Belgium, Chile, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Lithuania, Luxembourg, Netherlands, Poland, Portugal, Slovenia, Spain, Switzerland, Türkiye (20 countries)

Source: Adapted from country data from the IBFD - Tax Research Platform

1) The testator (the deceased) is the person who bequeaths property, and inheritance begins upon the death of the testator.

2) An heir refers to an individual who inherits property after the death of the testator.

3) After calculating each heir's tax amount in accordance with statutory inheritance shares for the deceased's entire estate, the total tax amount (sum of heirs' tax amounts according to statutory inheritance shares) is proportionally allocated based on the actual inheritance ratio of each heir.



## ▪ Comparison of deductions between estate tax countries and inheritance acquisition tax countries

- Estate tax countries tax the entire estate, generally providing basic deductions and personal deductions; all 3 countries except Korea exempt spousal inheritance.
- Inheritance acquisition tax countries tax based on assets acquired by heirs, imposing deduction systems for spouses (including exemptions) and direct ascendants/descendants without basic deductions.

**[Table 2] Personal Deductions for Inheritance Tax in Major Countries**

Tax Methods	Country	Deduction Amount
Estate Tax Method	United States	<ul style="list-style-type: none"> <li>• Basic deduction: \$13.99M</li> <li>• Spouse exemption</li> </ul>
	United Kingdom	<ul style="list-style-type: none"> <li>• Basic deduction: £325K</li> <li>• Spouse exemption, child housing inheritance: £175K</li> </ul>
	Denmark	<ul style="list-style-type: none"> <li>• Basic deduction: 346K kroner</li> <li>• Spouse exemption</li> </ul>
	Korea	<ul style="list-style-type: none"> <li>• Basic deduction: KRW 200M, flat deduction: KRW 500M</li> <li>• Spouse deduction: KRW 0.5-3B, Child deduction: KRW 50M per person</li> </ul>
Inheritance Acquisition Tax Method	Germany	<ul style="list-style-type: none"> <li>• Spouse: €500K</li> <li>• Children: €400K</li> <li>• Grandchildren: €200K</li> </ul>
	France	<ul style="list-style-type: none"> <li>• Spouse exemption</li> <li>• Direct family: €100K</li> </ul>
	Italy	<ul style="list-style-type: none"> <li>• Spouse and direct ascendants/descendants: €1M</li> </ul>
	Spain	<ul style="list-style-type: none"> <li>• Spouse and direct children 13+ years: €15,956</li> <li>• Direct children under 13: €47,858</li> </ul>
	Netherlands	<ul style="list-style-type: none"> <li>• Spouse: €804,698</li> <li>• Minor children: €25,490</li> </ul>
	Japan	<ul style="list-style-type: none"> <li>• Basic deduction: ¥30M + [¥6M × no. of statutory heirs]</li> <li>• Spouse deduction: Max. ¥160M or statutory inheritance share, whichever is larger</li> </ul>

Note: 1. Based on exchange rates as of March 19, 2025

2. Japan employs a hybrid of estate tax and inheritance acquisition tax (statutory share taxation method), which includes basic deductions.

Source: Adapted from country data from the IBFD - Tax Research Platform

## ▪ Comparison between estate tax and inheritance acquisition tax methods

- The estate tax method has a greater income redistribution effect and a lower tax administration burden.
- The inheritance acquisition tax method aligns with the ability-to-pay principle but has a greater potential for tax avoidance.

**[Table 3] Comparison of Estate Tax and Inheritance Acquisition Tax Methods**

Category	Estate Tax Method	Inheritance Acquisition Tax Method
Ability-to-Pay Principle	<ul style="list-style-type: none"> <li>• Low</li> <li>- Unrelated to heir's taxable capacity</li> </ul>	<ul style="list-style-type: none"> <li>• High</li> <li>- Corresponds to heirs' taxable capacity</li> </ul>
Wealth Concentration Prevention	<ul style="list-style-type: none"> <li>• Low</li> <li>- No incentive to promote estate division</li> </ul>	<ul style="list-style-type: none"> <li>• High</li> <li>- Promotes estate division due to tax burden reduction proportional to the number of heirs</li> </ul>
Relationship with Tax Revenue	<ul style="list-style-type: none"> <li>• Relatively high tax revenue effect</li> <li>- Total tax amount on the entire estate irrespective of division</li> </ul>	<ul style="list-style-type: none"> <li>• Relatively low tax revision</li> <li>- Tax amount decreases with more estate division</li> </ul>
Tax Administration Burden	<ul style="list-style-type: none"> <li>• Relatively low</li> <li>- Only investigates the deceased's estate</li> </ul>	<ul style="list-style-type: none"> <li>• Relatively high</li> <li>- Investigates and determines all heirs and their acquired assets</li> </ul>

Source: Na Sung-gil et al., "Explanation of Inheritance and Gift Tax Law," Samil Infomine, 2024.

## Government's Inheritance Tax System Reform Plan

- On March 12, 2025, the government announced a reform plan to revise the inheritance tax system from the estate tax method to the inheritance acquisition tax method (implementation target: 2028).

- (Key contents) Adjustments to personal deductions due to taxation system transition
  - Reduction of the highest tax rate, etc., will be reviewed separately based on social consensus, irrespective of the transition to inheritance acquisition tax.

[Table 4] Key Contents of the Taxation System Reform Plan

Item	Reform Plan Contents
Spouse Deduction	<ul style="list-style-type: none"> <li>• (Current) KRW 500M (min.) - min(statutory inheritance share, KRW 3B) → (Reform plan) Actual inheritance share* - min(statutory inheritance share, KRW 3B)</li> <li>* Actual inheritance share recognized for excess amounts up to KRW 1B over the statutory share</li> </ul>
Other Personal Deductions	<ul style="list-style-type: none"> <li>• Direct ascendants/descendants: (Reform plan) KRW 500M</li> <li>• Other than direct ascendants/descendants: (Reform plan) KRW 200M</li> <li>* Minor deduction, disability deduction, elderly person deduction (excluding elderly person deduction for direct descendants) unchanged from current policy</li> </ul>
Minimum Personal Deduction	<ul style="list-style-type: none"> <li>• (New) If the sum of personal deductions is less than KRW 1B, the shortfall is additionally deducted for heirs who are direct ascendants/descendants up to a total of KRW 1B</li> </ul>
Tax Avoidance Countermeasures	<ul style="list-style-type: none"> <li>• Extension of statute of limitations for disguised division: (Current) 10 years → (Reform plan) 15 years</li> <li>* Disguised division: Division where the nominal owner of inherited property differs from the actual beneficiary</li> <li>• Establishment of special comparative taxation for indirect inheritance: Additional taxation if inheritance property is KRW 3B or more and tax burden is reduced through indirect inheritance via gift within 5 years after inheritance begins</li> <li>* Indirect inheritance: When a person with special relationship to the deceased gives inherited property to another heir, taxation on the reduced amount compared to direct inheritance from the deceased to that heir</li> </ul>

Source: Ministry of Economy and Finance press release (Introduction Plan for Inheritance Acquisition Tax, March 12, 2025)

## Analysis of Effective Tax Rates by Taxation Method

- Scenario analysis of changes in effective tax rates (ETR) on inheritance property when transitioning taxation methods

- Analysis based on the following assumptions on heirs' personal composition, inheritance property value, and inheritance deductions:

• Heirs	Spouse + 1-4 children
• Inheritance amount	Statutory inheritance share (spouse 1.5, child 1)
• Inheritance property	KRW 1-50B by scenario
• Inheritance deduction	(Current) Flat deduction (KRW 500M), spouse deduction (KRW 500M - 3B), no other deductions applied (Reform plan) Child deduction (KRW 500M), spouse deduction (actual inheritance share - KRW 3B), no other deductions applied
• Tax rate	Current tax rate
• Tax amount	Calculated tax amount (before tax credits)

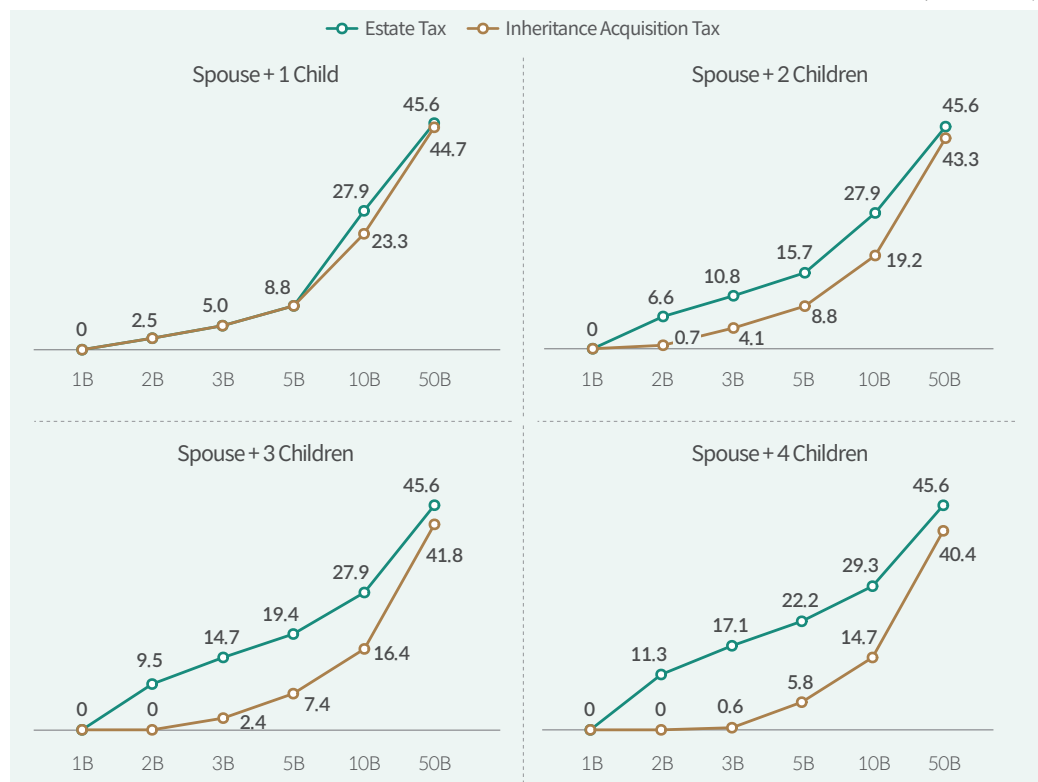
- The analysis results indicate that when transitioning tax methods, the inheritance acquisition tax method has a relatively lower ETR compared to the estate tax method, contingent upon the degree of inheritance property dispersion in the scenario.

-When transitioning tax methods, the effect of reducing ETR expands with inheritance property dispersion as the number of heirs, including the spouse and children, increases.

- In cases with a spouse and one child, the ETR change is from -0.9%p to -4.6%p, whereas in cases with a spouse and four children, the ETR change expands from -5.2%p to -16.5%p.<sup>4)</sup>

[Figure 2] Changes in ETR Between Estate Tax and Inheritance Acquisition Tax Methods by Scenario

(Unit: KRW, %)



Note: ETR = Calculated tax amount/Inheritance property value

## Future Discussions

- Both supporting and opposing opinions exist regarding the transition of inheritance tax methods

- Those in favor of transitioning the inheritance tax method contend that taxing based on inherited assets acquired by heirs ensures fair taxation according to taxable capacity, and that alignment with current gift tax standards rationalizes the taxation system.<sup>5)</sup>

- Inheritance tax reform survey results: 71.5% of the general public and 79.4% of experts believe that transition is necessary<sup>6)</sup>

4) ETR may vary based on the actual distribution ratio of inheritance property by household.

5) Im Dong-won, "Review of Rational Reform Plans for Inheritance Tax Methods and Rates," KERI Brief, Korea Economic Research Institute, June 2022.

6) Ministry of Economy and Finance press release (Introduction Plan for Inheritance Acquisition Tax, March 12, 2025)

- Those opposed argue that the easing of the inheritance tax burden through the transition raises concerns about the exacerbated asset inequality resulting from weakened taxation on wealth transfer and weakening of the national financial foundation owing to decreased tax revenue.<sup>7)</sup>

▪ **Discussion needed on tax avoidance prevention and tax administration**

- In addition to the government's tax avoidance countermeasures (i.e., extension of the statute of limitations for disguised division and comparative taxation for indirect inheritance), it is essential to carefully examine whether further system supplementation is necessary. Furthermore, it is necessary to establish tax administration protocols under inheritance acquisition tax, encompassing tax amount determination and tax jurisdiction, to prevent leakage.<sup>8)</sup>

7) People's Solidarity for Participatory Democracy press release (Transition to Inheritance Acquisition Tax, Which Will Cause Tax Revenue Reduction, Is Merely a Tax Cut for the Super-rich, March 12, 2025)

8) Jung Hoon et al., "Comparative Study of Tax Administration Between Estate Tax and Inheritance Acquisition Tax," Korea Institute of Public Finance, July 2023.

