The concentration of personal wealth in Italy 1995-2013

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SIEP conference, Catania, 22nd September 2017
The concentration of wealth among the living

- The only available estimates of wealth concentration in Italy, in modern times, are based on the Bank of Italy household survey (SHIW).

- Data used in this working paper come from the inheritance tax returns (model 4) referred to succession opened in years 1995-2013. We used tabulation of data by net wealth classes, age classes, gender and geographic area.

- First time this method is applied in Italy for post 1990 period. Useful to better capture the top of the wealth distribution.
Data used / Inheritance tax legislation in Italy

- Inheritance tax reference law is legislative decree n. 346/1990. The inheritance tax model has to be filed by the heirs within 12 months.

- The information provided in the inheritance tax return is then used by the civil servants of the Revenue Agency to assess the amount of inheritance tax due (no self-assessment = better accuracy).

- Fully unified system of gifts and inheritance taxation (less incentive to use gifts as inheritance tax avoidance scheme).

- Wealth information in the tax returns is grouped in different categories: Real estate, firms, shares and financial assets, other assets (including current/savings accounts, cash and jewels) and liabilities. Tot assets minus liabilities = total net wealth.

- Real estate reported at cadastral values → Market values correction (will discuss later on).
Data used / Inheritance tax legislation in Italy

- The exemption threshold for filing an inheritance tax return is around 25,833 euros (50 million LIT), unchanged in the whole period of the analysis. No exemption in case there is real estate in the inheritance.

- The threshold has then been increased to 100,000 at the end of year 2014.

- Substantial changes to the law between 1995-2013, with some effects on tax returns, the main one being:
  - the abolition of the inheritance tax in October 2001
  - the reintroduction of the tax in October 2006

- Submission of inheritance tax returns was still compulsory also in the period of abolition of the tax, even if limited to real estate property.
Inheritance tax incidence
Tax legislation evolution

• 1995-1999 inheritance tax in Italy was applied on the total value of the estate and on inherited quotas, with progressive rates up to a maximum of 33%

• In 2000 after a reform inheritance tax was applied only on inherited quotas

• 2001-2006 inheritance tax was abolished

• As of 2007 inheritance tax has been reintroduced only on quota with higher exemption thresholds
  – The proportional rates applicable vary from 4% to 8% depending on the degree of kinship, with an exemption threshold varying from zero to 1 million (for spouses and direct descendants or ascendants)
Total Inheritance tax assessed

Real 2010 values
Inheritance tax – effective tax rates 2012
Wealth estimate of the living population using Estate multiplier method

- One of the oldest methods applied to inheritance or estate tax data to yield wealth estimates for the living population.
- Reliable estimates of mortality rates across population social strata are fundamental to reweight the population of decedents and scale it to approximately derive the population of living individuals in a country.
- The reweighting factors, called mortality multipliers, are obtained by simply inverting the mortality rates which are therefore treated as if they were `sampling rates` of the living population.
- We used very detailed mortality tables in Italy, published by the Italian Statistical Institute (ISTAT), available for each age (from new born to individuals aged 119) for both males and females, for different geographical locations, and age classes.
Population coverage
Total net wealth

Some assets categories are missing/underrepresented in inheritance tax returns and imputation

- Pension funds, life insurances and TFR: not included
- Government bonds: not taxed, but still have to be included in the tax returns
- Cash and coins might be underreported

Aggregated amount of those assets, as derived from Bank of Italy, has been imputed using the inheritance tax returns distribution of financial wealth

- 100% of Pension funds, life insurances and TFR
- 90% of cash and coins,
- 50% of Government bonds

NOTE: Inheritance 2001-2006 data includes only real estate
Wealth concentration

Wealth Concentration - Top1% in Italy: 1995-2013

% of National Personal Wealth

Year


MEF Dipartimento delle Finanze
Wealth concentration

Top 1% and Bottom 90% in Italy: 1995-2013

% of National Personal Wealth

year


Top 1%, Bottom 90%
Comparison with estimates based on SHIW

Wealth Concentration - Top1% in Italy: 1995-2013

Note: SHIW series taken from Blanchet (2016)
Comparison with estimates based on SHIW

Wealth Concentration - Top1% in Italy: 1995-2013

% of National Personal Wealth

year

1989 1991 1993 1995 1997 1999 2001 2003 2005 2007 2009 2011 2013

Adjusted inheritance data
Bank of Italy - SHIW
SHIW - NA Adjusted

Note: SHIW series taken from Blanchet (2016).
Top1% - Comparison with other European countries

Note: Country series other than Italy taken from The Chartbook of Economic Inequality (2017)
Top1% - Comparison with the US

Note: US data from Saez & Zucman (2016)
Data issues, robustness checks: real estate market values

- Cadastral rents/values are lying well below market values, so a correction has been introduced.

- **For years 2009-2013** we used the ratio between market values of property held by physical persons recorded by the Revenue Agency/Nomisma in the “Osservatorio del Mercato Immobiliare” and the corresponding cadastral values, in years 2009-2013. (fonte: “Gli immobili in Italia”)

- **For years 1995 to 2008** we recovered the “market values/cadastral values” ratio using BIS direct estimates of nominal growth rate of house prices and the yearly variation of average cadastral values (between 2007 and 2013, the longest time series available for cadastral values).

- We have also taken into account the legislative changes that have affected the cadastral rent multiplier (to obtain the cadastral value).

- In inheritance tax returns, after adjusting for market values, real estate wealth represent from 75% to 90% of total wealth.

- **Caveat**: aggregate correction factor across cadastral category and geographical location.
As total wealth of trust is not available, we have capitalized observed trust incomes from income tax returns in 2013. The derived total wealth held in trusts varies between 200 and 300 mln € depending on rate of capitalization (4.5% or 3%).

Negligible amount, no visible changes to the results if all trust wealth imputed to the top.

Caveat: income tax returns may substantially underestimate capital income from trusts.
Taking into account undeclared off-shore accounts

Including wealth in off-shore accounts

This has been done imputing all undeclared offshore accounts to the top 1%. Data based on "Who Owns the Wealth in Tax Havens? Macro Evidence and Implications for Global Inequality" (Annette Alstadsæter, Niels Johannesen and Gabriel Zucman), NBER working paper 23805, September 2017
Adjusted vs Unadjusted series of wealth concentration

Wealth Concentration - Top 1% in Italy: 1995-2013

% of National Personal Wealth


Top 1% - unadjusted wealth
adjusted wealth + off-shore
Conclusions

- Wealth concentration has been on the rise in Italy since mid 1990s. The group of 1% richest individuals (approx. half million individuals) controls more than 20% of total personal wealth (up more than 25% since 1995).
- Similar trends estimated in other countries.
- The novel investigation of inheritance tax data provides fruitful complementary information to official household survey data.
Next steps in the research

- Still need to impute missing wealth (and debt) in years 2001-2006.

- Improve mortality coefficient, i.e. mortality coefficient by income classes. At the moment they are not available in Italy, but new mortality coefficient are available based on education level. Failure to appropriately account for mortality heterogeneity may result in biased estimates of wealth distribution. Nonetheless, a recent work by Alvaredo, Atkinson, and Morelli (2017) have shown that such bias may be, in practice, small in magnitude.
APPENDIX

• Further results
Estate multiplier method

Note: Actual population taken from ISTAT
Estate multiplier method

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Wealth threshold top 1%

Wealth Threshold - Top 1% in Italy: 1995-2013
Evolution of mean individual wealth: “young” vs. “old”
The evolution of wealth over the life-cycle
Financial wealth imputation (averages) used for missing/underreported assets
Share of total wealth across wealth classes

Net estate range

- 1995
- 2007
- 2013