The concentration of personal wealth in Italy

1995-2016

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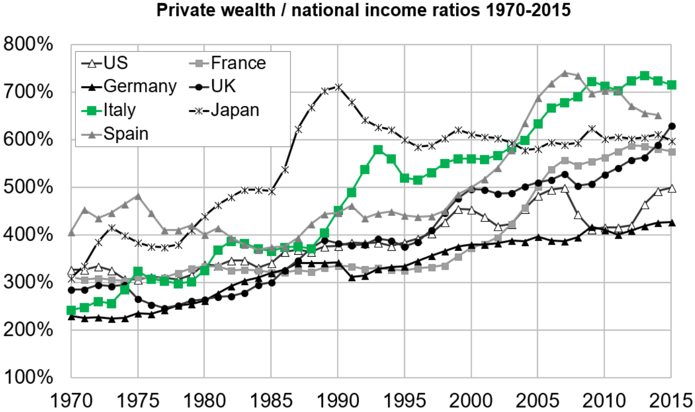
The relevance of personal wealth in Italy stands out

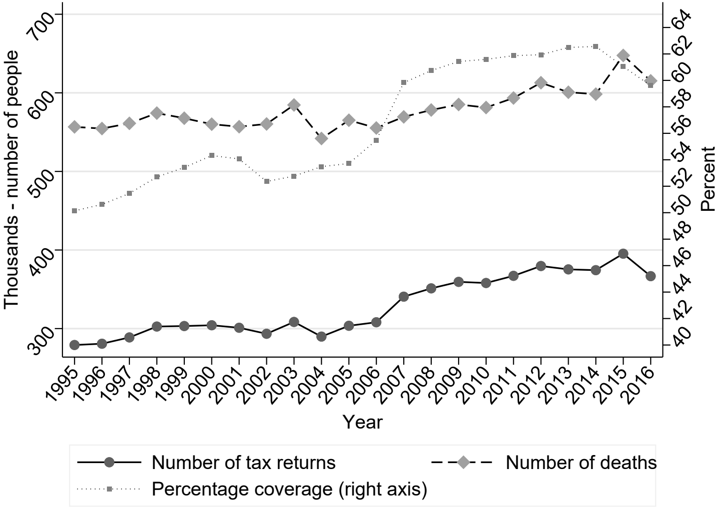


Source: Piketty & Zucman (2014) Figure 1 up to 2010. WIR (2018) for post-2010 series.
Private wealth = non-financial assets + financial assets - financial liabilities (household & non-profit sectors)

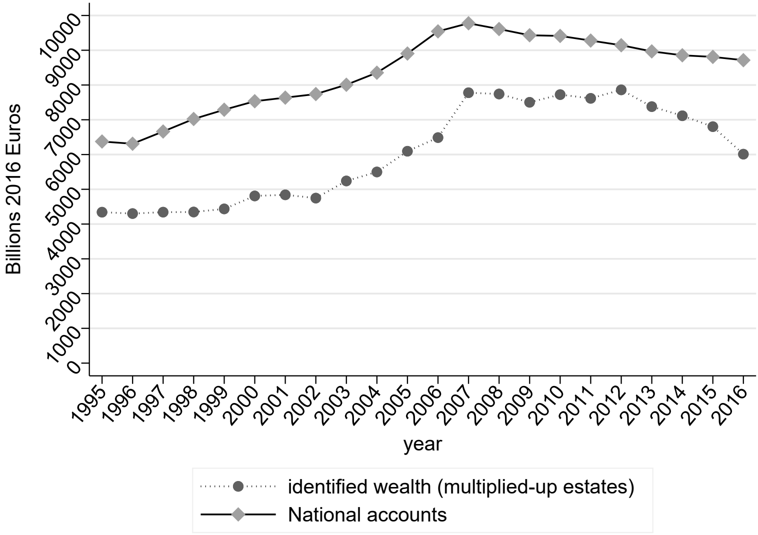
Objective: Estimating the concentration of personal wealth and its evolution since mid-1990s

- We use confidential inheritance tax register data and the "mortality multiplier" method to study the distribution of current marketable wealth: only source of information alternative to the Bank of Italy household survey on income and wealth.
- First systematic empirical application to the Italian data.
- Household surveys are typically poorly suited to study the high-end wealth groups (Vermeulen 2015; Kennickell 2019).
- Benchmark estimates of wealth concentration consistent with National Accounts aggregates (as done in Saez and Zucman, 2016, Batty et al., 2019, Garbinti, Goupille-Lebret, and Piketty, 2016, and Martinez-Toledano, 2017).
- Estimating the incidence of inheritance and gifts in the economy.

High coverage of total population of decedents: above 50-60%

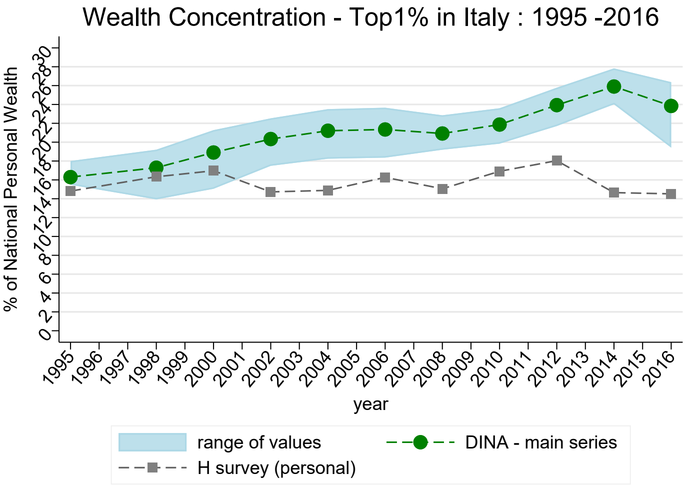


Substantial wealth identified in the tax data



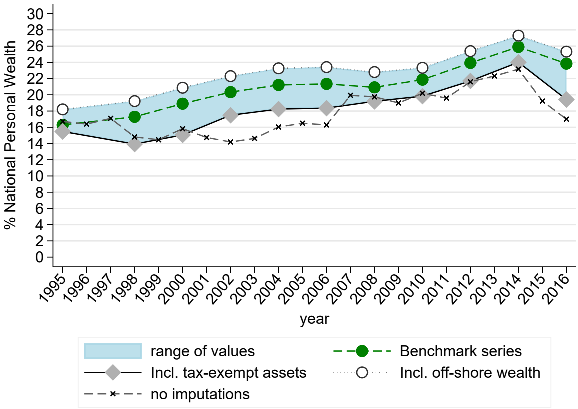
MAIN RESULTS

Wealth concentration is on the rise



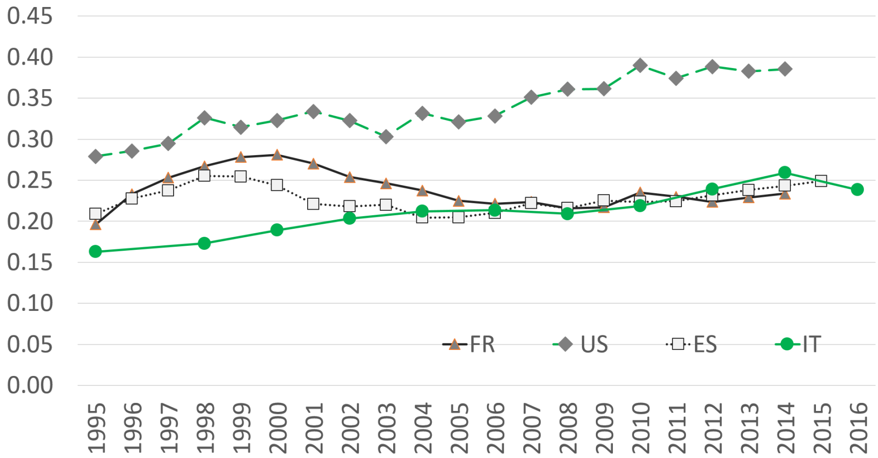
Source: Household survey (SHIW): net personal wealth (individual adults, 20+). Life insurance and private pension wealth estimated from reported contributions and premiums.

Different imputations or no imputations



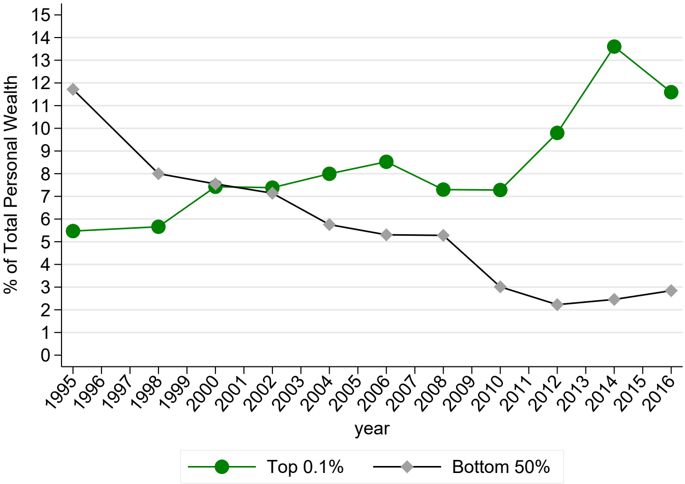
Different imputations strategies following Kopczuk and Saez (2004), Alvaredo, Atkinson and Morelli (2018), and Alstadsæter, Johannesen, and Zucman (2018).

Top 1% share in Italy, France, Spain, and the US



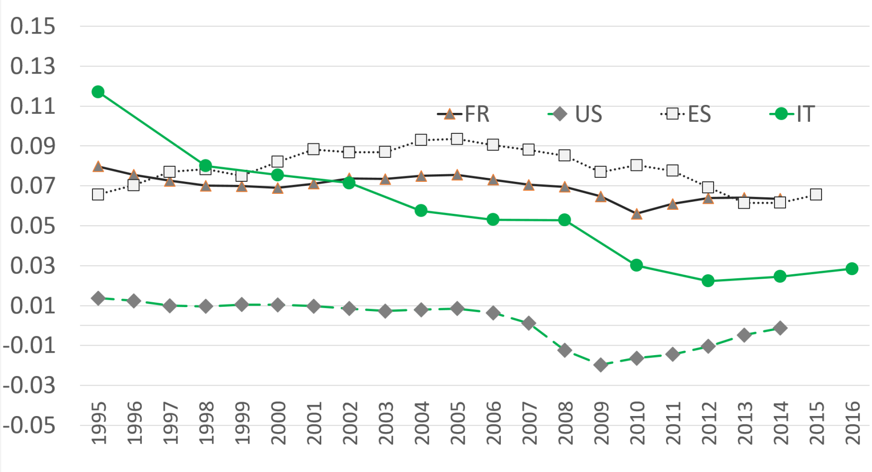
Estimates consistent with National accounts from Saez and Zucman (2016) for the US; Garbinti, Goupille-Lebret, and Piketty (2016) for France; Martinez-Toledano (2017) for Spain.

Top 0.1% up & Bottom 50% down



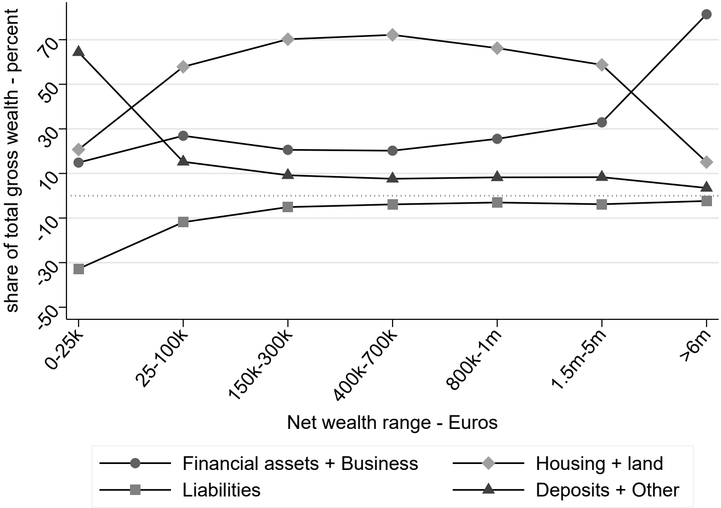
Mean wealth of the Bottom 50%: 17k (1995) to 6k (2016) and the 2008 accelerated the drop;
Mean wealth of the Top 0.1%: 5mln (1995) to 21 mln (2016)

Bottom 50% share in Italy, France, Spain, and the US

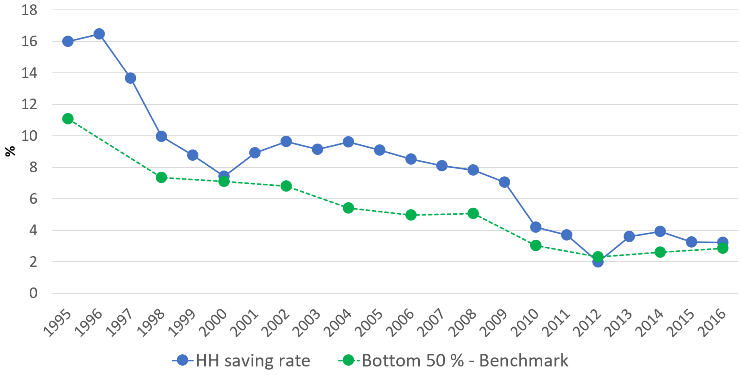


Estimates consistent with National accounts from Saez and Zucman (2016) for the US; Garbinti, Goupille-Lebret, and Piketty (2016) for France; Martinez-Toledano (2017) for Spain.

Wealth portfolio across wealth distribution: 2016



The decline of household saving rates and the bottom 50%



Net household saving = household net disposable income plus the adjustment for the change in pension entitlements less household final consumption expenditure (households also include non-profit institutions serving households). Source: OECD Data

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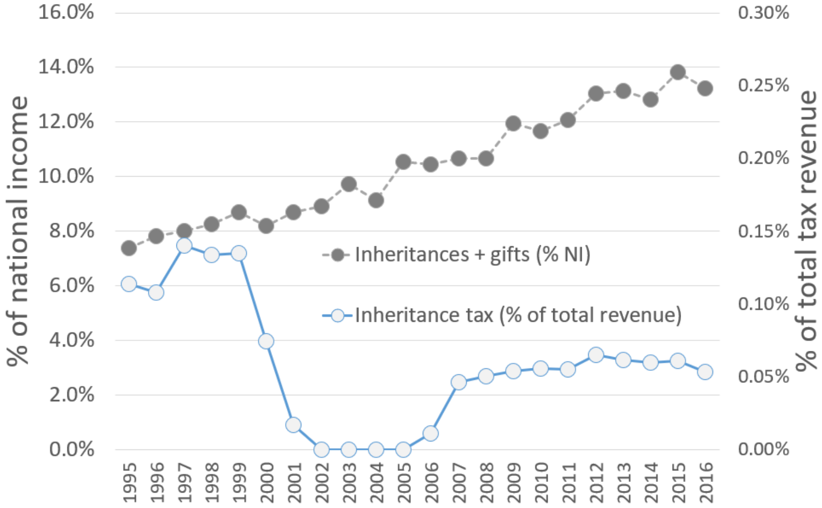
Rising role of inheritance and dwindling inheritance tax



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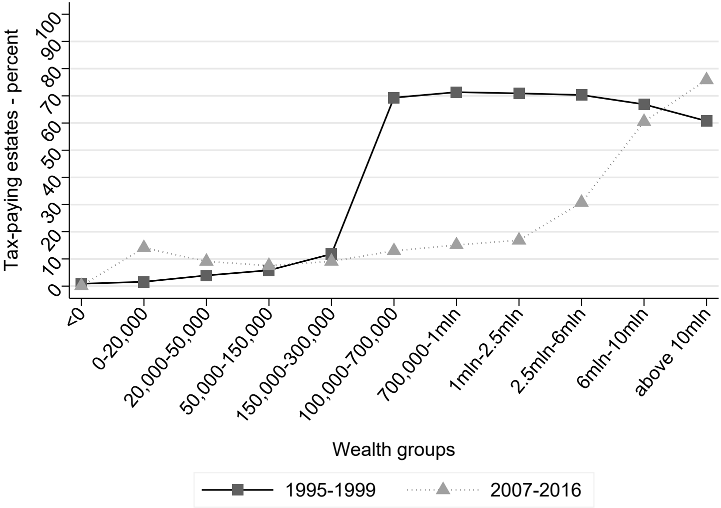
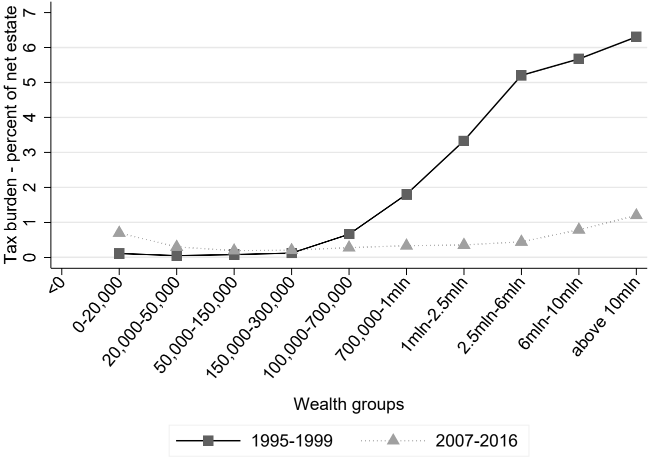
% of estates taxed across estate groups and tax regimes



The average tax burden across wealth groups and tax regimes



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CONCLUSIONS

Summary of the main results

- The group of the richest half million individuals (1%) in Italy controls between a fifth and a forth of total personal wealth. Wealth concentration has increased by approximately 30% since mid 1990s.
- Concentration is substantially higher than what found using household survey data.
- Inclusion of undeclared off-shore, durables, alternative imputations do not significantly alter the main results. However, levels and long-run trends are sensitive to imputation of ‘missing’ wealth especially at the very top of the distribution.
- Personal net wealth is much more concentrated than gross income.
- In comparison with other countries: Italy has concentration levels similar to other European countries. However, the bottom 50% experienced more pronounced losses.
- The paper also documents the increasing relevance of inheritances and the erosion of inheritance tax progressivity occurred in Italy.

Substantive conclusions

- The novel investigation of inheritance tax data provides fruitful information to shed light on the concentration of personal wealth in Italy.
- Household survey data remains a crucial source of data: the two sources are complements and not substitutes.
- The investigation confirmed the paucity and limitation of wealth data and urges for substantial investments in data capacity.
- Hopefully this work could set the stage for new official series of wealth distribution statistics in Italy.
- More evidence is needed on the relevance of inter-vivos gifts and inheritance for the accumulation of great fortunes.
- We need to shed further light on the determinants of the evolution of top wealth shares.

THANK YOU!

"Statistics on wealth distribution play 'a key political role' and they are as sensitive an issue as the balance of payments or unemployment figures. This means that it is all the more important that they should be firmly based. We should examine critically the evidence and the assumptions underlying it"

A.B. Atkinson (1978), 'The Concentration of Wealth in Britain'. *Challenge*, July-August 1978.

APPENDIX

From Estate duty to Inheritance tax: All the changes to tax law

1995-1999

- Tax applied on the total estate value & on the inherited shares
- Tax rates from 3 to 33%
- Global exemption: 125.000 € (raised to 175.000€ in 1999)
- Share exemption: full for spouses, parents, and children; 50.000€ for siblings; 5.000€ for others.

2000 reform

- From Estate to Inheritance Duty: Tax only on inherited share
- Flat rates only above 175.000€ of inheritance received (4%, 6%, or 8%)

2001-2006

- Inheritance and gift tax abolished
- tax return filing still compulsory in most cases

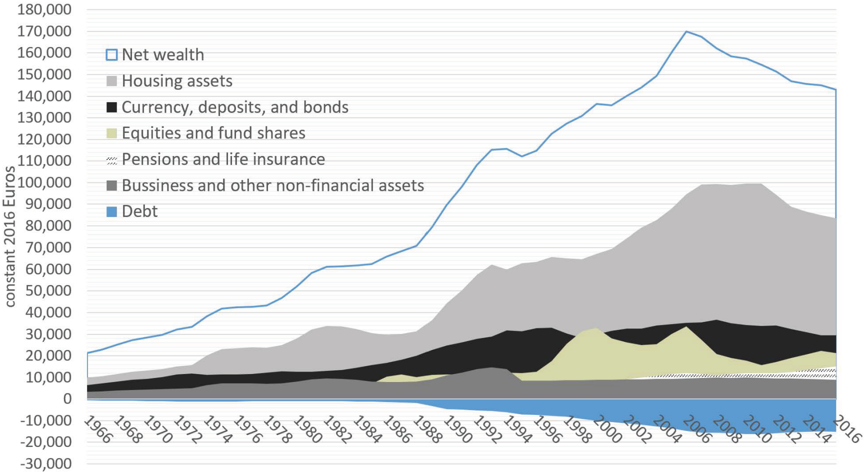
Since Oct 2006

- Inheritance and gift tax reintroduced
- Same flat tax rates & exemption thresholds substantially increased for direct ascendants and discendants.

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

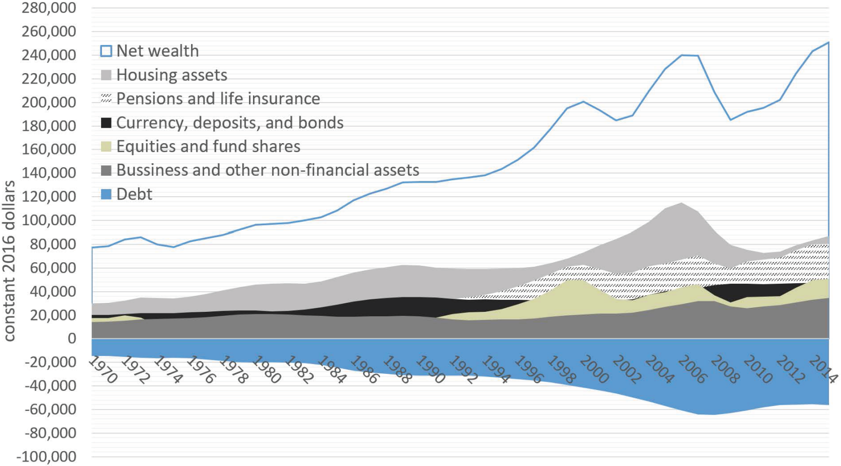
Inheritance tax revenue | Tax incidence and coverage

Wealth topography in Italy



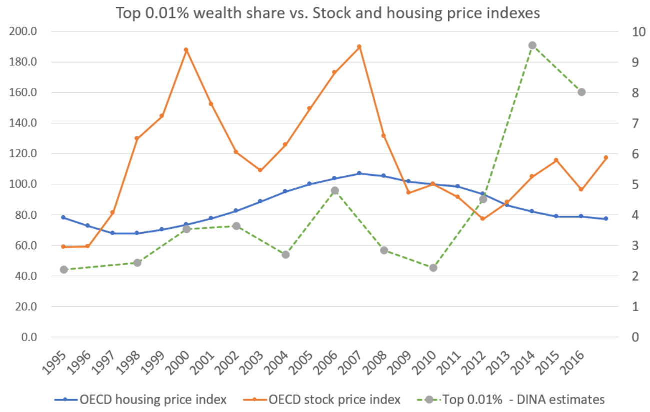
The (high) mountains of wealth and the (shallow) sea of debt. Source: Elaborations on NA data from Bank of Italy, ISTAT.

Wealth topography in the US

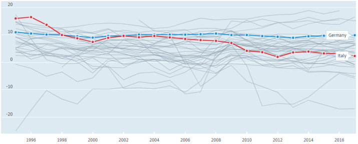


High Debt and Financial assets in the US. Note: Per-capita personal net wealth = 190,000 in 2016 PPP Euro. Source WID.world

Stock market and housing market prices dynamics

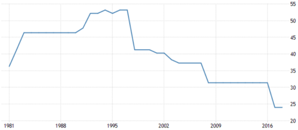


Income tax regime and household saving rate



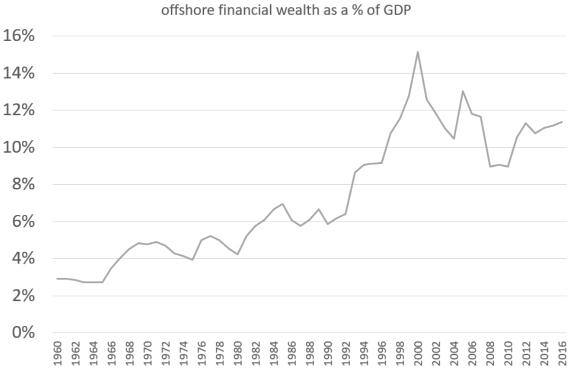
(a) Saving (% of household disp income - OECD)

(b) Top marginal tax rate on income



(c) Corporate income tax rate

Estimates of off-shore wealth for Italy



Own estimates based on Alstadsæter, Johannesen, and Zucman (2017) and Pellegrini, Sanelli, and Tosti (2016).

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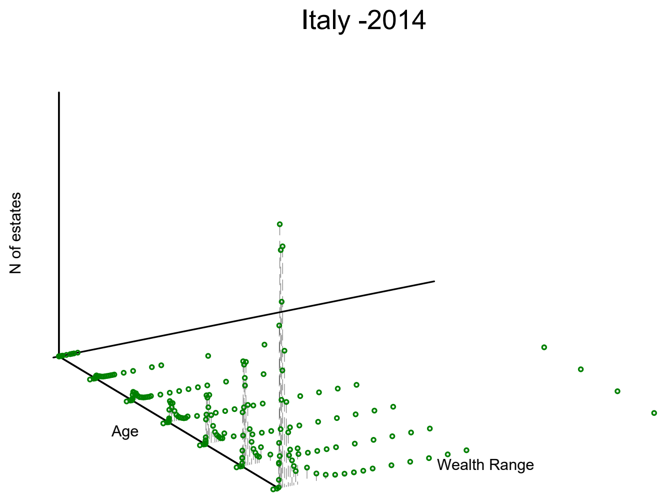
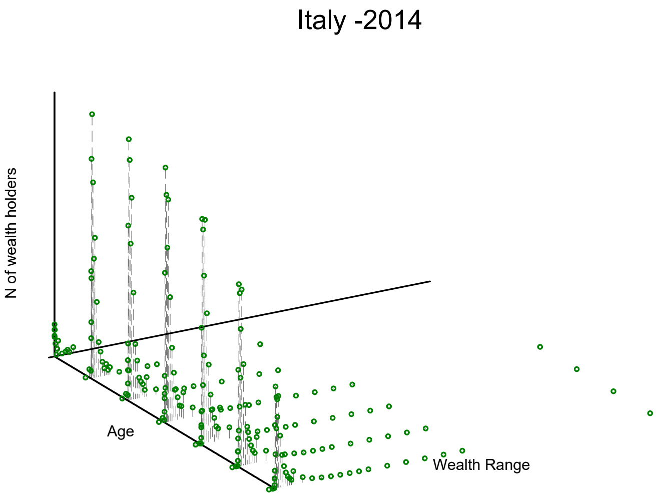
Indirect observation of population: wealth of the decedents



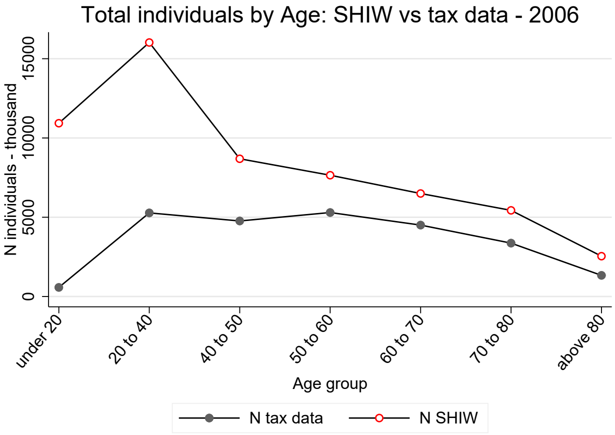
Notes: figures are based on identified unadjusted wealth.

The application of the Estate multiplier method



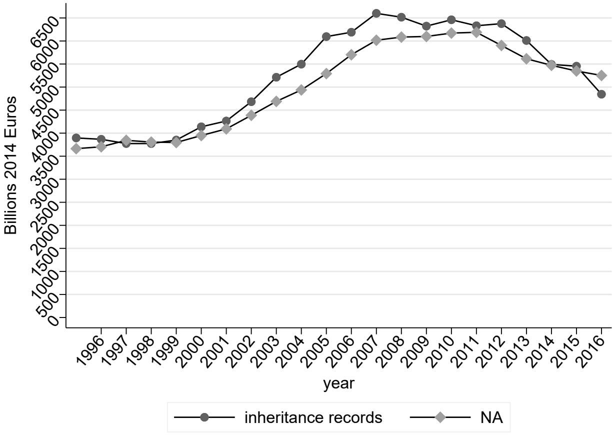
▸ mortality rates ▸ Mortality multipliers

The population gap



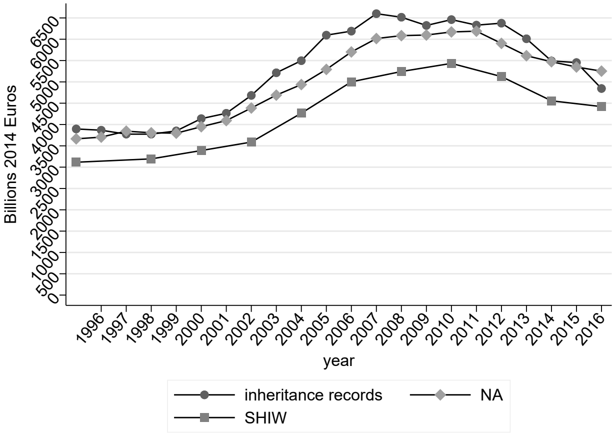
The population size in the SHIW data is matched by construction to the national official population.

From cadastral to market value of land & housing



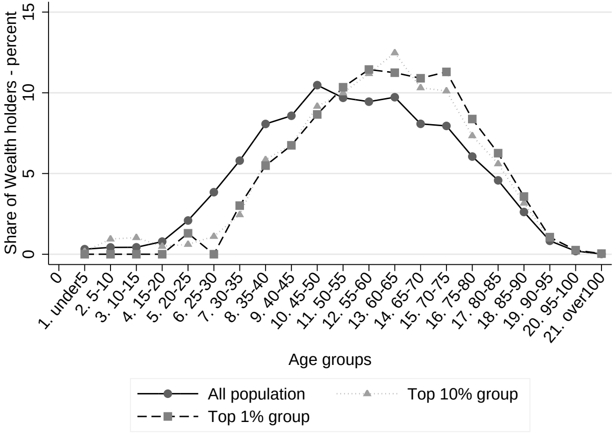
Note: aggregate correction factor (ratio between market and cadastral value) across cadastral category and geographical location ($\simeq$ 3.3 in recent years)

Aggregate real estate wealth : comparison with SHIW

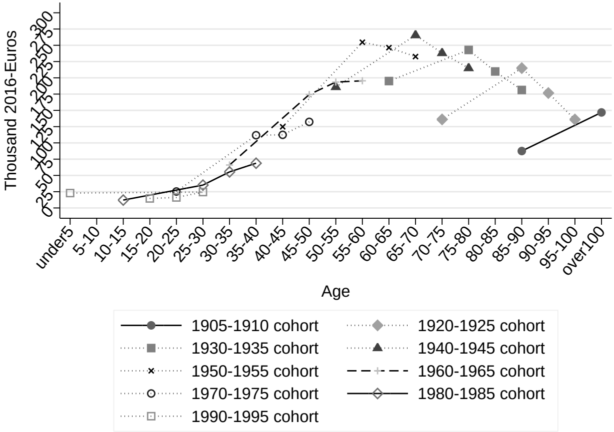


The age distribution of large wealth holders: not overwhelmingly old

Bequests and inter-vivos gifts can explain very wealthy children.



Mean net wealth by age and birth cohorts



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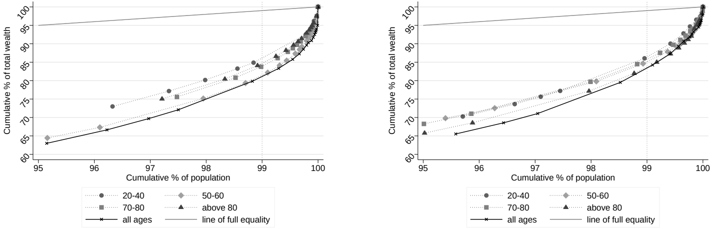
Wealth concentration is similar in all age and gender groups

... net wealth is unequally distributed (to a very similar degree) within all age and gender groups! Life-cycle process cannot explain wealth concentration at the top. Atkinson (1971) points to the concentration of inheritances.

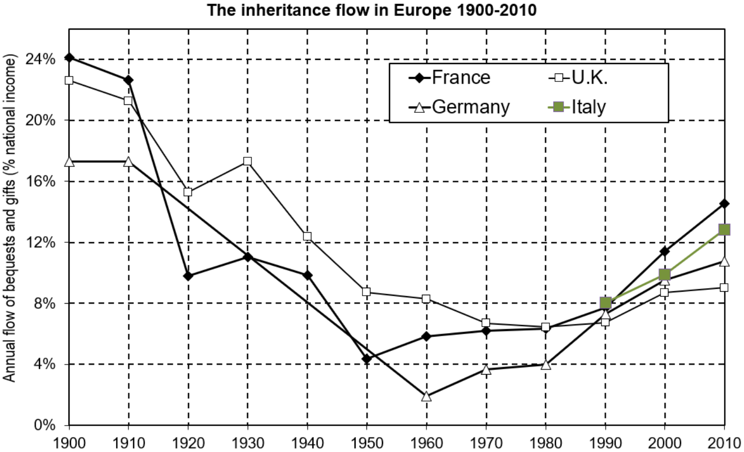
Figure 1: Upper Lorenz curves for different age and gender groups: 2012 all population



(a) Male (b) Female

Notes: upper Lorenz of total population. Wealth only refers to tax-data adjusted for missing population and its wealth as the NA adjustment are not done across age and gender factors.

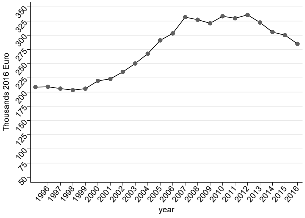
Inheritance Flows in Italy and other European Countries



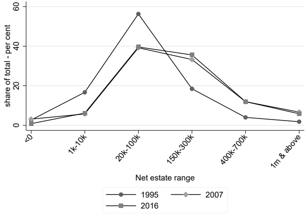
Source: Figure 4 from Alvaredo, Garbinti, and Piketty (2017) updated with new series for Italy

Inheritance concentration

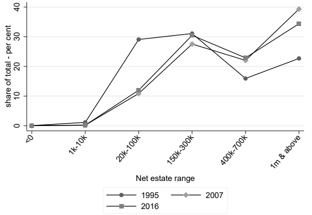
The growing relevance and concentration of bequests



(c) Average value of bequest

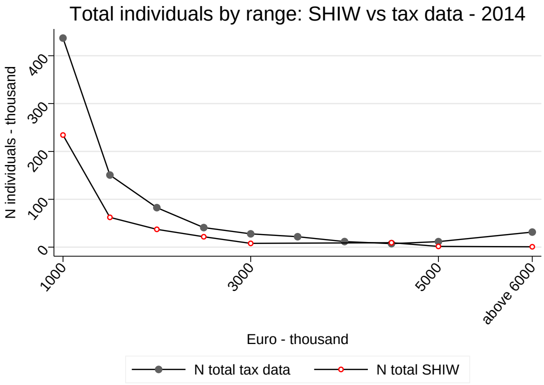


(d) % of count by size of bequest



(e) % of value by size of bequest

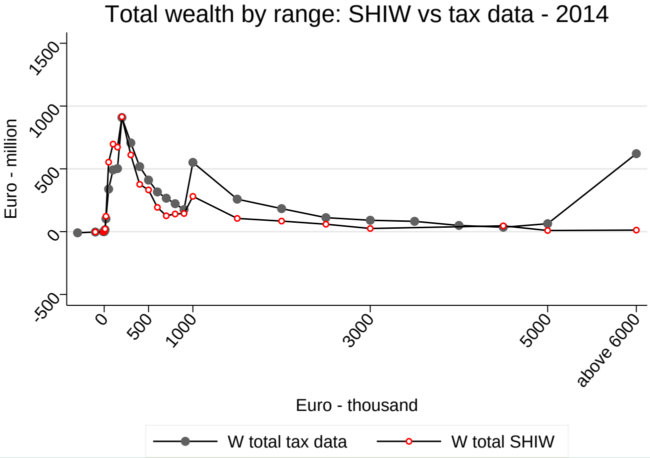
More individuals appear in the right tail (compared to household survey)



Unadjusted Tax data show less people than survey populating the bottom of the distribution (due to ”non-filers”- see later).

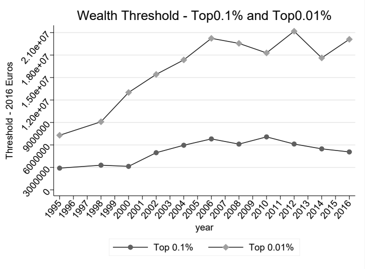
Better coverage of total wealth in the right tail (compared to household survey)

2014 unadjusted data matched on observables (Age, gender, wealth ranges, asset type, geographical macro area).



Entry net wealth for top 5%, top1%, top 0.1%, and top 0.01% groups

(f) P99 and P999



(g) P99.9 and P99.99

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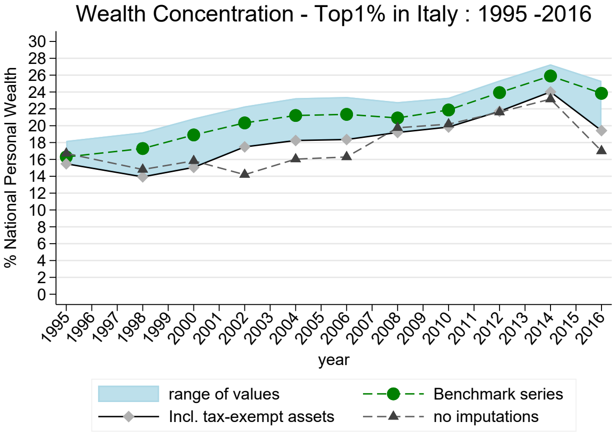
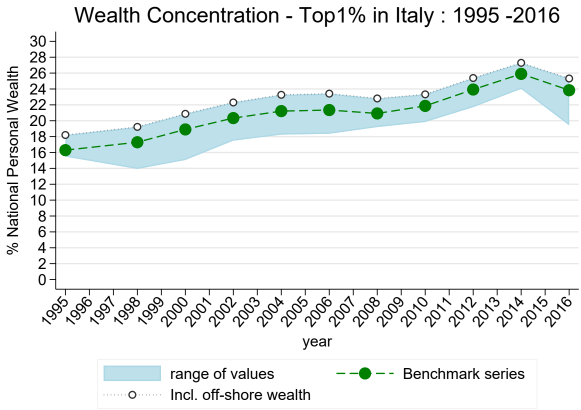
Wealth concentration without imputations



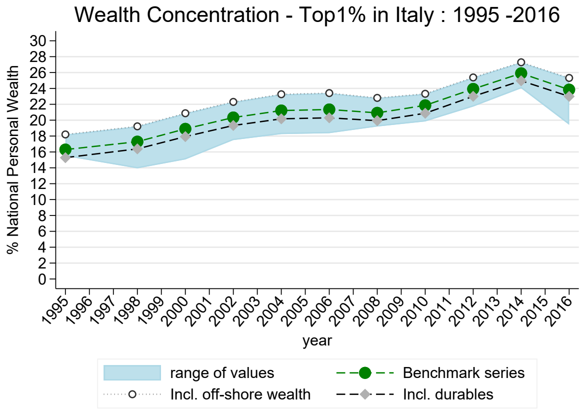
Wealth reported on tax records without allowance for tax exempt assets. Similar to what is done in Alvaredo, Atkinson, and Morelli (2018) Internal total

Beyond NA: including hidden offshore wealth



Total off-shore wealth = 11% of GDP in 2016 and 2 % of personal net wealth (allocated within the top 1% group). Own estimates based on Alstadsæter, Johannesen, and Zucman (2017) and Pellegrini, Sanelli, and Tosti (2016). ▸ Off shore wealth

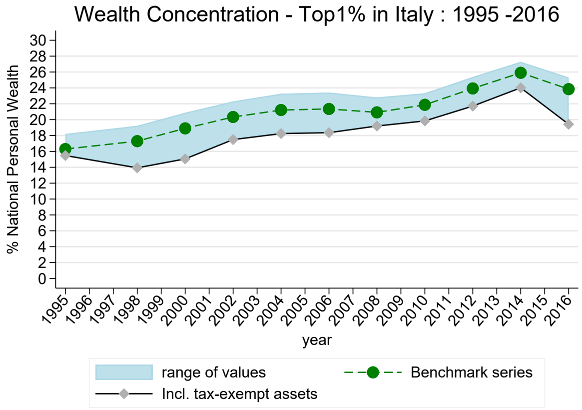
Beyond NA: including durables



Total durables = 5% of personal net wealth (allocated as observed in the household survey data).

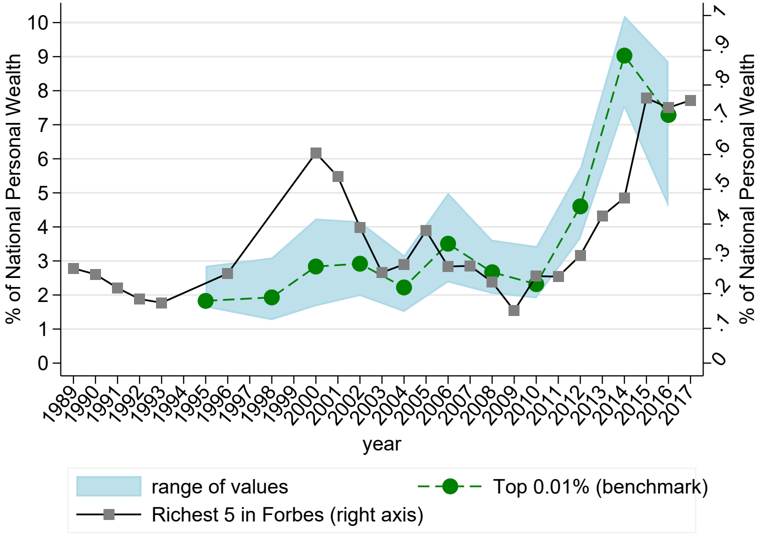
▸ Effect on the bottom 50%

Allowing for non taxable wealth



Allowance for non-taxable assets and liabilities. External NA total is used as denominator. Similar to what is done in Kopczuk and Saez (2004)

External evidence: Forbes rich list



In 2014, 35 listed Forbes billionaires held wealth equivalent to 12% of National Income. 6 out

External evidence: Credit Suisse data