

The concentration of personal wealth in Italy 1995-2013

Paolo Acciari (MEF, Italy)

Facundo Alvaredo (PSE & Conicet)

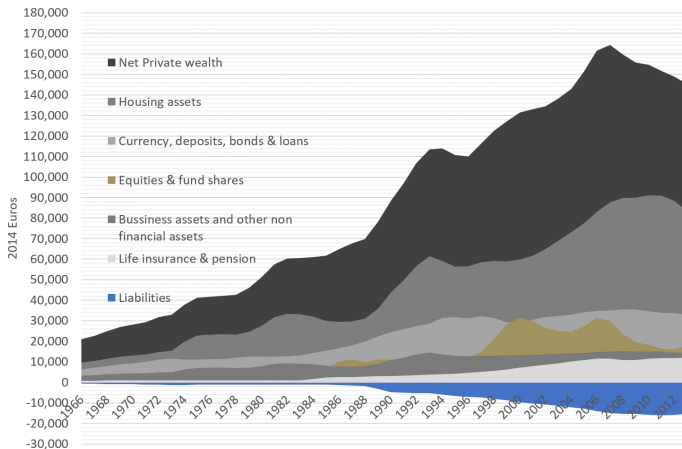
Salvatore Morelli (GC-CUNY & Stone Center on Socio-Economic
Inequality)

First WID.world conference
Paris School of Economics (PSE)
Paris – 14/15 Dec 2017

December 15, 2017



Italian wealth topography: The (high) mountains of wealth and the (shallow) sea of debt



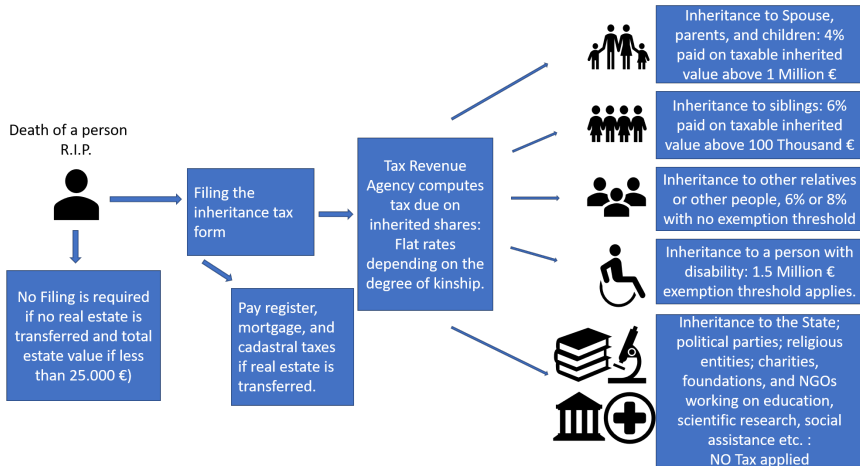
Net personal wealth (per-adult). Source: Elaborations on data from Bank of Italy, ISTAT, and WID.world

Objective: Estimating the concentration of personal wealth and its evolution since mid-1990s

- ▶ We use confidential inheritance tax register data and the “mortality multiplier” method to study the concentration of current marketable wealth (sum of financial & real assets net of liabilities): only source of information alternative to the Bank of Italy household survey on income and wealth (e.g. no tax on wealth and no full taxation of capital income at the individual level).
- ▶ Household surveys are typically less suited to study the high-end wealth groups due to under-sampling of wealthy households and to differential under-reporting and non-response rates. (Vermeulen 2015)
- ▶ First systematic empirical application to the Italian data (see also Gabbuti 2017 for application to historical aggregate data 1890-1914)
- ▶ **Caveat:** Results are still preliminary (especially for 2001-2006 period) and may be subject to revisions.

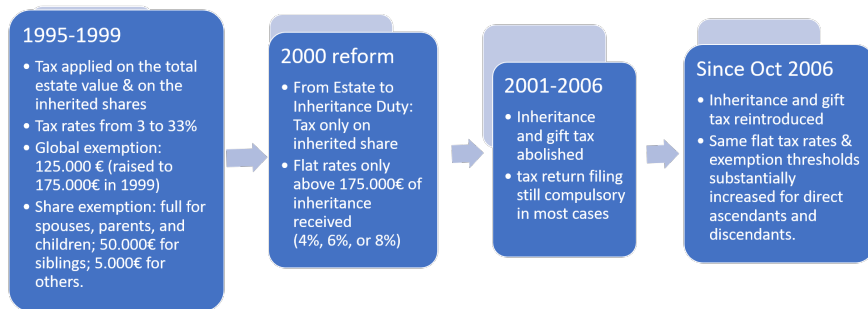
INHERITANCE TAX ADMINISTRATION

Current inheritance (and gifts) tax legislation



Note: in 2014 the no-filing threshold was raised to 100 thousand Euros.

From Estate duty to Inheritance tax: changes to tax law 1995-2013



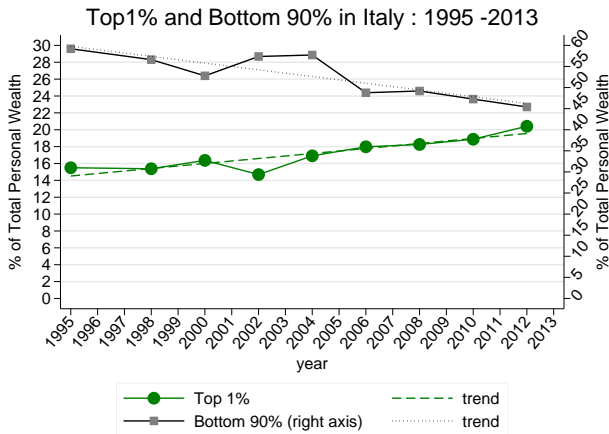
Note: Rules also apply to donations and inter-vivos gifts

► Inheritance tax revenue

► Inheritance tax incidence by W ranges

NET PERSONAL WEALTH CONCENTRATION

Concentration of net personal wealth from tax records

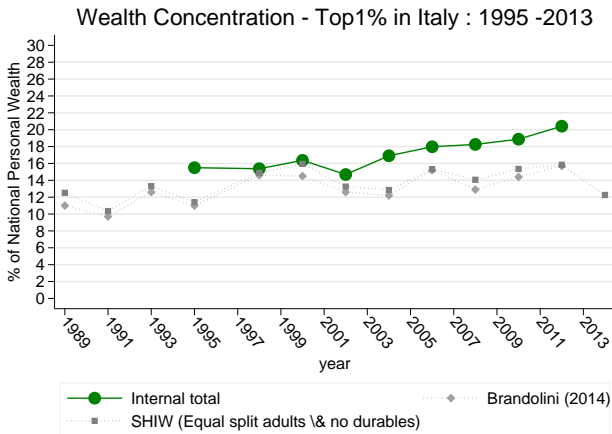


► comparison with Top1 % gross income

► Wealth threshold - P99 and P99.9

► Full

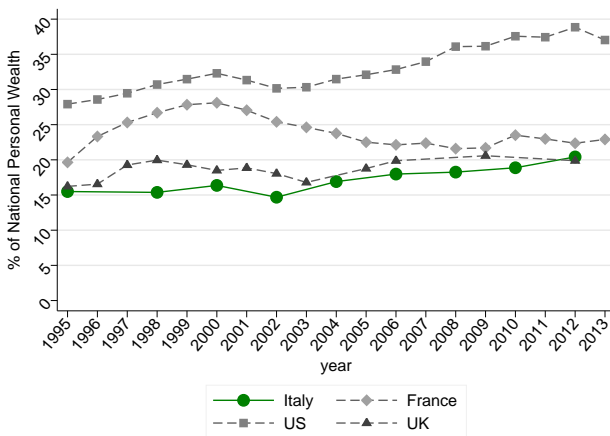
Top 1% from tax records and household survey



Source: Brandolini (2014) from household survey (SHIW): net equivalent wealth. Note: External totals refer to the total personal wealth from the NA and the total adult population (20+) from ISTAT.

COMPARING RESULTS TO OTHER COUNTRIES

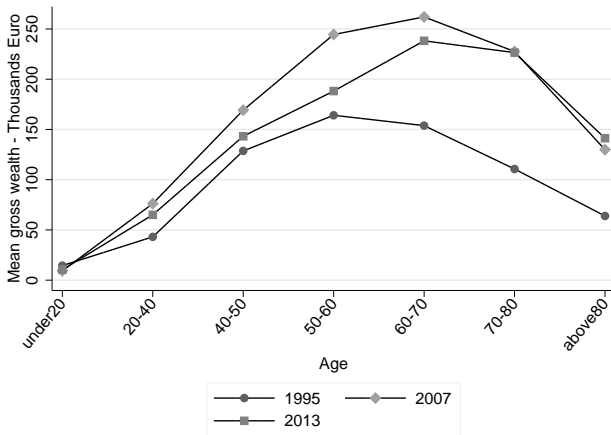
Comparison with the UK, France, and the US



Sources: WID.world - Alvaredo, Atkinson, and Morelli (2016) for the UK; Saez and Zucman (2016) for the US; Garbinti, Goupille-Lepret, and Piketty (2016) for France.

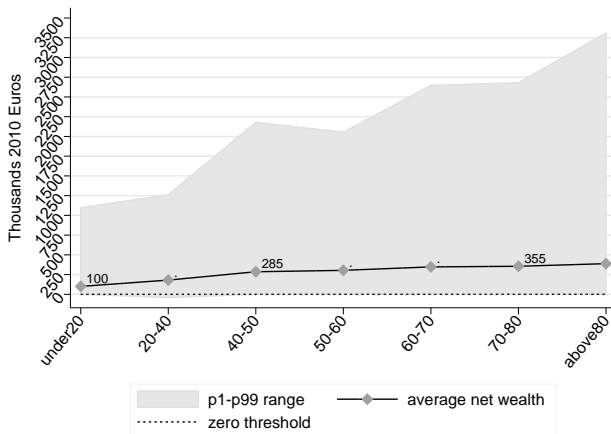
Average unconditional wealth over the life-cycle

Wealth inequality or wealth accumulation over the life-cycle? Substantial heterogeneity of mean wealth across age groups...



Wealth for each age group identified from tax form

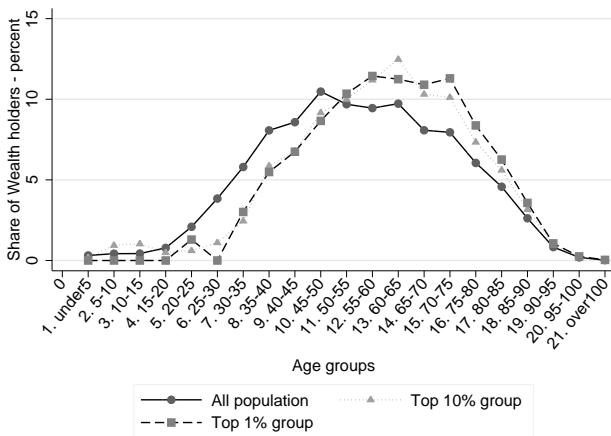
... But net wealth is unequally distributed within all age groups!



► Upper Lorenz curves by age groups

Explaining the age distribution of large wealth holders: the role of gifts and inheritance

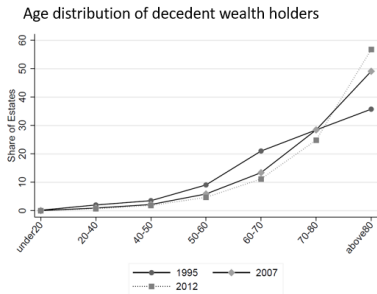
...and very wealthy individuals are not overwhelmingly 'old'. Bequests and inter-vivos gifts can explain very wealthy children.



THE ESTATE MULTIPLIER METHOD

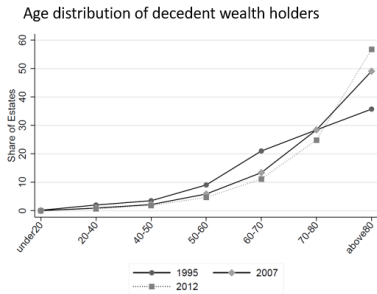
The application of the Estate multiplier method

From the decedent wealth holders to the living wealth holders. Challenge: death does not "sample" individuals randomly.



The application of the Estate multiplier method

From the decedent wealth holders to the living wealth holders. Challenge: death does not "sample" individuals randomly. Solution: mortality multipliers.



Mortality
multipliers

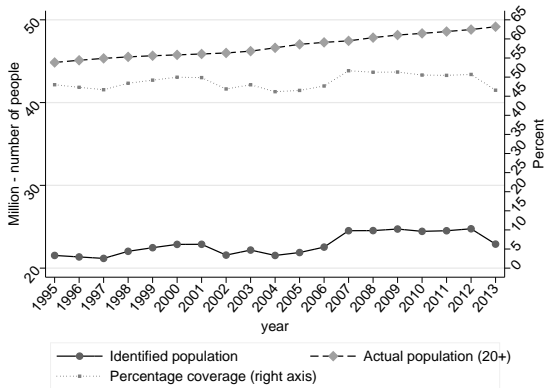


▶ Adult population coverage

▶ Population coverage by Age groups

▶ Relative age distribution: full vs. identified population

Full adult population vs. identified wealth holders



Source: ISTAT, total population.

Estimating wealth of the missing population (approx 200-300 bln Euros in 2013): Average wealth and liabilities of heads and spouses in renter households also imputed to adults that are neither heads of household or spouses/partners.

ADJUSTMENTS TO WEALTH

Imputing missing wealth & liabilities

Sources: Financial Accounts (Bank of Italy)

Missing Wealth: approx 900 bln Euros in 2013

- ▶ 100% of Pension funds, life insurances and TFR
- ▶ 90% of cash and coins (100% in 2001-2006)
- ▶ 50% of Government bonds -not taxed, but have to be reported-(100% in 2001-2006)

Imputed to the population using the inheritance tax returns distribution of business, stocks, and bonds. ▶ Distribution of business/financial assets

Missing Debt: approx. 300 bln Euros in 2013

- ▶ Difference between mortgages and insurance technical reserves liabilities and the total identified liabilities.

Imputed to the population according to the distribution of liabilities observed in the inheritance records. ▶ Distribution of liabilities

▶ Imputed wealth and liabilities

Adjusting real estate cadastral value

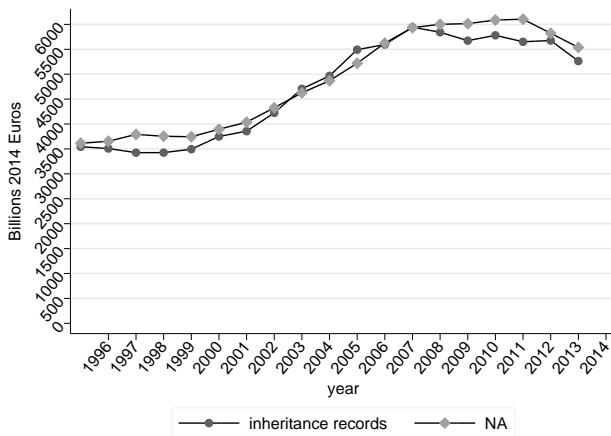
Cadastral rents/values are lying well below market values, so a correction has been introduced

- ▶ 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. (source: “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)

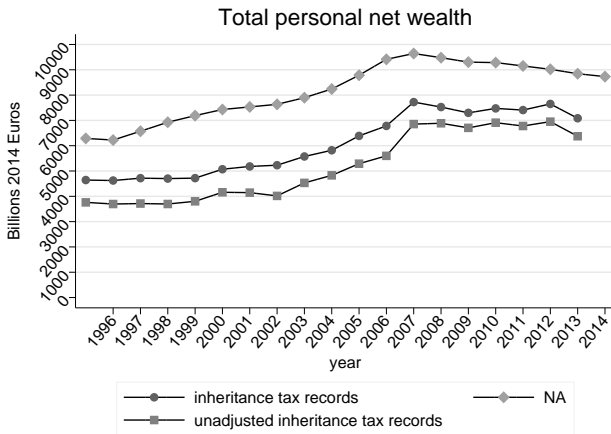
Caveat: aggregate correction factor across cadastral category and geographical location

A VIEW ON AGGREGATE WEALTH FROM TAX RECORDS

Aggregate real estate wealth (land + housing)



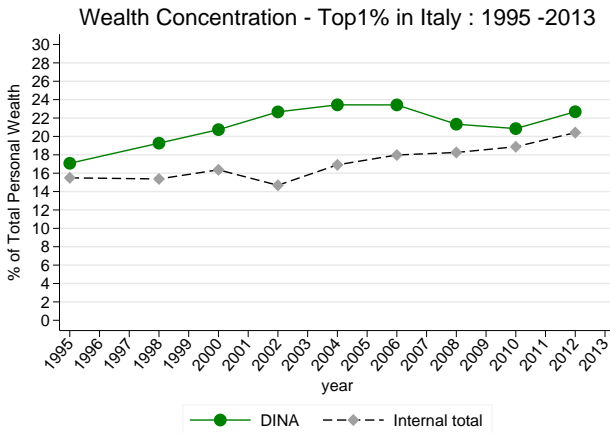
Aggregate net personal wealth



Adjustements: Partial unaccounted liabilities and financial wealth imputed to the population.
 Allowance for the wealth of the missing population is also taken into account.

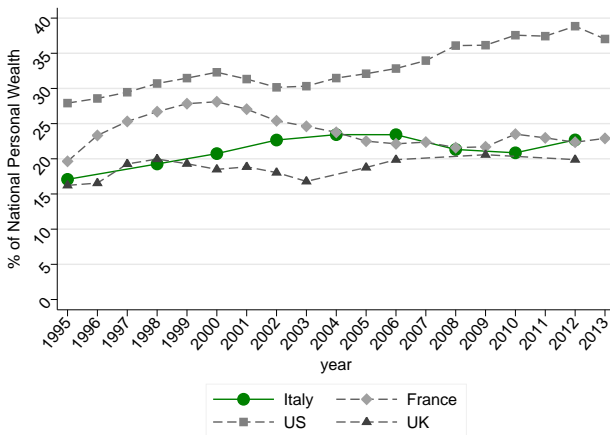
TOWARDS DINA FOR ITALY

DINA for personal net wealth in Italy



DINA adjustments: unaccounted liabilities, financial, real, and other missing assets imputed to the population. Allowance for the wealth of the missing population is also taken into account.

Comparison with the UK, France, and the US using DINA estimates



Sources: WID.world - Alvaredo, Atkinson, and Morelli (2016) for the UK; Saez and Zucman (2016) for the US; Garbinti, Goupille-Lepret, and Piketty (2016) for France.

Summary of the main (preliminary) results

- ▶ The group of the richest half million individuals (1%) in Italy controls between a fifth and a fourth of total personal wealth. Wealth concentration has moderately increased since mid 1990s.
- ▶ Concentration is substantially higher than what found using the household survey.
- ▶ Personal net wealth is much more concentrated than gross income.
- ▶ Similar results in other European countries.
- ▶ The concentration of personal net wealth is similar across all age groups suggesting that inheritance may play a strong role.

Other results not shown

- ▶ Macro-regional wealth concentration series suggest heterogeneity of levels and trends.
- ▶ Inclusion of undeclared off-shore wealth

Conclusions

- ▶ The novel investigation of inheritance tax data provides fruitful complementary information to official household survey data to shed light on the concentration of personal wealth in Italy. (Important as every source is open to challenge and a multi-sources approach is essential)
- ▶ PRELIMINARY ESTIMATES

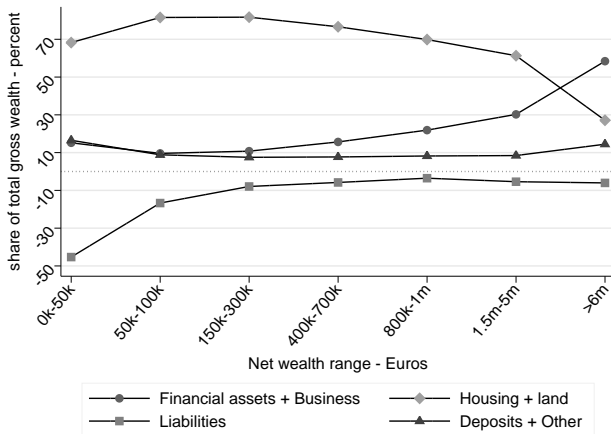
Future steps (*in progress*)

- ▶ The Italian inheritance tax data in conjunction with regional NA and FA, allow the application of DINA method at the regional and macro regional level.
- ▶ Growth Incidence Curves across the distribution.
- ▶ The application of new mortality coefficients based on education level (ISTAT)
- ▶ Elaboration of the additional available evidence on wealthy individuals through the Forbes Rich list.
- ▶ More evidence is needed on the relevance of inter-vivos gifts and inheritance for the accumulation of great fortunes

APPENDIX

PORTFOLIO and LIFE-CYCLE

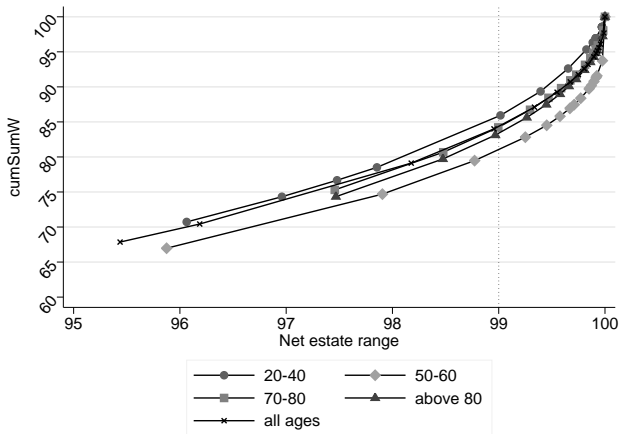
Wealth portfolio across wealth distribution: 2012



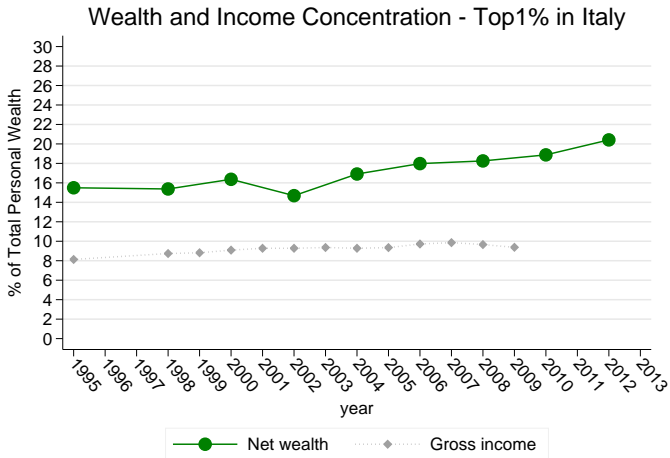
Upper Lorenz curves for different age groups: 2012

Wealth is unequally distributed in all age groups to a very similar degree.

Wealth concentration cannot be explained purely by life-cycle accumulation.

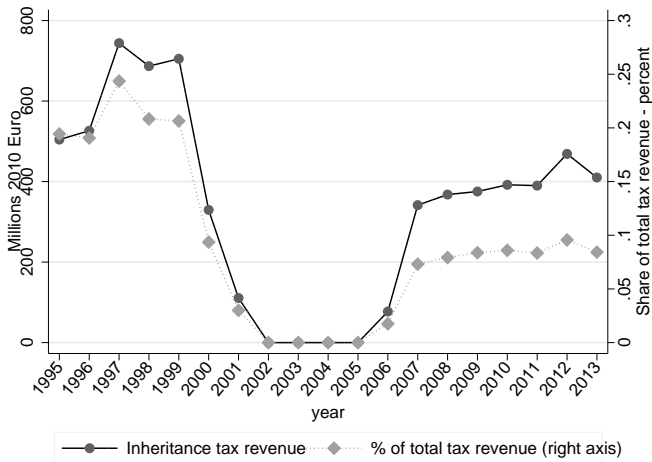


Top 1%: net wealth vs. gross income



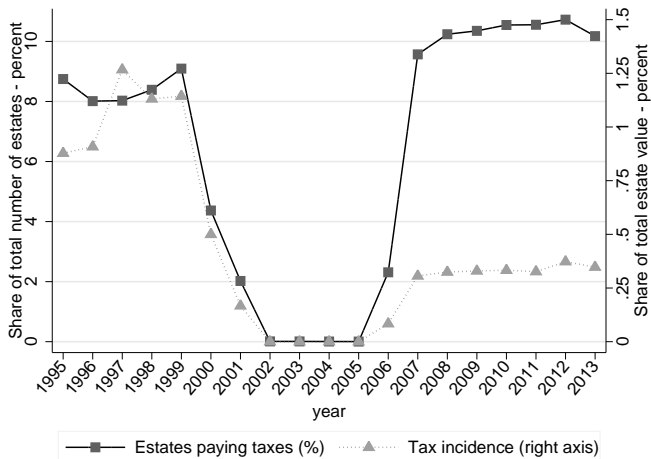
Source: Top income share from Alvaredo & Pisano (2010)

The evolution of the inheritance tax revenue: 1995-2013

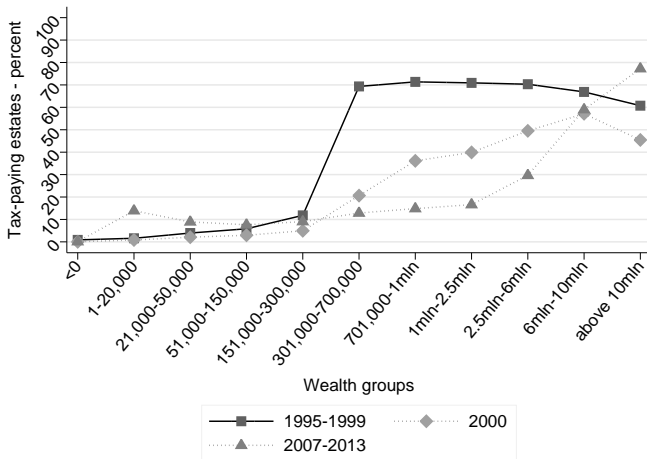


Note: Total tax revenue derived from the EU-Commission publication "Taxation trends".

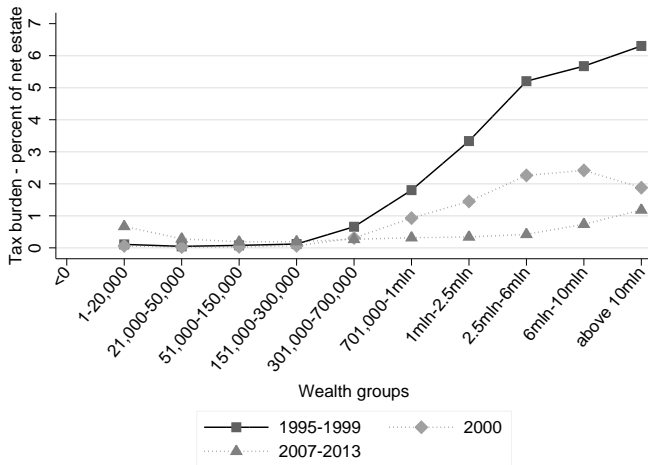
The evolution of the inheritance tax incidence and coverage: 1995-2013



The average tax coverage across wealth groups and tax regimes



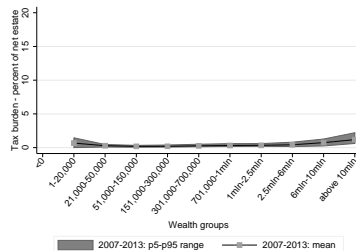
The average tax incidence across wealth groups and tax regimes



The heterogeneity of tax incidence across wealth classes: a detailed look



(a) 1995-1999

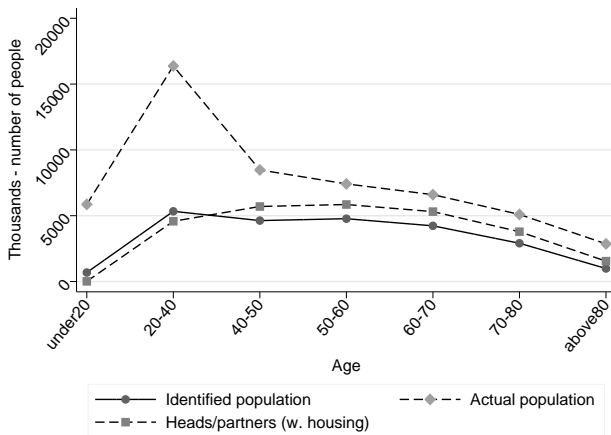


(b) 2007-2013

Note: heterogeneity across years, original disaggregated wealth ranges, macro areas, gender, and age groups

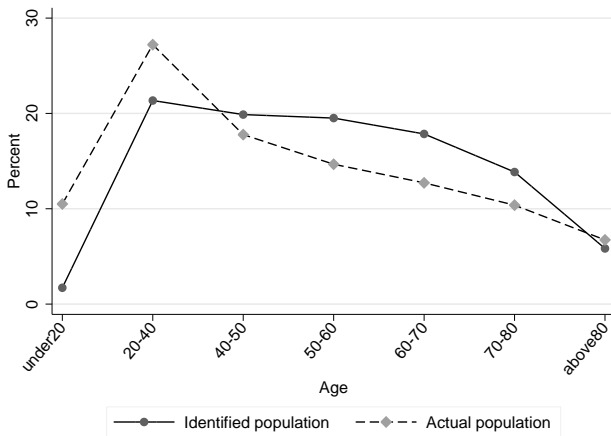
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Full population coverage: by age groups



Source: ISTAT, population by age groups. Bank of Italy Survey of Household Income and Wealth, population of adult heads and partners living in households owning a property by age groups.

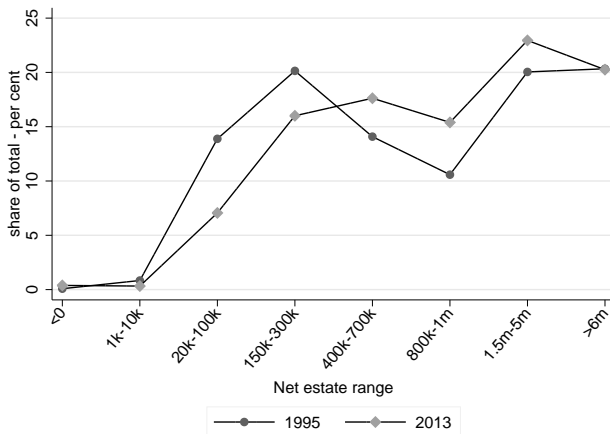
Relative Age distribution 2012: Full population vs. identified wealth holders



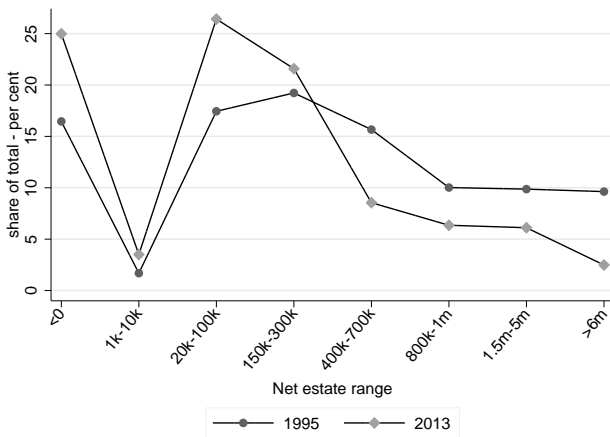
Source: ISTAT, population by age groups.

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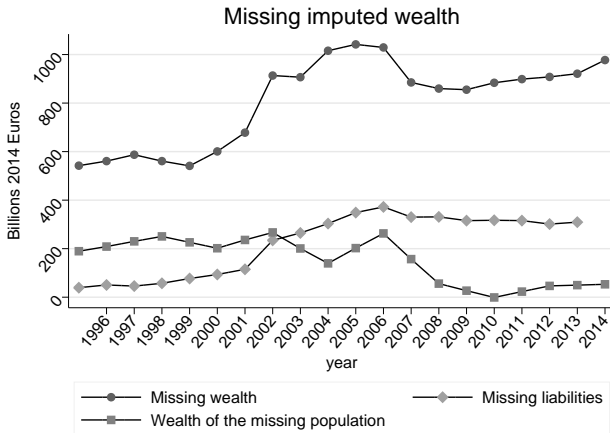
Distribution of business, shares, and bonds across wealth classes

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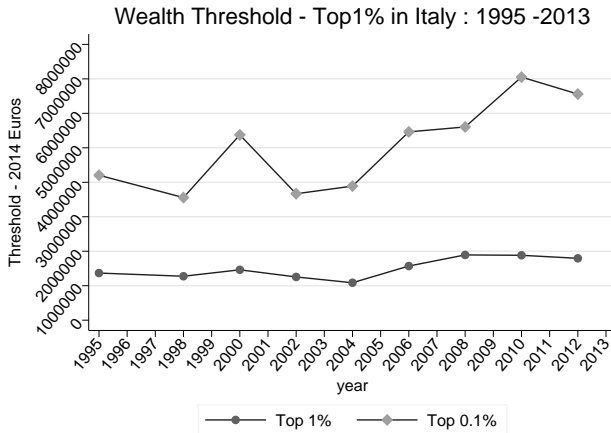
Distribution of liabilities across wealth classes

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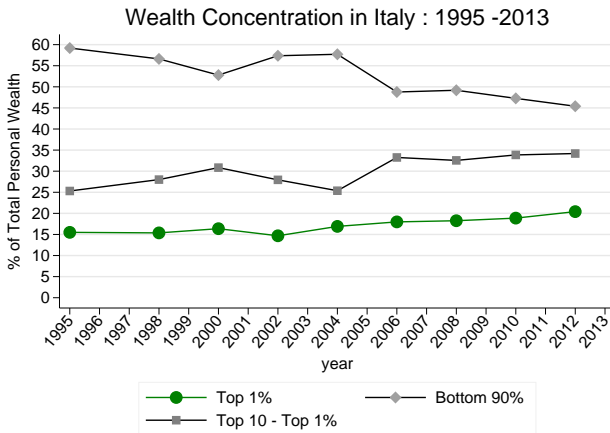
Imputation of missing wealth and liabilities

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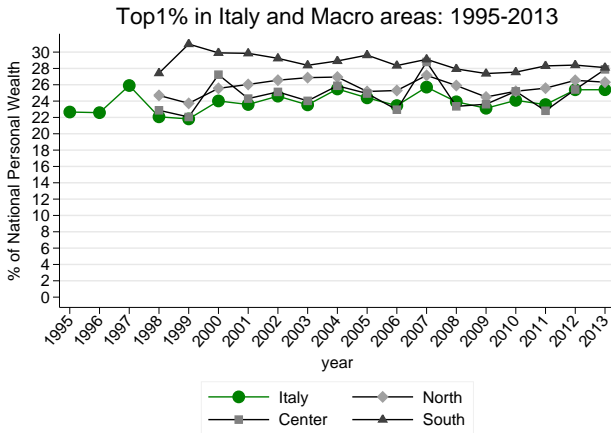
Entry net wealth for top 1% and top 0.1% groups

[◀ go back](#)

Top 1%, Bottom 90%, and next 9% shares from adjusted tax records



Top1% across macro-areas



Sources: wealth totals reconstructed from Albareto et al. (2008) up to 2005; then linked to Bank of Italy Regional Economies, Annual reports 2016 thereafter.

Robustness: Taking into account undeclared off-shore wealth

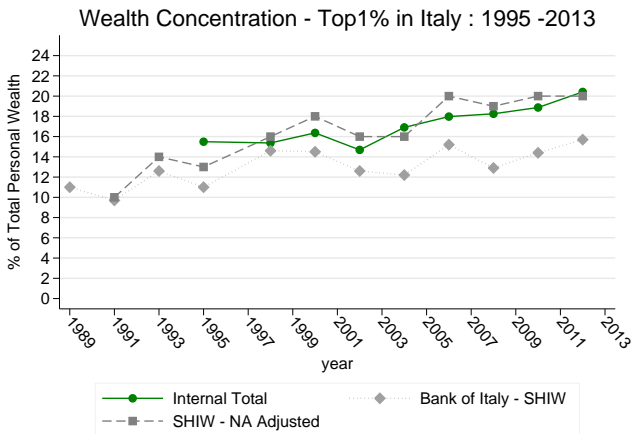


Total off-shore wealth = 2% of personal net wealth in 2007 (allocated within the top 1% group)

Source: Data on off-shore wealth based on Alstadsæter, Johannesen, and Zucman (2017).

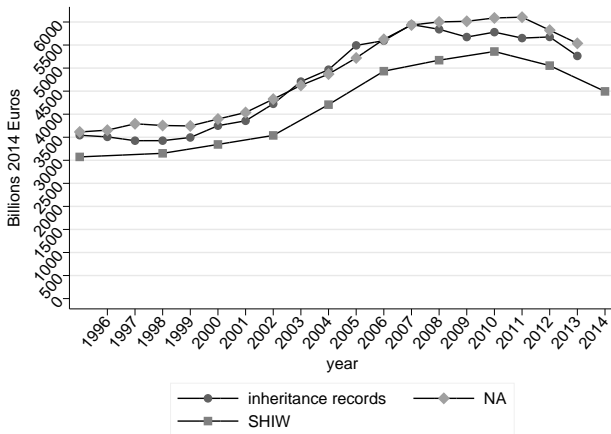
Evolution since 1995 assumed in line with changes in overall European off-shore wealth.

Adjusting SHIW data for wealth gap w.r.t. NA

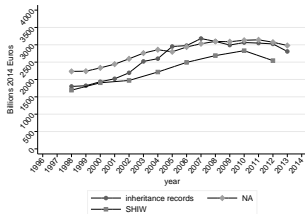


Source: data from Blanchet(2016) [◀ go back](#)

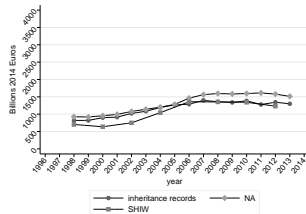
Aggregate real estate wealth : comparison with SHIW



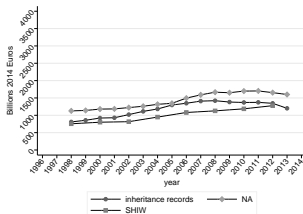
Aggregate real estate wealth across macro areas



(c) North



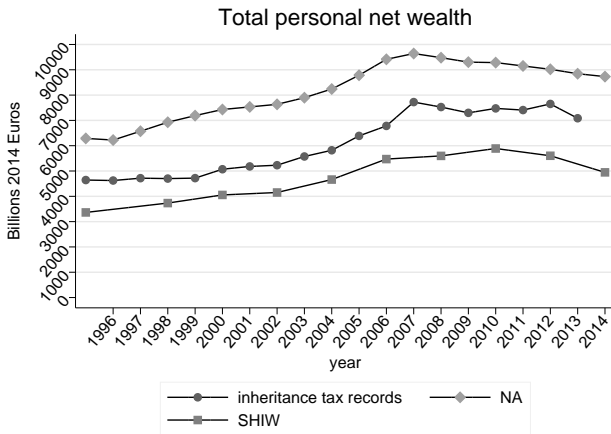
(d) Center



(e) South

Albareto et al. (2008) up to 2005; Bank of Italy Regional Economies, Annual reports 2016 thereafter.

Aggregate net personal wealth: comparison with SHIW



Adjustements: Partial unaccounted liabilities and financial wealth imputed to the population.
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