The concentration of personal wealth in Italy 1995-2016

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Abstract

In this paper we study the concentration of personal wealth in Italy between 1995 and 2016 using a novel source of data on the full record of inheritance tax files, covering 50-60% of total decedent population. Estimates of the shares accrued to top and bottom wealth groups are derived using the estate multiplier method applied to wealth left at death. The main baseline national series of wealth concentration, derived to be fully consistent with the National Accounts, suggests that richest 1% of Italian adults increased their share of total personal wealth from 20% to 26% approximately from 1995 to 2016. The level of concentration appears in line with other European countries. Data also allow a rich disaggregation of the analysis by demographic and geographic characteristics. Tax exempt assets as well as unreported wealth hidden in offshore accounts are estimated and distributed back to the population. A range of alternative series of wealth concentration helps to better understand the role of adjustments and imputations in driving the most important findings and allows for better historical comparability of the estimates.
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Extended abstract

In Italy, every year the stock of private wealth is equivalent to approximately 7 years of national income, making Italy one the country with the highest wealth to income ratio in the world. Yet, very little is known about how Italian aggregate personal wealth is distributed among the population.

This paper provides novel estimates of the distribution of personal wealth in Italy, with a particular focus for high-end wealth groups. In doing so, the work follows a growing body of research on the distribution and concentration of wealth which has recently began to feature preeminently on the economics research agenda.

The work makes use of a newly assembled source of data derived from the administration of the inheritance tax data at the Italian Ministry of Finance. This set of official tax micro data, providing a snapshot of the wealth holding at death on a continuous basis from 1995 to 2016, have never been exploited so far in Italy and we were able to use them in conjunction with detailed mortality rates from the National Statistical Institute (ISTAT) to yield estimates of the wealth of the living. This novel source of data is further complemented with the national survey on household income and wealth managed by the Bank of Italy to estimate wealth holding of the population who is not represented by tax records. Finally, information from the national balance sheet on real and financial assets of the households sector is then used to impute tax exempt assets and other missing or under-rerported assets to derive the first set of distributional estimates which are also consistent with the National Accounts. This exercise follows the DINA framework set up in Alvaredo et al. 2017.

Although other methods can be used to derive direct or indirect information about wealth holdings none of them is easily applicable to the Italian data. First, Italy does not have an annual wealth tax on a comprehensive tax base that goes beyond the real estate. Second, taxes on financial investment and savings and current accounts are levied but taxes are withhold at the source so that the link to individuals holdings is not publish knowledge. Consequently, individual income tax information does not yet sufficiently cover different sources of capital income which could then be used, in combination with estimates on assets yields, to derive the underlying wealth generating those capital income flows (e.g. through the so called capitalization method).

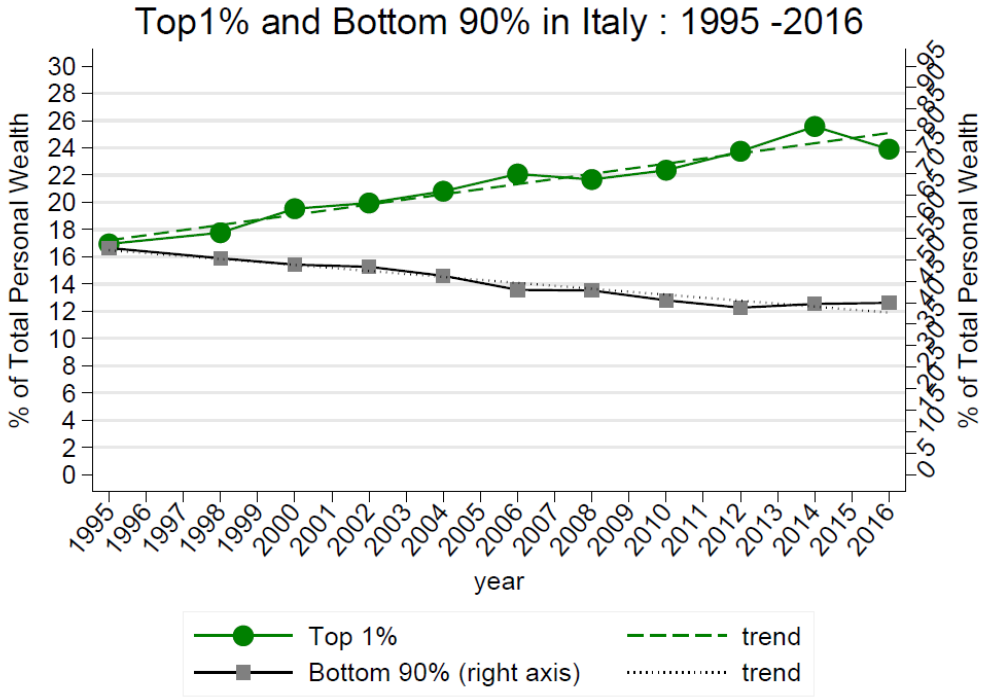
Therefore, this work provides the first set of comprehensive estimates of wealth concentration in Italy alternative to those that can be derived from direct answers to the survey of households on income and wealth administered by the Bank of Italy since late 1980s. The use of different data sources for the study of wealth distribution is essential

as every source is open to challenge and may have different advantages and shortcomings. Moreover, the use of household surveys is deemed to be less suited to capture the wealth holdings at the very top for a variety of reasons, namely the under-sampling of wealthy households, differential non-response and under-reporting rates across wealth classes.

On the contrary, the use of inheritance tax administrative data can substantially increase the probability of covering the very top of the wealth distribution. Indeed, our baseline series shows substantial higher level of wealth concentration and different trend over time with respect to what found with household survey data. This is also true once the household survey data is adjusted to reflect the same unit of observation and similar wealth definition of what found in tax-based data. According to the household survey data the evolution of the share of total wealth accruing to the richest 1% of adults has remained roughly unchanged between 1995 and 2016 at a level around 14%. Our estimates, instead, suggests that the top 1% of personal wealth share in Italy was approximately 20% in 1995 and it increased by at least 6 percentage points till 2016. More than a fourth of total Italian personal wealth is now controlled by the richest half million individuals (e.g. approximately equivalent to 1% of Italian adult population). During the same time horizon, as figure 1 shows, the bottom 90% of the population has seen its share of total personal wealth to decline by more than 15 percentage points, from approximately 55% in 1995 to 40% in 2016. The concentration levels observed in Italy appear to be in line with other European countries for which DINA estimates are available, such as France and Spain (estimated from the work of Garbinti, Goupille-Lepret, and Piketty, 2017 and Martinez-Toledano, 2017). However, the evolution of personal wealth concentration over time appears to be much more in line with that found in the US by the work of Saez and Zucman (2016). Morevoer, as Italian NA statistics can be estimated at the regional level, we present in this paper the first geographical disaggregated DINA exercise for wealth distribution. Beyond highlighting heterogeneity in trends and levels of wealth concentration, the exercise reveals that most of wealth inequality is found within macro-areas.

The use of tax data, however, does not come without costs and several adjustments and steps are applied in order to derive our results. First, the valuation of real estate has to be adjusted to bring the cadastral value reported for taxation purposes in line with market valuation. Second, the distribution of decedents wealth holders needs to be reshaped into a distribution of identified living wealth holders. The application of the so-called mortality multipliers method, results from the application of the inverse of mortality rates to observable demographic and social strata, such as age, gender, education attainment, and macro-regional geographical location. Third, allowance for the wealth of non-identified population is also required. Fourth, not all assets are tax-

Figure 1: The growing concentration of personal wealth in Italy: 1995 - 2016



able and their reporting may not be demanded by tax authority, therefore requiring a full imputation of their value to the population. Moreover, in few cases the tax administration suggests to report the assets (e.g. government bonds) despite their total tax-exemption status, resulting in a partial adjustment. Fifth, some assets and liabilities may be entirely missing from our tax forms and need to be fully imputed. This may be due to under-reporting, differences in valuation, tax-avoidance and evasion, as well as non-reporting due to lack of fiscal incentive to do so (e.g. there might be little incentive to fully report the exact nature and composition of the estate if its total value and the resulting bequests shares are substantially below the tax-exemption threshold). In these cases, the full difference between the aggregate series derived through National Accounts and those derived internally from tax records is imputed by asset classes to the population based on the their observed proportional distribution.

The work also moves beyond the so called DINA framework and derives series based on unadjusted tax data as well as series which only include imputations of tax exempt

assets and not the full imputations of assets value from the National Accounts. This allows putting our preferred DINA series into the context of a wider range of values, representing different methods of estimation. On the one hand, this is useful to convince us that the series of imputation, albeit important, would not substantially drive the most important findings about the evolution of wealth concentration. On the other hand, the exercise appears crucial to compare, in a more consistent fashion, modern estimates to historical series or different estimates across countries where the DINA framework cannot be easily implemented.

Finally, in light of the important findings by Alstaestader, Johannesen, and Zucman (2017), the paper also attempts to estimate the effect of hidden financial wealth held in offshore accounts to the estimates of wealth concentration. Unreported off-shore wealth it is estimated to be equivalent to approximately 11 percent of GDP in latest years, up from less than 5 percent in 1960. However, in the period under analysis, unreported off-shore wealth remained relatively constant as a share of total personal wealth, at around 2-3%. Its imputation to the top of the wealth distribution will therefore have a level effect on the estimates of top wealth shares, keeping their trend relatively unchanged.

The evolution of the top share over time is corroborated by external evidence assembled from the global Forbes list of large wealth-holders. Using Forbes data we could track the evolution of the share in total personal wealth of the richest 5 individuals since 1988 and the 10 richest individuals till 2001.