**Paper Title:**Intergenerational transfer, wealth inequality, and the effects of bequest tax
**Abstract**
Wealth inequality has been rising rapidly in China in the last two decades. It was estimated that the richest 1% of households own more than 1/3 of total household wealth, and the poorest 25% of households hold only about 1% of total wealth in 2012. In this paper, we study how bequest motive and bequest tax may affect wealth inequality through intergenerational wealth transfer. We establish a heterogenous n-period overlapping generations model in which parents and children are linked by productivity inheritance, accidental and voluntary bequests. We find that voluntary bequest will increase wealth inequality while accidental bequest has no effect on wealth distribution. Our model predicts the wealth Gini coefficient to be 0.76, which fits very well with China Household Finance Survey (CHFS) estimates of 0.78 in 2011 and 0.73 in 2013. The model also shows that the richest 1% of the population hold 27.1% of total wealth; the richest 10% of the population leave large bequests while the poorest 60% leave no bequest. Our paper also discusses the effects of bequest tax on wealth distribution. Model simulations of the Chinese provisional regulations on bequest tax (Drafted in 2004 but never implemented) show that with voluntary bequest motive the wealth Gini coefficient drops to 0.67 while a dramatic decline in wealth share of the richest 1% of the population to only 8.3% is also resulted, which suggests that such a tax regime may incur large social cost. We then test two alternative schemes: to reduce the bequest tax rates and to increase the bequest tax exemption level, and the results indicate significant improvements in wealth equality without cutting the wealth share of the richest population by too much, a possibly better trade-off between equity and efficiency for the current economic situation.