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6 Wealth Transfers and Net Wealth at Death

Evidence from the Italian Inheritance Tax Records, 1995–2016

Paolo Acciari and Salvatore Morelli

6.1 Introduction

Wealth transfers, including bequests, inheritances, and gifts between living persons (i.e., inter vivos gifts), are crucial economic resources for households and their accumulation of wealth. In rich countries, their scale relative to the total national income has increased substantially over recent decades. The groundbreaking work by Piketty (2011) documents the evolution of annual wealth transfers as a share of total national income in France since 1820, showing that their estimated share has increased threefold since 1950, from a level of 5 percent to 15 percent in 2010. Atkinson (2013, 2018) and Alvaredo, Garbinti, and Piketty (2017) estimate corresponding series indi-

Paolo Acciari is a unit head in the Economics and Fiscal Studies Directorate at the Department of Finance, Italian Ministry of Economy and Finance, and chair of the OECD Working Party on Tax policy analysis and tax statistics.

Salvatore Morelli is assistant professor of public economics at the University of Roma Tre (Rome), Law Department, and a senior scholar and director of the GC-Wealth Project at the Stone Center on Socio-Economic Inequality, The Graduate Center, CUNY.

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cating a similar trend toward an increasing relative weight of inheritances and gifts in other economies, such as the UK, Germany, Sweden, and the US.

In Italy, the stock of net wealth owned by households is equivalent to six years of national income and almost eight years of household disposable income as of 2016. This makes Italy one of the countries with the highest wealth-to-income ratio in the world.[1] Very little attention has been devoted to understanding whether this rise in the wealth-income ratio led to an increase in bequests and wealth transfers in the population. Several questions remain unanswered. What is the empirical importance of inheritance and inter vivos gifts in Italy? More broadly, how are inheritances distributed among the population? In a context of an increasing aggregate personal wealth as a share of national income (Piketty and Zucman 2014, 2015), it is crucial to assess the nature of intra- and intergenerational wealth transfers, their distribution across demographic groups as well as across income and wealth ranks, and their effects on wealth inequality and mobility. Similarly, it is important to understand how existing institutions and tax policies may affect the pattern and evolution of wealth transfers over time and across countries.

We make use of a newly assembled microdata set from the inheritance tax records which provides a direct measure of the flows of bequests (e.g., wealth-holding of decedents), and has not been systematically exploited so far. The dataset assembles the inheritance tax forms filed with the Italian Revenue Agency on behalf of decedents from 1995 to 2016. The Italian inheritance tax data also have a very good coverage of the upper end brackets, despite the claims of avoidance and evasion that are typical of tax systems. This is the result of the combination of the very high home-ownership rate, with a key administrative feature of the tax, which is connected to the upkeep of the real estate cadastral register: all inheritances involving the transfer of real estate property are obliged to file a return, even when no tax is due. As a consequence, the coverage rate is high by international standards, as it remains above 50 percent of decedents throughout the period and reaches a peak of 63 percent in 2014.

This source of data is typically used to derive direct measures of wealth concentration through the application of the mortality multiplier method (see Atkinson and Harrison 1978; Lampman 1962). Analysis of the distribution of estates at death has received very little attention in economic literature. However, this source of data provides direct, relevant information about the aggregate magnitude as well as the concentration of bequests (and, indirectly, inheritance), and can be the object of independent scrutiny (Alvaredo, Atkinson, and Morelli 2018).

This work makes a series of contributions. First, we derive a new series of total annual inheritance flow of all assets (tangible and financial assets, net

1. See World Inequality Database, http://wid.world.

of financial liabilities) transmitted at death or through inter vivos gifts from 1995 to 2016. We find that the share of annual wealth transfers in household disposable income almost doubled during the past 20 years, from approximately 9.6 percent in 1995 to 18.5 percent in 2016. Meanwhile, wealth accumulated via savings dropped from 16 percent of annual disposable income in 1995 to 3.2 percent in 2016. This is an important indication that, other things being equal, "self-made" wealth (i.e., savings) has been declining as compared to inherited wealth. Second, we provide a detailed account of estate, inheritance, and gift taxation in the country, which underwent substantial changes throughout the period of analysis. We also document the decline in tax revenues arising from wealth transfers, which is partially due to a fall in the number of wealthy estates that are subject to taxation. Third, we provide a detailed analysis and description of wealth left at death across demographic and geographic dimensions. Similarly, we describe the importance of looking within wealthy groups to uncover heterogeneity in the estate composition: for example, financial assets become the most important holdings at the very top. Finally, the evidence also suggests that bequests are becoming more concentrated. Reported estates of at least €1 million were worth almost 15 percent of total net estate value, and this share increased to 25 percent by 2016. Estates left at death by the richest 0.01 percent of decedents (individuals with a declared total estate greater than €17 million) as a share of total estates, were approximately 1 percent at the end of the 1990s. By 2016, the top 0.01 percent estate share almost tripled to approximately 3 percent. The increase in the estate concentration is less pronounced if we take the mid-1990s as a reference. A growing concentration of estates left at death may also imply a growing concentration of inheritance over time.

The work is organized as follows. We begin the chapter with a description of total net wealth of the household sector in Italy, followed by a detailed account of its wealth transfer taxation. In section 6.4 we describe the main features of the inheritance data. New measures of the relative share of total inheritance and gifts, as share of national income and household disposable income, are derived in section 6.5. In section 6.5, also, we provide detailed analysis of bequeathed wealth in Italy across demographic and geographic dimensions as well as estate portfolio details across the distribution of estates. In section 6.6, we document the concentration of estates at the top of the distribution and its evolution over time. Section 6.7 concludes.

6.2 The Growing Relevance of Personal Wealth in Italy

According to the national balance sheets, Italian households are, on average, among the wealthiest and least indebted among all rich economies. In 1966, the average net wealth per capita, taken as the sum of all financial and real assets minus all liabilities, was €21,000 (2016 prices), and it experienced an eightfold increase to €167,000 at the end of 2006, just before the onset

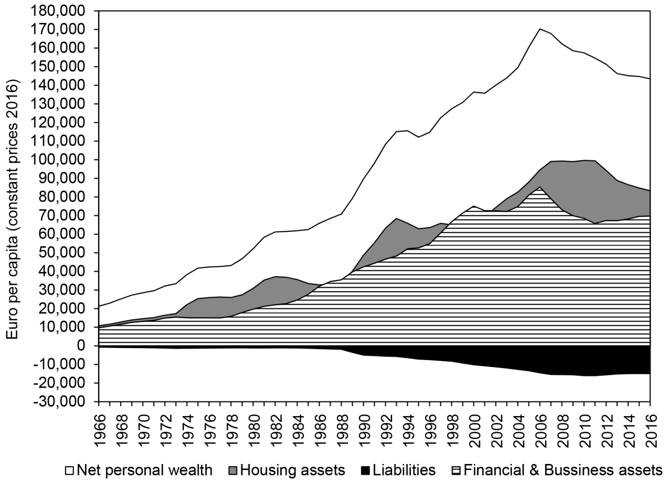

Fig. 6.1 The growing relevance of personal wealth

Source: Estimates assembled in Acciari et al. (2020) building from data series published by World Inequality Database for the pre-1995 period, and ISTAT, and Bank of Italy for the post-1995 period. Data refer to the household sector only, excluding the non-profit sector serving households.

of the great financial crisis. Since then, as shown in figure 6.1, personal net wealth per capita has dropped to €141,000 in 2016. Italy and Spain were the only advanced economies to experience a sharp decline (16 percent for Italy) in per capita net wealth.

The concept of personal net wealth refers to the current value of all assets, tangible and intangible, that are under the control of the household sector, provide economic benefits to the holders, and over which property rights can be exercised. The assets may be financial, such as current or savings accounts, stocks, bonds and insurance reserves, or real assets, such as land, houses, and unincorporated self-employment businesses. This is the definition of personal net wealth that is used in the national balance sheet according to the *System of National Accounts, 2009* (European Commission et al. 2009) and the *European System of Accounts (ESA 2010)* (European Commission and Eurostat 2013).[2] This definition is grounded in conventional economic theory, in which wealth represents reserve of value that can be exchanged for present and future consumption.

A substantial fraction of personal net wealth is composed of housing and land assets, the shares of which increased from 51 percent to 58 percent

2. The assets recorded in the balance sheets are economic assets, which are defined as "a store of value representing the benefits accruing to the economic owner by holding or using the entity over a period of time. It is a means of carrying forward value from one accounting period to another" (European Commission and Eurostat 2013, 170).

over the 50 years from 1966 to 2016. The weight of direct holding of equities, investment funds, and indirect holding of financial securities via life insurance and private pension funds increased from 11 percent to 26 percent over the same period. Saving and current accounts, currency, and bonds decreased from 29 percent to 20 percent, as did business assets and other nonfinancial assets, from 5.9 percent to 2.6 percent. Italian personal debt amounts to approximately €15,000 per capita in recent years, one of the lowest levels currently recorded among rich countries.

Italy is also one of the countries with the highest incidence of aggregate private wealth as a share of national income. Since 2005, more than six years of national income and nearly eight years of households' gross disposable income would be required to accumulate the net worth of the household sector, as compared to two years' worth of income around 1970. The ratio of private wealth (household sector plus nonprofit institutions serving households) to national income is close to 6:1 in some rich countries like France, Japan, and the UK, or nearer to 5:1 and 4:1, as is the case of the US and Germany.[3]

6.3 The Inheritance and Gift Tax in Italy

The Inheritance and Gift Tax (Imposta sulle successioni e le donazioni) is applied to all worldwide taxable assets, net of liabilities and deductible expenses, inherited from a deceased person residing in Italy. Strictly speaking, the tax system is an inheritance tax (on the amount received by each heir) and not an estate tax (on the amount of total wealth left at death), such as the transfer taxes currently levied in the US and the UK today.[4]

Different rates apply depending on the degree of kinship. For spouses and direct descendants or ascendants the rate is 4 percent on any inheritance share with a net value of €1 million or higher.[5] For siblings, the rate is 6 percent above €100,000. For relatives within the fourth degree, immediate relatives by marriage, and extended it is 6 percent on all inheritances with no exemption threshold; a rate of 8 percent applies to all other parties with no exemption threshold. The same rates and structure apply to inter vivos gifts.[6] Until 2016 the exemption threshold was reduced by an amount equal to the capitalized lifetime donations received by each heir from the same deceased. This provision (called *coacervo*) limited the scope for avoidance

3. The comparison with other countries is done using the private sector and not the personal sector of the national account (households only), as it is not always possible to disentangle the household sector and the nonprofit institutions serving households.

4. The inheritance tax is calculated only on the net value of assets located in Italy in the event a person is not deemed to be domiciled in Italy for fiscal reasons.

5. In the presence of a disabled heir the tax-exempt threshold is €1.5 million.

6. As mentioned in the work by Jappelli, Padula, and Pica (2014), which also provides a useful description of wealth transfer taxation in Italy, one exception applies for the years 2000 and 2001 when gift flat tax rates were 1 percentage point lower than the inheritance tax rates.

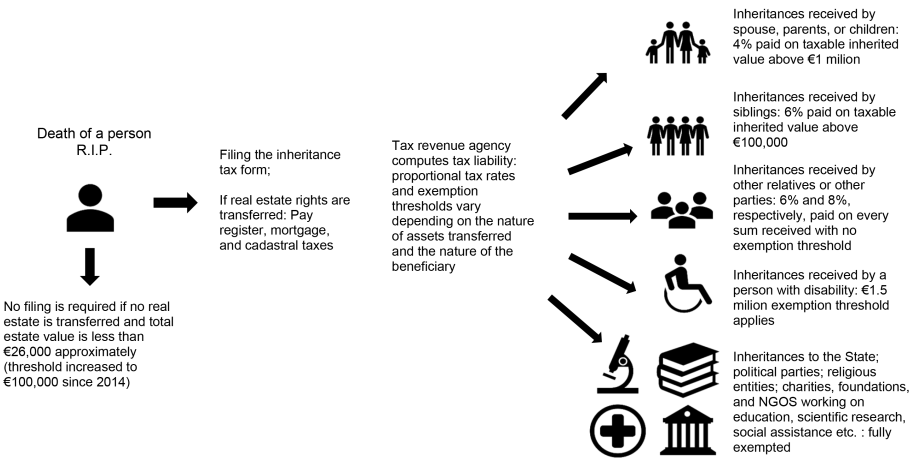

Fig. 6.2 Current structure of inheritance tax in Italy

of the tax by means of gifts by partially integrating the taxation of gifts and inheritance.[7]

The administration of the tax is linked to the upkeep of the real estate cadastral register, as other taxes are due on transactions of real estate rights (e.g., registration duty as well as mortgage and cadastral taxes).

Tax-exempt assets. A variety of exemptions permit the reduction of the effective tax bill beyond the statutory description. The tax-exempt status implies, in many cases, that such holdings are not reported in the tax returns.

Full exemption is granted to private pension and life insurance funds, postal saving bonds (i.e., Buoni Fruttiferi Postali), and a number of national and extranational government securities.[8] Even though government bonds are exempted, tax accountants often advise that they should be reported, which frequently occurs in cases where securities are bundled with other assets in investment funds (e.g., banks and other financial intermediaries are required to provide a detailed description of investment funds and accounts following the death of a legal owner). Such investment bundles can be fully reported

7. It is not yet clear if this provision is still in force, as the supreme court (Cassazione) in the period 2016–19 issued nonunanimous judgments on the topic. A system purely based on lifetime capital receipts, irrespective of the identity of the donor, would be more effective in reducing tax avoidance. Indeed, currently a single heir can receive different inheritances and still pay zero taxes as long as each inherited share is below the tax exemption threshold. It is also important to note that in case the *coacervo* is definitively abandoned by the jurisprudence, tax avoidance schemes of inheritance tax through inter vivos gift would be substantially easier.

8. There are now 134 countries whose tax authorities have "adequate" exchange of information with Italy. As a result, these countries are included in the so-called white list, which is necessary to get access to more favorable tax treatment.

on the inheritance tax form and the tax authority would then compute the relevant tax deductions. Exempted assets also include cars and vehicles in the national vehicle registry, credits toward the state, properties listed as cultural and historical heritage, and all family businesses and control shares of companies that are transferred to direct descendants or to a spouse.[9]

Changes in the taxation structure. The period under investigation coincided with substantial changes in the tax code. Three major reforms were enacted in 2000, 2001, and 2006. Before 2000, the tax was a mix of a progressive estate tax (levied on the total estate left at death), with marginal rates ranging from 3 percent to 27 percent, and an inheritance tax (levied on the share received by the heir or beneficiary), with a further graduation in marginal rates of up to 33 percent. The latter applied only to recipients other than the spouse and direct relatives. In 2000, the tax was transformed into a pure inheritance tax without the estate tax component. The exemption threshold was unique between 1995 and 2000, and it increased from €125,000 to €175,000 in 1999. As explained in the previous section, the new tax had differential proportional tax rates and exemption thresholds for spouses, direct descendants, ascendants, and beneficiaries with certain disabilities. Such structure has continued to date, although the exemption thresholds have been much more generous since 2006 (e.g., €1 million for spouses and offspring).

The inheritance and gift taxes were abolished in 2001 but reintroduced in 2006. Despite six years' repeal, inheritance tax form filing remained compulsory for estates including housing or land wealth. In this period, therefore, the declared information about housing and land assets remains reliable, whereas little information is provided about other wealth holdings.

The inheritance tax revenue and its coverage. The tax revenue collected from estate and inheritance taxes experienced a large decrease from approximately 0.14 percent of total tax revenue in 1997 to 0.06 percent in 2016. This happened as a result of changes in the tax structure. The total revenue generated from the inheritance tax to individuals who died in 1998 was €100 million. The estate tax revenue was five times as big, €500 million, in the same year (see figures 6.5c and 6.5b; and table 7 in the online appendix at http://www.nber.org/data-appendix/c14451/appendix.pdf). In 2016, there was no estate tax revenue but the inheritance tax brought in approximately €400 million. The official figure of the Ministry of Economy and Finance for the inheritance tax revenue is €558 million for 2016, but it is measured at

9. The tax exemption status is valid under the condition that the business is run and the control share is maintained for at least five years following the wealth transfer. Nonetheless, the value of business assets has to be reported in the inheritance tax returns. The remaining exempted assets are generally not reported on tax records. Inherited or donated assets of any kind may be fully exempted if the recipient belongs to one of these categories: religious entities, NGOs, political parties, state, regional or local authorities, or research institutions.

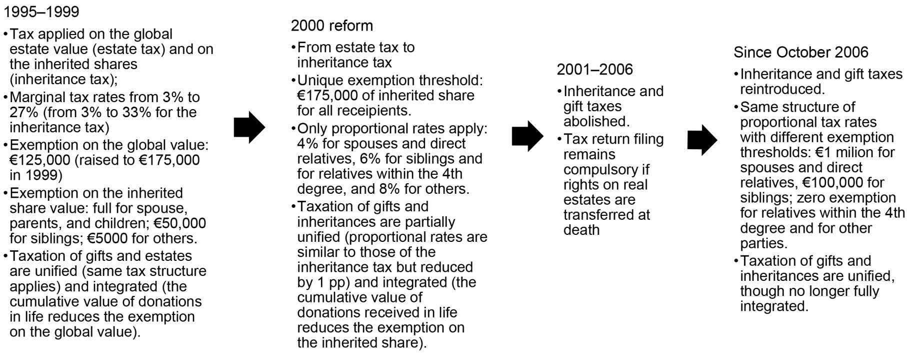

Fig. 6.3 The evolution of wealth transfers taxation in Italy, 1995–2016

the year of account and not at year of death.[10] An additional €183 million came from the taxes levied on inter vivos gifts.

Only a small fraction of estates are subject to estate or inheritance tax. In the mid-1990s, between 8 percent and 9 percent of recorded estates were taxed, and the average amount paid was approximately €20,000–25,000. By 2016, the share of estates subject to inheritance taxation rose slightly to just above 10 percent, whereas the average tax paid per estate was more than halved, to approximately €10,000 (see online appendix tables 6 and 7, http://www.nber.org/data-appendix/c14451/appendix.pdf).

It may seem counterintuitive that under the current tax regime, the share of estates subject to taxation increased despite a substantial increase in the tax exemption threshold, especially for transfers of wealth to spouses and children. However, many smaller estates are now subject to taxation due to the fact that minimum-value exemptions were eliminated for wealth transfers occurring beyond the fourth degree of kinship. Even small inheritances are, therefore, subject to taxation if received from donors outside the direct family sphere.

10. Although an official measure of the tax gap does not exist for the inheritance tax, the tax authority, Agenzia delle Entrate, runs audit programs. The results of this activity should be visible from the field "Ruoli" within the publication "Rendiconto dello Stato" In the 2015 volume, available on the website of the Ragioneria Generale dello Stato (https://www.rgs.mef.gov.it/_Documenti/VERSIONE-I/Attivit--i/Rendiconto/Conto_del_bilancio_e_Conto_del_patrimonio/2015/Conto-del-bilancio/ccpc_pg/entrata_-_consuntivo_per_articoli.pdf). At pages 303/142 and 303/144 one can observe that the ordinary amount of inheritance tax receipt is around €640 million, whereas the extraordinary receipts through ruoli amounts to €9 million (cash value). The share of total value of ruoli receipts over ordinary receipts is approximately 1.4 percent. This is slightly higher than a similar ratio for personal income tax—IRPEF (€1.6 billion divided by €182 billion = 0.8 percent; see pages 303/1 and 303/8).

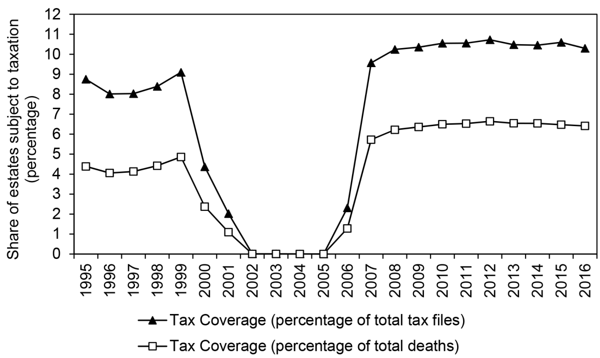

Fig. 6.4 The share of total estates subject to taxation

6.4 The Inheritance Tax Data

Data used in this chapter come from inheritance tax returns, referred to as "successions," opened between 1995 and 2016 (evaluated at year of death).[11]

The analysis of net estates, namely total net wealth and possessions left at death, is of intrinsic interest to economists as it relates to the amount of wealth that is transferred, via inheritance, from deceased individuals to designated heirs. Our data refer to the total net wealth of deceased individuals represented in the tax records, independent of how the assets are subsequently distributed.

Net wealth is determined by adding all reported financial and real assets and subtracting all liabilities. We also add the market value of assets sold within six months prior to the deaths reported between 1990 and 2000; this is typically negligible and does not affect the results. Individuals are then ranked from the smallest to the largest value of their net estate. The micro data are then transformed into detailed tabular form by the statistical office of the Ministry of Economics and Finance, and shared with us. The main tabulations have 34 net wealth ranges, from negative values to the highest range, worth €20 million or more. The demographic information is provided by seven age groups (i.e., under 20, 20–40, 40–50, 50–60, 60–70, 70–80, and over 80), three gender groups (i.e., male, female, and gender not stated), and three Italian macro areas (i.e., south and islands, north, and center).

6.4.1 Main Advantages of the Data

The inheritance data at hand cover more than 50 percent of decedents for every year under investigation, even when the inheritance tax was abolished

11. The paper tax form digitized by the Ministry of Economy and Finance to collect the data used in this chapter is the so-called Modello 4.

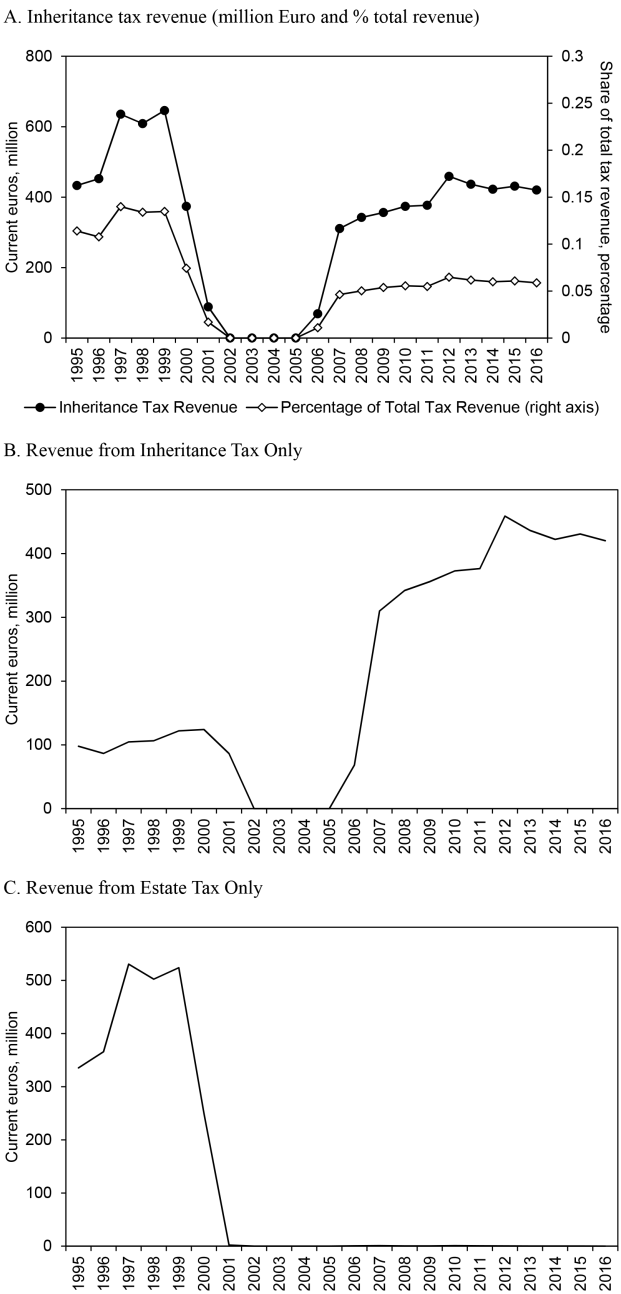

Fig. 6.5 Inheritance tax revenue, 1995–2016

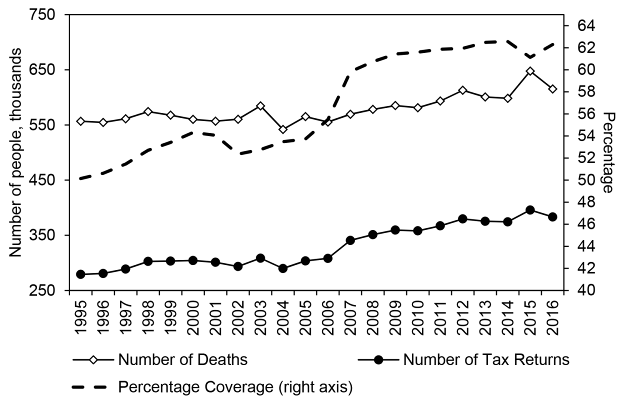

Fig. 6.6 The coverage of decedents using inheritance tax records

between 2001 and 2006. This is the direct result of high home-ownership rates in the country combined with the administrative features of the Italian inheritance tax, linked to the upkeep of the real estate cadastral register as well as the administration of taxes on land and housing transactions. The coverage rate reached 63 percent in 2014, the highest on record, and 62 percent in 2016. The coverage rate dropped to 61 percent in 2015, due to an unexpectedly high mortality rate in that year.[12]

The tax return is filed by the estate executor (one of the heirs, or a legal representative) within twelve months of death and is then submitted to the office of the revenue agency (Agenzia delle Entrate) in the province where the deceased had residence.[13] A dedicated official at the local branch of the tax authority processes the returns in order to assess the tax liability. At the same time, legal proof of ownership and third-party assessments of asset valuation are often required, enhancing the accuracy of the information and reducing the scope for tax evasion. For instance, banks and financial institutions need to certify the balances of any checking, savings, or investment accounts; the cadastral office certifies the cadastral value of buildings, land, or dwellings; a certified copy of the most recent balance sheets needs

12. Total deaths in 2015 amounted to 648,000, approximately 40,000 greater than the average deaths in 2012, 2013, 2014, and 2016. The relative decline of the coverage rate after 2014 may also be due to a change in legislation (passed at the end of 2014), which increased the nonfiling threshold from 50 million Italian lira (€25,823) to €100,000 (the threshold defining the net value above which the filing is required for those estates without any real estate properties or rights).

13. The time limit was set to six months up to 2003. The last data update in this chapter was obtained in May 2020. A set of 2,600 tax returns presented in 2018 with the new electronic form, but related to deaths that occurred in 2016, were included in the data. In principle there could be later submission/revision of a very few tax returns even 10 or 20 years after death as more precise information about the estate comes to notice, but these amendments are not taken into account in the statistics. Every year-specific database becomes consolidated for our purposes if two years have passed since the year of death.

to be attached to prove the book value of any company; and the official certification of ownership of quoted stocks needs to be provided. Similarly, all the expenses and liabilities that are deducted need to be appropriately documented.

6.4.2 Main Disadvantages of the Data

The use of tax data, however, does come with substantial costs. First, the valuation of real estate has to be corrected to bring cadastral values reported for taxation purposes in line with market prices. Second, not all assets are taxable, and their reporting may not be mandatory.[14] Third, not every death is represented in the tax records and allowance should be made for the wealth of the unidentified population in the tax data. Moreover, only real properties were reported between 2001 and 2006, when the inheritance and gifts taxes were abolished. Fourth, underreporting may be pervasive due to tax avoidance and evasion, or, more simply, due to lack of incentives to fully disclose assets and possessions on inheritance tax records (e.g., completing in detail the complex tax form on the nature and composition of the estate might be regarded as an unnecessary burden when the resulting inheritance shares are substantially below the taxable threshold).

The valuation of real estate. The value of land, buildings, and dwellings is reported at cadastral values for tax purposes; this nominal value generally underestimates market prices.[15] In order to overcome this problem, we have applied, with the support of the statistical office of the Ministry of Economy and Finance, a proportional adjustment to bring the cadastral values in line with market values. As we detail in the online appendix A (http://www.nber.org/data-appendix/c14451/appendix.pdf), the yearly adjustment factor is defined as the ratio of (average) market price to cadastral valuation at the national level.

The wealth of "nonfilers." Inheritance tax returns are mandatory only if the rights of any real estate are transferred at death or if the net value of the estate of the deceased is above €25,823.[16] Hence, only a fraction of total deaths are observed in the tax records: in 2013, 365,000 estates out of 600,000 deaths. Although incomplete, such a coverage rate, more than 60 percent, is high compared to data from other rich countries: in the UK,

14. In a few cases the tax administration suggests reporting the assets (e.g., government bonds) despite their total tax-exemption status. Moreover, the values of family business assets need to be reported even if they are exempted.

15. This is particularly the case with older buildings whose values have typically not been updated for many decades. The likely sale value is reported only for those buildings under construction or for those for which no cadastral rent has yet been attributed.

16. The threshold was expressed as 50 million Italian lira, converted into euros using the official conversion rate of 1,936.27 lira = €1. The filing exemption threshold was then increased to €100,000 at the end of 2014. It is too early to assess how this change will affect the nature of inheritance tax statistics in the future.

the coverage rate is just below 50 percent, whereas in the US it is lower than 1 percent.

Our data are representative of living adults with estates values and arrangements that warrant the attention of the tax authority in the event of their death, approximately 60 percent of decedents in our case. Although this does not generally affect the top of the distribution, the need to estimate the amount of wealth held by nonfilers or the so-called missing population is necessary to assess the full cross-sectional distribution of estates for the entire decedent population every year.

Inter vivos gifts. Tax planning may be used to reduce the tax liability at death if assets are donated in life. According to official data from the Ministry of Economy and Finance, the value of total annual reported gifts increased from €10 billion in 2007 to €24 billion in 2016 (see column B1 in online table 8, http://www.nber.org/data-appendix/c14451/appendix.pdf).

To tackle aggressive avoidance of taxes via careful estate planning, the tax schedule on inter vivos gifts is fully unified with the estate and inheritance taxation. In other words, gifts are subject to the same exemption thresholds and marginal tax rates. Moreover, donations and gifts received in life from the same donor are fully integrated with the value received at death. In fact, tax forms also report the value of all inter vivos gifts done at any time before death by the deceased capitalized to the date of death.[17] Also, keeping track of donations and transfers of assets during life is necessary to compute the "reserved" share of total estate (e.g., the share of a total estate that must be allocated to heirs according to legal provisions) guaranteed by the Italian civil law to spouses or to civil partners (only since 2016), direct descendants, and ascendants of the deceased, depending on circumstances.[18]

As reported in online table 7, the total amount of lifetime donations reported in the tax records more than tripled from €260 million in 1995 to €990 million in 2016. However, the share of total estates reporting lifetime donations dropped from 3.2 percent in 1995 to 2.2 percent in 2016 (see online table 6, http://www.nber.org/data-appendix/c14451/appendix.pdf).

17. The self-reported gifts and donations made before death concur to erode the inheritance tax-exempted thresholds if the heir belongs to the degree of kin for which an exemption threshold is contemplated by the tax legislation.

18. The reserved share (so-called *quota legittima*) of a single child is a half, whereas in the case of multiple children, the children are entitled to two-thirds of the total estate in equal shares. If there is a spouse and one child, the reserved portion is two-thirds split equally between the spouse and the child. If there is a spouse and more than one child, the spouse has one-quarter and the children one-half. If there are only ascendants, the reserved portion is one-third. In case there are only ascendants and a spouse, the reserved portion of the spouse is half of the estate and that of the ascendants is a quarter. Finally, the spouse always reserves the right to inhabit the family home, even if not owned fully or partially, and the right to use the furniture in it.

Liabilities. The concept of net worth used in this chapter subtracts all liabilities from real and financial assets. However, it is expected that very high tax-exempt thresholds, as for the current inheritance tax in Italy, reduces the incentive of detailed reporting of liabilities for most (nontaxable) estates. A further limitation of tax records is linked to the fact that liabilities can be reported with deductible expenses. The expenses include the costs of funeral or medical treatment, paid by the heirs during the last six months of the deceased person's life. Although the amount of these expenses may be negligible (e.g., only a small fixed amount of funeral costs can be deducted for tax reasons but no specific threshold is specified for health-related costs), it is not possible to appropriately add deductible expenses back to the value of the individual estate.

6.5 The Growing Relevance of Inheritance and Gifts

The total annual flow of bequests declared on tax records increased from €38.2 billion in 1995 to €112.26 billion in 2016 at current prices, ranging from 4.6 percent to 8.1 percent of total national income (see column A1 in online tables 8 and 9, http://www.nber.org/data-appendix/c14451/appendix.pdf). This measure provides information about the transfer, made at death, of tangible and intangible wealth and possessions, such as real estate, financial securities and cash.

Wealth transfers from one generation to the next or, more simply, from one person to another, can also be made inter vivos, via gifts and donations. Gift tax data list the total gift value recorded every year. In 2016, total gifts amounted to €24.15 billion (see column B1 in online table 8, http://www.nber.org/data-appendix/c14451/appendix.pdf). This total does not fully represent the total value of gifts at market prices, as donated real properties are reported at the cadastral value. Even without adjustments to transform cadastral valuations into market prices, the estate figures would increase by 21 percent. This adjustment is substantially higher than the 10 percent proportional adjustment to estate data series applied in the UK after the year 1979 in Atkinson (2013, 2018). This is consistent with the fact that existing provisions and reporting requirements about gift taxes result in Italian data on gifts being more complete than other countries, for instance, the UK, where only gifts within seven years before death are reported and taxed. Making an allowance for the market prices of transferred rights on real properties would increase total estate value by 36 percent. Total adjusted estates and gifts were worth €153.63 billion in 2016 (see column D1 in online table 8).[19]

19. The derivation of market prices of the amount donated and declared on gift tax forms is obtained by multiplying the value of donated real properties as declared on the tax records at cadastral values by the proportional adjustment factor as described in section 6.3. Data on reported gifts and their composition are taken from an official Ministry of Econom-

However, in order to derive a more complete measure of the annual total gross flows of wealth transfers, at death and inter vivos, further allowances are needed for the wealth of the missing population (i.e., "the nonfilers"), as well as for the missing wealth due to unreported exempted assets or due to underreporting of assets linked to misvaluation of assets, tax avoidance, and tax evasion.

A related paper by Acciari, Alvaredo, and Morelli (2020) made use of the same set of estate data described here to estimate the total wealth and its distribution among the living population by applying the estate multiplier method on the inheritance tax record (e.g., the population of decedents is treated as a sample of the living, selected with probability equal to the mortality rate by age, gender, and location groups). The total identified wealth from the tax records using the estate multiplier method is compared to the total in the official balance sheet in the national accounts (NA). Here we use this relative discrepancy between the two series and assume it applies also between the observed total estate from the tax records and the "true" unobserved total estate we need to estimate. The same is done to the observed series of inter vivos gifts.

The distribution of wealth of the decedents, provided by the inheritance tax data described above, is conceptually different from that of the wealth of the living. Yet, the use of estate data has a very long tradition in economics and statistics for the derivation of wealth of the living population, through a process of reweighting the decedent population. This happens insofar as we consider death as a way to "sample" the living population. The nature of the sample is clearly nonrandom (e.g., older people and men have, all else being equal, a higher mortality rate than younger people and women, respectively) so that detailed mortality rates are required to reweight the decedent population.

The work by Acciari, Alvaredo, and Morelli (2020) used detailed mortality tables, published by the Italian Statistical Institute (ISTAT), available for each age, gender, and geographical location. Given the large share of decedents covered every year (over 60 percent), the reweighting of inheritance records allows the estate mortality method to account for a substantial share of the living adult population and personal net worth. The population identified from the tax records accounts for more than 50 percent of the adult population throughout the period, whereas the identified wealth accounts for a minimum of 59 percent to a maximum of 86 percent of total personal wealth in the NA (see column H in online table 8, http://www.nber.org/data-appendix/c14451/appendix.pdf). The coverage rate increases from a minimum of 64 percent to a maximum of 94 percent of total personal

ics and Finance publication, namely the "Analisi statistiche: Atti del registro," focusing on the lines related to "Atti traslativi a titolo gratuito." The statistics are downloaded directly from the MEF website at https://www1.finanze.gov.it/finanze3/registro/index.php?tree=2019ABTLNEG0101.

wealth if we remove tax-exempt assets from the NA total (see column G in online table 8). Multiplying the values of estates and gifts reported on the tax records by the inverse of the coverage rate of total wealth, we obtain a more complete measure of total estate at death. This rough adjustment indirectly accounts for different types of underreporting and missing wealth in the inheritance and gift tax data, including the estate value of nonfilers. The corrected gross flows of inheritance and gifts increased from 8.5 percent of national income in 1995 to 15 percent in 2016 (see online table 9).[20] One could also use a different denominator, moving from national income (equal to the gross domestic product excluding capital depreciation and including net foreign factor income) to household disposable income (national income minus taxes plus cash transfers), or even to total net wealth of households. As disposable household income accounts for between 81 and 86 percent of national income, the relative increase of inheritance and gifts since the mid-1990s, using household disposable income as denominator, appears to be even more pronounced, going from 9.7 percent to 18.5 percent. The increase of total inheritance and gifts as a share of total personal net wealth was less pronounced but still salient, increasing from 1.7 percent to 2.4 percent from 1995 to 2016 (see online table 9). A similar increasing trend in the total flows of annual inheritance has been estimated in the work of Cannari and D'Alessio (2018b), who simulate inheritance receipts by applying mortality tables to the reported wealth in the Survey of Household Income and Wealth (SHIW). The total value of inheritance flows as a share of total net worth increased from 0.99 percent in 1995 to 1.52 percent in 2016.

Household disposable income (HDI) can be used here to directly compare the inheritance to income ratio to relevant macroeconomic statistics that use HDI as denominator. For instance, the share of inheritance in 2016 is almost six times higher than the share of household disposable income that is accumulated through savings. According to OECD data, the household saving rate in Italy was the highest among OECD countries in 1995, around 16 percent, and it dropped to 3.2 percent in 2016 (see figure 6.8).

The relative weight of Italian inheritance and gift flows is slightly higher than other countries for which similar estimates are available. The last direct estimate from tax records by Piketty (2011) that is available in 2006 amounts to 11 percent (online appendix table B1, http://www.nber.org/data-appendix/c14451/appendix.pdf), whereas in Italy it is 11.8 percent. In the UK, for

20. This approach differs from that used in the literature and described by Piketty (2011). Here, one could derive an alternative compelling measure of total inheritance (not gifts) from NA data without using the fiscal data. This measure can be compared to directly estimating through the fiscal data to obtain an indication about tax evasion, avoidance, and missing wealth that cannot be accounted for in the tax data. One would simply need to apply the following equation: $B_t / Y_t = \mu_t m_t W_t / Y_t$, where B_t is the annual inheritance flow, Y_t is the national income, W_t is the aggregate private wealth, m_t is the annual mortality rate (= total number of decedents / total living population), and μ_t is the ratio between average wealth of the deceased and average wealth of the living.

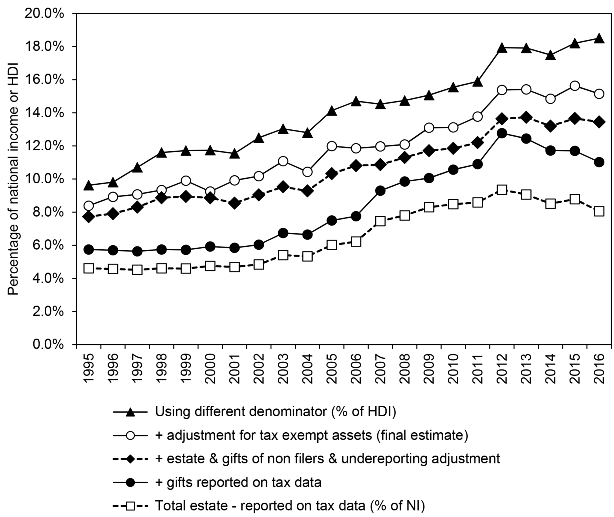

Fig. 6.7 The growing relevance of inheritance and gifts

the same year, the share of total transfers in total income appears lower at 8.2 percent (Atkinson 2013, table 2). The relative high weight of inheritance in countries like Italy was predicted by Piketty, who wrote that "in countries with low economic growth and projected negative population growth, such as Spain, Italy, or Germany, inheritance is bound to matter a lot during the twenty-first century. Aggregate inheritance flows will probably reach higher levels than in France" (2011, 1077).

Although the rise of the aggregate size of inheritances and gifts does not necessarily have automatic direct consequences for the distribution of wealth or income, economists and social scientists care about the role of earned versus inherited wealth. The main reason is the growing role of inheritance in the economy, which has direct consequences on the extent of intergenerational wealth mobility. Consistent with our findings, works based on the analysis of the Italian SHIW found that the levels of education, income, and wealth of parents are good predictors of education, income, and wealth levels of children (Bloise 2018; Cannari and D'Alessio 2018a). In other words, intergenerational mobility in Italy appears to be relatively low by international standards. Recent research emphasizes the powerful role of parents' wealth in shaping their offspring's standard of living. Boserup et al. (2016), using Danish administrative data, found an almost linear relationship between parents' and children's wealth rankings. Killewald, Pfeffer, and Schachner (2017) summarized the existing empirical literature, in the US, on the extent to which the wealth of parents improves a range of outcomes among their children, including educational and cognitive achievements, employment outcomes, and transitions to home ownership.

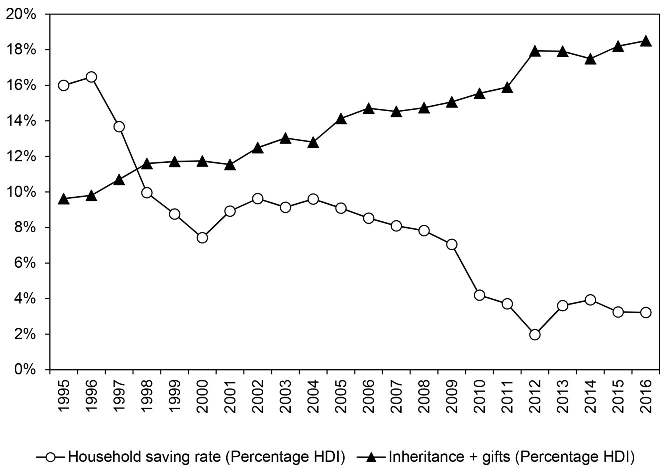

Fig. 6.8 Inheritance vs saving rates (percentage of household disposable income)
Source: Household saving rates obtained from OECD (2020).

6.5.1 Wealth Left at Death: A Detailed Description

The demographic composition of reported estates changed substantially throughout the period under analysis. In 1995, 30 percent of declared estates belonged to individuals who died aged 80 or older; the number grew to 60 percent in more recent years. In 1995, only 6 percent of total reported estates belonged to individuals aged 50 or under, and this figure dropped to 2 percent in 2016. The gender composition of estates was more unbalanced in the mid-1990s, when 60 percent of total reported estates belonged to men. For 2016, this relative share is approximately 52 percent (see online table 4, http://www.nber.org/data-appendix/c14451/appendix.pdf). Yet men are not overrepresented in all age groups. Reported estates belonged to men in 45 percent of cases for the group of 80 years old and above, whereas the share increases to 60–70 percent for other age groups (see figure 6.11a). The composition of reported estates also differs by geographical location. The "north" of the country represents throughout approximately 50 percent of total reported estates, with a slight increase starting in 2007. The relative share of the "center" and the "south" (including the islands) remained roughly constant at around 20 percent and 30 percent of total estates, respectively (see figure 6.11b).

The average size of total estates has substantially increased over time and its patterns differ across age, gender, and geographical dimensions. Total wealth left at death averaged €210,000 in the mid-1990s and increased gradually to €330,000 in 2007 at the onset of the great recession, plateaued till 2013 before dropping to €290,000 in 2016 (see figure 6.9). Estates of every age group gained from the mid-1990s to 2007 and, similarly, all lost

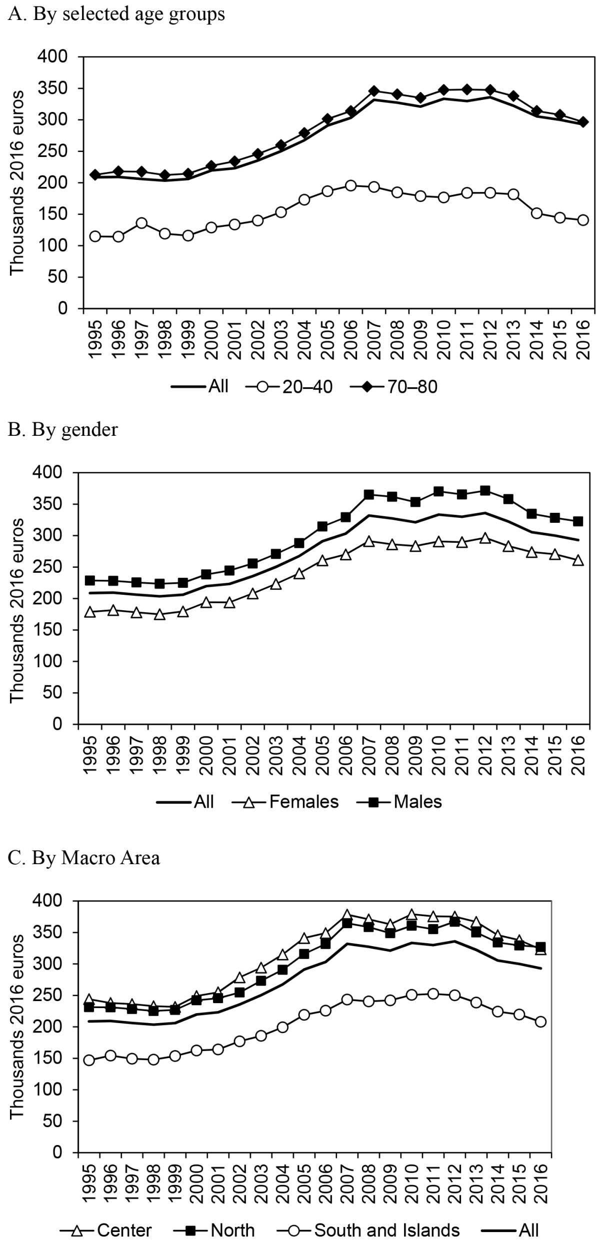

Fig. 6.9 The evolution of the average net estate

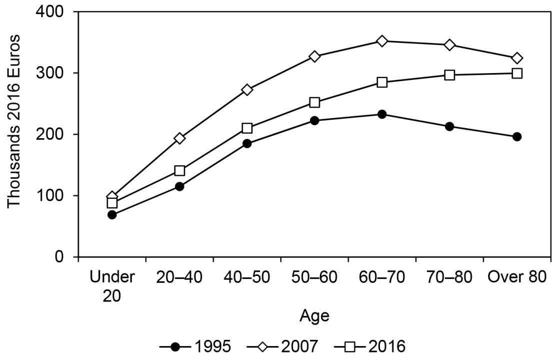

Fig. 6.10 Average net estate across age groups, 1995, 2007, and 2016

ground between then and 2016, especially age groups below 70 years old (see figure 6.10).

Not surprisingly, average net estate value left at death generally increases with age. The value of wealth and possessions declared on behalf of individuals who died young (20 years old or younger) was worth €90,000 on average in 2016. For the group of 80 years old and above, the average value is more than three times as high in the same year. A gender gap in the average value of declared net estate also exists and persists at a relatively constant rate throughout the period. Estates owned by women are worth on average 80 percent of that reported by men (see online table 5, http://www.nber.org/data-appendix/c14451/appendix.pdf). The gender gap is close to zero in 2016 for most of the age groups, except the oldest ones, above 70 years old. On the other hand, the gender gap in the total net estate value declared in the tax records starts to widen for groups of 50 years old and above in 1995 (see figure 6.12a).

The geographic heterogeneity of total net estate value is also substantial, and estates in the southern regions have a systematically lower value than those in the center and north of the country. Throughout the years under analysis, the average estate left at death by residents in the south of Italy is worth between 64 and 71 percent of that declared in the north and between 60 and 67 percent of the average in the center. Although the relative gap by macro areas appears to be stable over time, the absolute gap, measured in 2016 euros, increased over time from €80,000 to €120,000 on average. The gap by macro areas persists across all age groups, although it is larger for older groups (see figure 6.12b).

6.6 The Growing Concentration of Estates at Death

One may also wonder what the shares of total estates held by different groups in the population are and how these have evolved over time. In order to estimate measures of estate concentration, such as the evolution of top

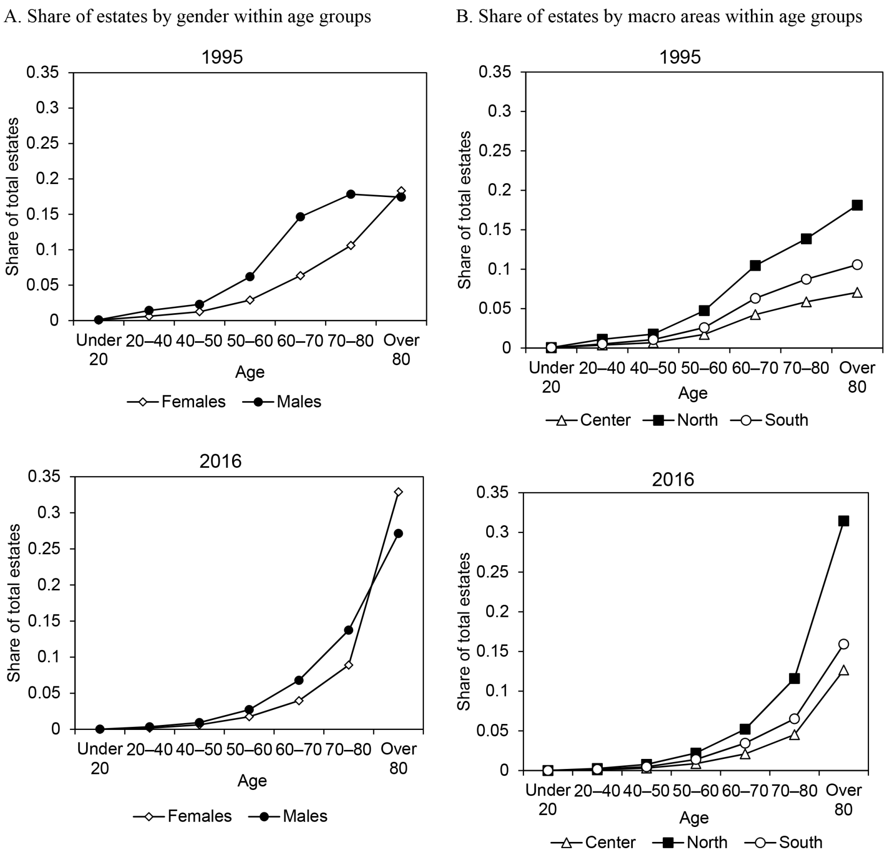

Fig. 6.11 The age, gender, and geographical composition of reported estates left at death, 1995 vs 2016

estate shares, we need to derive a consistent measure of total estate in the economy. However, as mentioned above, the inheritance tax returns are not always mandatory and a fraction of small estates will not be observed in the tax records, and some of the assets may not be fully disclosed. We need, therefore, a measure of total estate held by the nonfilers and a correction for underreporting. The derivation of total inheritance and gift flows described in section 6.5 is useful here. In particular, we can use column E1 of online appendix table 8 as the value of total estate. Different from the total estate reported on the tax record, the value accounts for the estates of nonfilers and different forms of underreporting, with the exception of those linked to tax-exempt assets.[21]

21. We could also follow an alternative approach used in the literature by Alvaredo, Atkinson, and Morelli (2018), who derive the estimates of missing estates by applying the average mortality rate to an estimate of total wealth of the missing living population, namely those people whose possessions are likely not to come to the notice of tax authorities when they

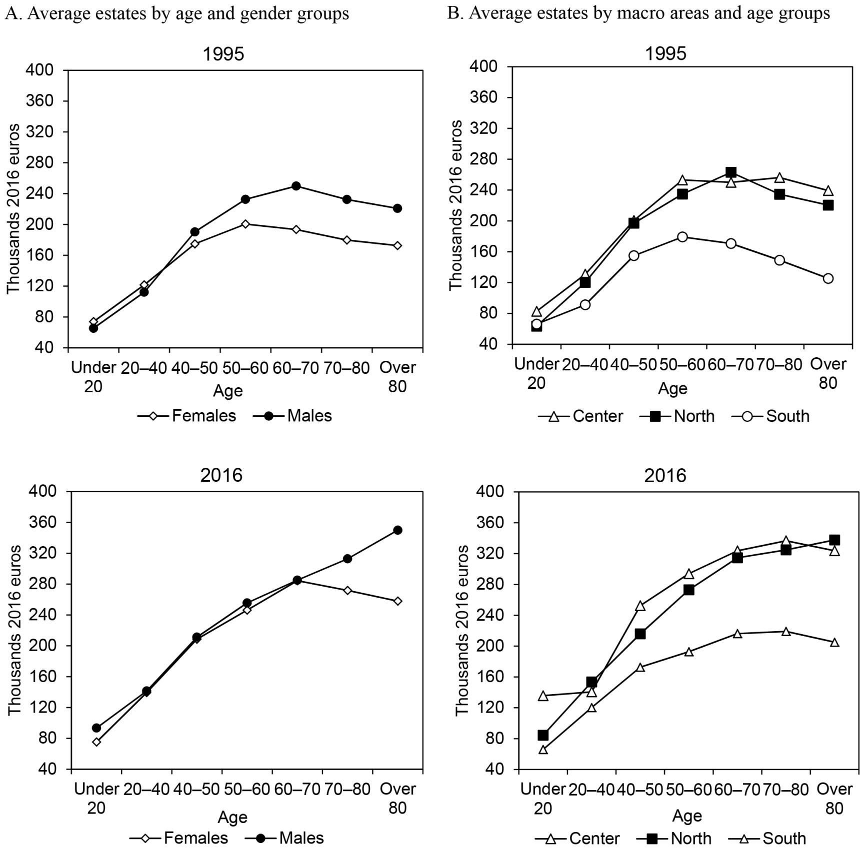

Fig. 6.12 The average value of reported estates left at death by age, gender, and geographical dimensions, 1995 vs 2015

Estates bigger than €1 million resulted from 1.2 percent of total deaths in 1995 and 2.5 percent in 2016. The share of millionaire estates to total estate value (adjusted for estates of nonfilers) was 18.7 percent in 1995 and grew to 24.8 percent in 2016 (see figure 6.13, and online appendix tables 10–13, http://www.nber.org/data-appendix/c14451/appendix.pdf). These figures, it

die. Following the description of the inheritance tax code, this happens in Italy only if estates exclude any housing or land and if the total value of net estate is below the reporting threshold (i.e., approximately €26,000 until 2014 and €100,000 since then). A recent work by Acciari, Alvaredo, and Morelli (2020) derives this exact measure of missing wealth using data from the SHIW. The wealth of the missing population can be derived as the sum of net financial and real assets (excluding housing) that is held by nonhomeowner adults (individuals at least 20 years old) with total net wealth below the inheritance tax-reporting threshold described above. One limitation of this approach is that only the wealth of the nonfilers is accounted for, and this might create a trend bias if underreporting has changed substantially over time.

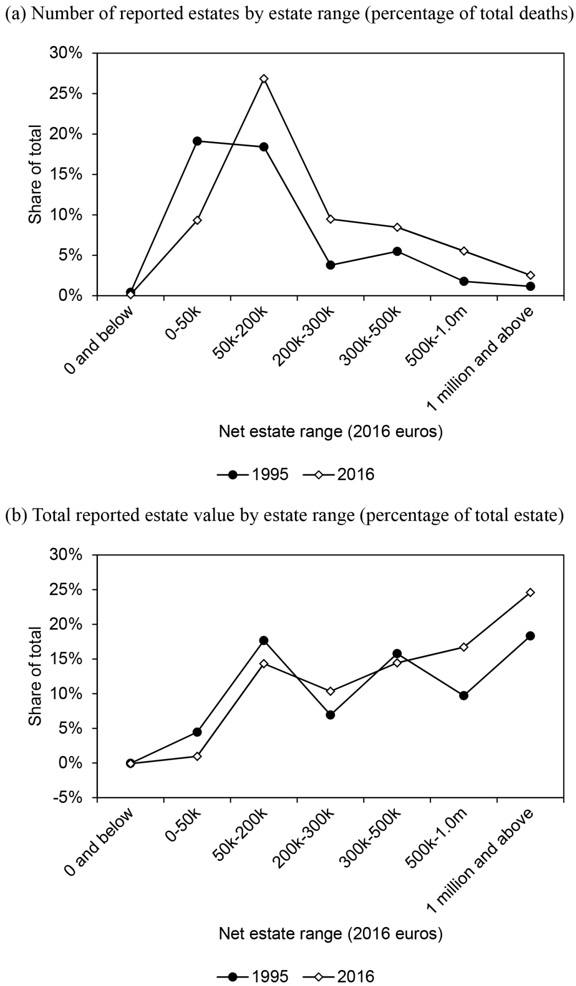

Fig. 6.13 Growing concentration of millionaire estates

is worth recalling, do not adjust for any underreporting of total assets in the tax records.

Focusing on fixed groups of the population allows for a better analysis of the dynamics of estate concentration over time. In particular, we can compute population percentiles as the number of estates as a fraction of total decedent population in any given year (as derived from the official national mortality records) and not as a share of the total decedents appearing in the tax records. We can interpolate ranges of total net estate of the estate tabulations via the mean-split histogram approach to derive the estate share of the particular population groups in which we are interested in.

Table 6.1 shows values of estate shares over time at different cutoffs of

Table 6.1 **Top estate shares**

	% of total net estate					Threshold: current thousand €				
Year	Top 10%	Top 5%	Top 1%	Top 0.1%	Top 0.01%	P top 10%	P top 5%	P top 1%	P top 0.1%	P top 0.01%
1995	46.97	35.32	17.12	5.56	2.04	174.81223	278.2271	761.2688	2563.076	6962.758
1996	44.97	33.54	15.80	4.71	1.52	187.48319	294.1865	806.0359	2612.488	6707.184
1997	42.14	31.44	14.81	4.51	1.42	191.23602	304.582	820.0102	2620.934	7068.104
1998	39.53	29.33	13.55	3.89	1.02	198.95561	316.1935	840.539	2614.699	7468.72
1999	38.96	29.05	13.68	4.11	1.18	204.39256	324.2812	866.838	2838.411	7674.551
2000	40.78	30.53	14.67	4.87	1.78	220.3512	357.0365	947.0588	3052.226	9885.654
2001	41.57	30.94	14.48	4.43	1.34	231.99689	377.9228	984.8594	3223.993	9495.566
2002	39.42	30.14	13.57	4.28	1.14	172.88608	294.6255	912.1872	2864.014	9038.256
2003	42.49	31.51	14.58	4.26	1.09	271.13659	439.4388	1150.179	3697.698	10584.11
2004	42.78	31.75	14.66	4.10	0.93	300.87563	485.8937	1274.921	4146.624	10881.79
2005	43.31	32.12	14.81	4.21	1.03	333.60869	538.2594	1416.116	4481.74	12518.82
2006	42.33	31.35	14.54	4.27	1.18	362.82509	584.3625	1522.869	4874.908	13152.93
2007	49.50	36.68	17.06	5.07	1.40	432.34509	692.7878	1803.164	5903.766	16416.34
2008	49.87	36.88	17.10	5.06	1.39	443.03163	706.4649	1818.249	5924.598	16094.45
2009	48.89	36.13	16.89	5.34	1.81	445.79778	708.1979	1813.181	5729.231	16534.45
2010	50.54	37.53	17.75	5.54	1.69	458.21194	728.777	1890.272	6253.744	19444.91
2011	50.04	36.88	17.03	5.06	1.50	467.46831	738.6275	1905.049	6057.966	16351
2012	53.23	39.66	19.12	6.51		473.51409	748.7994	1923.027	6452.076	
2013	50.83	37.62	17.84	5.80		467.32325	737.036	1867.509	6240.96	
2014	49.70	36.87	17.71	6.16		444.54413	697.0676	1760.579	5951.75	
2015	47.46	34.84	16.15	5.17	1.69	438.16378	684.5059	1700.898	5472.575	17768.07
2016	45.34	33.49	16.09	5.84	2.64	432.04059	670.4863	1651.886	5308.614	16964.81

Note: The table shows the value of estates held by selected top estate groups (derived as a fraction of total decedent population in any given year) as a share of total estate value in any given year. Total estate value includes the estates of the nonfilers.

the upper-end estate distribution, namely the share of total net estate held by the richest decedents (e.g., top 10 percent, top 1 percent, or even top 0.01 percent). The estimates show that estate concentration declined during the mid-1990s for a few years but increased gradually from then to 2012, when it started declining again. Discounting these subperiod trends, the long-run dynamics of estate concentration appears more muted and stable across the period under analysis. The share of total estates held by the richest 1 percent of the decedent population (e.g., individuals with at least €1.6 million), held 17.5 percent of total estates in 1995. The share declined to 13.8 percent in 1998 and then increased to 18.3 percent by 2012. From 2012 to 2016 the top 1 percent estate share, as reported on tax records, declined by 5 percentage points. Concentration at the very top of the estate distribution followed a similar path, but here there is no sign of declining concentration in recent years. The wealthiest 0.01 percent almost tripled its share of total estate from 1.04 percent in 1998 to 2.67 percent in 2016.

6.6.1 The Composition of Estates

The wealth data obtained from digitized tax returns are grouped in four categories: real estate; business assets, equity, and debt securities; other assets (including current and saving deposits, valuables, etc.); and liabilities and deductible expenses.[22] The data, therefore, lump together privately held business assets (classified as a form of real assets in the national balance sheets) with financial assets.

In view of the high prevalence of home ownership in Italy, the number of inheritance tax filers who declare real estate assets is above 90 percent on average every year. Similarly, the total declared net estate value is also mostly composed of real estate assets, ranging from 90 percent in 1995 to 78 percent in 2016 (see online table 7, http://www.nber.org/data-appendix/c14451/appendix.pdf). This is substantially higher than the relative share of housing and land assets reported in the national balance sheet data, which amounts to 51–54 percent of total personal wealth (total net wealth of the household sector excluding nonprofit institutions serving households). The high share of real estate wealth in the tax records also depends on the extensive tax exemption of a number of financial assets. Similarly, the existence of a very high tax exemption threshold provides very little incentive for a full disclosure of assets other than housing and land for the lower segments of the wealth distribution. As shown in figure 6.14, this argument was pushed to the extreme when the inheritance tax was abolished from 2001 to 2006. In this period, land and housing were the only assets whose reporting continued to be mandatory, and they constituted almost 100 percent of total estate value.

22. Starting from 2017, the paper module for the inheritance tax returns has been gradually dismissed and substituted by an electronic form that has a considerable amount of additional details about the composition of the estates.

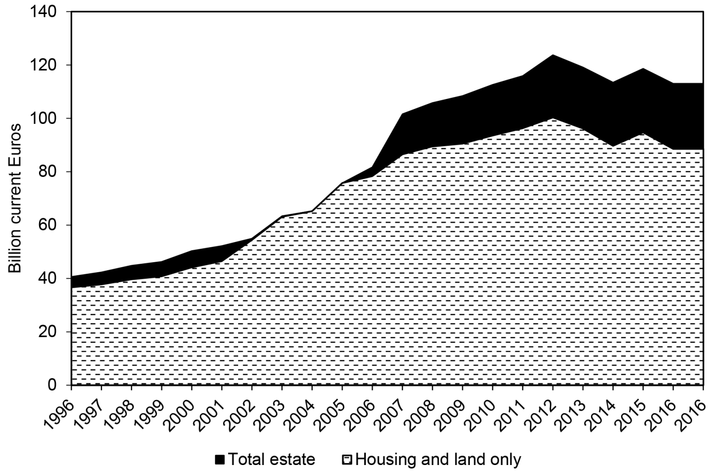

Fig. 6.14 The composition of total reported estates in the tax records

Notes: Between October 2001 and October 2006 the inheritance tax was abolished but the reporting of housing and land assets remained compulsory. Total estate as reported in the tax records. Housing and land assets value is adjusted to transform the cadastral valuation for taxation purposes into market valuation.

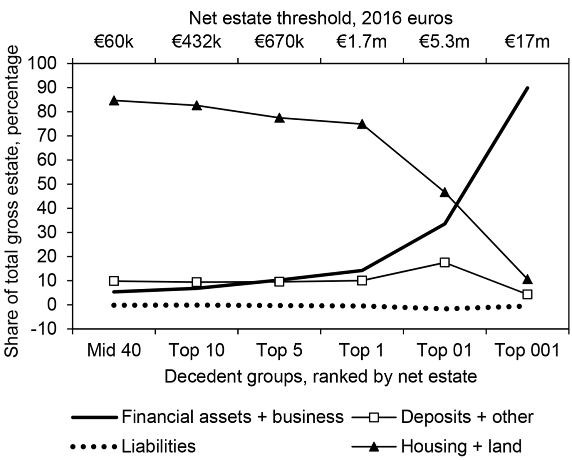

Fig. 6.15 The composition of estate portfolios in the tax records by estate size, 2016

Nevertheless, our data preserve heterogeneity of portfolio composition across the distribution of total estate. On one hand, share of estates reporting land and housing assets changes across the distribution. On the other hand, the relative composition of declared portfolios changes drastically depending on the size of the estate. As shown in figure 6.15, the richer the estate, the higher the relative share of reported financial and business assets. In 2016, only 10 percent of total gross estate is composed of housing and land for the group of richest 0.01 percent of total decedents, a group whose total declared net estate is at least €17 million. For this group, nearly 90 percent of total gross estate value is held in financial securities and privately held business assets. Meanwhile, for estates below the 99th percentile, housing and land account for at least 75 percent of total gross estate value. Such variation in estate portfolio also underlines the importance of acknowledging the existing heterogeneity within the upper estate brackets.

6.7 Final Comments

Inheritance is one of the key determinants of wealth accumulation. In a context of slowing economic growth, concern has risen about a potential return to "patrimonial capitalism" in which wealth and its associated power of influence and control over productive resources are increasingly concentrated, and parental wealth is key to determine life chances and opportunities (Piketty 2014).

This chapter systematically analyzes for the first time the full set of inheritance tax declaration forms in Italy from 1995 to 2016. The work documents a substantial rise in the share of inheritance and gifts as a share of national income, from 8.4 percent in 1995 to 15.1 percent in 2016. The strong rise in the weight of personal wealth as a share of national income in Italy, therefore, does not appear to follow from an increasing weight of life-cycle savings. Over the same period, total wealth left at death has also become increasingly concentrated. Millionaire estates were worth 18.7 percent of total estate in the mid-1990s and almost 24.8 percent in 2016. Although the share of total estate left by the richest 1 percent of decedents slightly declined from 1995 to 2016, it grew by approximately 5 percentage points between the end of the 1990s and 2012. By contrast, the total estate share left by the wealthiest group under analysis (i.e., top 0.01 percent) slightly increased from 1995 to 2016 and almost tripled between the end of the 1990s and 2016.

The distribution of estates has seldom been under extensive scrutiny as it typically served as the main building block for the application of the mortality multiplier method to derive the distribution of wealth of the living. Yet recent research has highlighted that the concentration of estates also provides, in and of itself, compelling information about the evolution of the concentration of wealth (Alvaredo, Atkinson, and Morelli 2018). The ongoing work by Acciari, Alvaredo, and Morelli (2020), in a companion paper, shows that estate tax data in Italy can be very fruitful in the estimation of reliable series of wealth concentration. Similarly, historical tabulation of the Italian inheritance tax records may be used to derive historical series of wealth concentration, in periods where little evidence exists about distribution of economic resources among the population (Gabbuti and Morelli 2020).

The information about the concentration of estates left at death can be highly correlated with the concentration of inheritances received. This can have profound implications for intergenerational wealth mobility as well as the perceived equity of the current distribution of wealth. As recalled in a recent work by Cannari and D'Alessio (2018a), "a society that registers a significantly higher possibility of economic success depending on inherited family wealth tends to generate discontent and is a source of possible tensions on the part of the disadvantaged population." In his concluding remarks, Atkinson (2013) writes that "if inheritance is returning, then we need to look again at its role as a basis for taxation." In stark contrast with this vision, this chapter also documents how revenues collected from inheritance experienced a threefold decline from 0.14 percent to 0.06 percent of total tax revenue between the end of the 1990s and 2016. The declining weight of the inheritance and gift taxes documented in this chapter has, above and beyond other economic and fiscal factors, favored the accumulation of wealth through interpersonal wealth transfers. This may well have had repercussions for the evolution of the wealth distribution too. As suggested by Cowell, Van de gaer, and He (2018), wealth transfer taxes are very important for "the long-run distribution of wealth, reducing equilibrium inequality (the 'predistribution' effect) by a much larger amount than what is apparent in terms of the immediate impact of the tax (the 'redistribution' effect)."

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