FUTURE OF SOCIAL DEMOCRACY 17.03.2026 | Eda Emre

# It’s a question of credibility

## Is an inheritance tax the answer to an unjust tax system that values the wealthy over the working? No, it is more complicated than that

Germany sees itself as a meritocracy. The normative promise is clear: upward mobility should be the result of effort, talent, and initiative — not of one’s background. Yet a look at the distribution of wealth shows that this ideal is increasingly under pressure. The path to great wealth today often does not run through one’s own entrepreneurship or academic excellence, but through family wealth transfers.

According to estimates by the Bundesbank and the Federal Statistical Office, between 200 and 400 billion euros in wealth are transferred annually in Germany. While this sum is distributed across many inheritance cases, large fortunes are heavily concentrated at the top of society — according to the federal government’s Seventh Poverty and Wealth Report (October 2025), the wealthiest ten per cent of households own 54 per cent of total net wealth, while the bottom half of households own only about 3 per cent. While political debates regularly focus on whether income tax relief should be granted, a structural imbalance remains largely unaddressed. German labour income is subject to a high tax burden by international standards, whereas large wealth transfers are taxed significantly less than in many other countries due to exemptions and special regulations.

The central question is therefore not whether inheritances should be taxed, but rather what understanding of fairness our tax system should reflect.

## Fairness for workers

The most frequently cited argument against inheritance tax is the alleged ‘double taxation.’ It is claimed that the state is unjustly taxing wealth a second time, since it was already taxed when held by the deceased. But this objection does not withstand scrutiny under tax logic. Our system does not tax lifeless banknotes, but rather the increase in economic

capacity of an individual. For the heir, the inherited wealth represents an entirely new, previously untaxed inflow of prosperity. They have paid neither income tax nor social security contributions on it. It is a 'windfall profit' — a wealth gain without any personal contribution. This creates a glaring problem of fairness. When a skilled worker does overtime for extra shifts, that hard-earned wage is heavily taxed. But when an heir receives millions transferred to their account without lifting a finger, critics of inheritance tax demand complete tax exemption. Why should the accident of birth be treated more favourably for tax purposes than personal effort? Tax justice means that everyone contributes based on all types of income — especially those incomes that accrue without one's own effort, since they create no added social value through one's own work.

Advocates of abolishing inheritance tax often point to countries that manage without it while still displaying high social mobility. However, such comparisons fall short when they ignore institutional frameworks. In some Scandinavian countries like Sweden or Norway, social mobility is secured through a strongly equalising education system, comprehensive public services, and other tax instruments. According to OECD data, Sweden invests a significantly higher share of its GDP in education than Germany, relies on universal full-day childcare from the age of one, and has systematically reduced the influence of parental background on educational success through targeted early intervention. Norway, in turn, compensates for the absence of inheritance tax through one of the highest wealth taxes in the OECD, as well as a strong welfare state that largely decouples educational opportunities from parental income.

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Germany, by contrast, is among the OECD countries with the strongest link between social background and educational achievement: according to PISA studies, children from less-educated households have statistically far lower chances of obtaining a university degree than children from academically oriented families, regardless of their intellectual abilities. At the same time, the income gap continues to widen according to the federal government's Poverty and Wealth Report. Disposable household incomes rose across all strata, but increased more for high earners than for low earners — and inflation hit the latter significantly harder. As long as structural inequalities persist in the education system, inheritance tax serves at least as a partial corrective against the entrenchment

of wealth concentration. Those who wish to abolish it should therefore explain what alternative mechanisms will ensure equal opportunities.

Yet even a reformed inheritance tax can only mitigate structural inequality, not eliminate it. The real challenge runs deeper: the question of how a society deals with the intergenerational concentration of wealth. This is not about morally condemning family provision, but about the long-term dynamics of an open society. When large fortunes remain largely intact within the same families across generations, the risk of structural entrenchment of economic power increases. Germany knows such examples: the entrepreneurial families Quandt (BMW), Porsche-Piëch (Volkswagen), or Albrecht (Aldi) have controlled corporations with hundreds of thousands of employees and billions in assets for generations. At the same time, they benefit, like the owners of other large business fortunes, from extensive exemption rules in inheritance tax law.

## A sober examination

To state this is not a moral reproach against these families, but a structural observation: when access to capital is increasingly determined by origin rather than merit, the market loses part of its meritocratic legitimacy. Market economies thrive on competition and on the possibility of upward mobility. A moderately designed inheritance tax can help promote the circulation of capital without fundamentally calling property rights into question.

A major reason for the widespread unpopularity of inheritance tax is a fear among the middle class that has been psychologically and skilfully stoked by its critics. The image of ‘grandma’s little cottage’ is instrumentalised to protect the privileges of the top one per cent. In reality, the current exemption thresholds, 400 000 euros per child per parent and 500 000 euros per spouse or civil partner, are set high and protect typical middle-class assets in the vast majority of cases. The owner-occupied family home remains tax-free anyway when inherited and occupied by heirs. Even the current SPD reform proposal (January 2026) envisages a personal exemption of one million euros — meaning the great majority of German households would remain entirely exempt.

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The real controversy concerns large fortunes, and business assets in particular. Extensive exemption rules exist here. The effective tax burden on large business assets can therefore fall far below the statutory rate, while the upper

*understanding.*

middle class, unless they happen to employ teams of tax advisors, effectively pays significantly more. This is the opposite of justice. The reform debate should therefore be conducted less emotionally; instead, there should be a sober examination of whether existing exemptions are well-targeted or create unintended privileges.

A common objection to reform is that inheritance tax is fiscally insignificant anyway. This objection is correct, but it misses the point. With revenues of around 13 billion euros most recently, inheritance tax accounts for only about three to four per cent of income tax revenue. Even increasing it will not repair the national budget, pay off debts, or finance major tax cuts for the middle class. Anyone claiming otherwise is spreading a fiscal illusion. But none of this is the purpose of inheritance tax.

It is not significant because of its fiscal volume, but as a normative signal. A tax system that heavily burdens work while largely sparing large wealth transfers risks a loss of legitimacy. Inheritance tax is not an instrument of punishment, but an expression of a political-economic self-understanding: in an open society, life chances should not depend primarily on family background. It is about the credibility of the claim to be a meritocracy.

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An effective strategy against the entrenchment of inequality requires even more than inheritance tax reform. It requires an excellent, socially permeable education system modelled on Scandinavian countries. But above all, it requires mechanisms that enable broad sections of society to build wealth themselves rather than merely hoping to inherit one day. This means, lower taxes on labour income, so more remains for saving. Government-subsidized equity savings schemes make sense such as Singapore'sCentral Provident Fund or Sweden'spremium pension savings models so that ordinary earners can participate in capital growth. And a housing market policy that makes homeownership accessible to ordinary earners again. Inheritance tax is one building block among many in this framework. But it is a building block that a credible meritocracy

should not do without, at least as long as the other building blocks are missing.

The complete abolition of the 'birth lottery' is unrealistic. But a well-designed taxation of large inheritances can help mitigate its effects. This is not about envy, but about how seriously we take the promise of meritocracy. A system that taxes work draconian while sparing large inheritances through exemptions loses its moral authority. Inheritance tax is the symbolic commitment that individual achievement should count more than pedigree. It is not a punishment for parental success, but an investment in the credibility of our social order. It is time to make the birth lottery at least a little fairer.

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