

Real Estate Inheritance and Wealth Inequality in Italy

An Empirical Analysis and Microsimulation of Tax Policy

Master's Degree in Economics

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SAPIENZA
UNIVERSITÀ DI ROMA



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Motivation: Why This Topic?

1 Introduction and Motivation

- **Rising Wealth Inequality:** Wealth concentration is a growing concern, and is more pronounced than income inequality in many countries.



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- **Stagnant Growth:** In a context of economic stagnation, inherited wealth becomes more decisive than labor income for an individual's economic trajectory.



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- **Rising Wealth Inequality:** Wealth concentration is a growing concern, and is more pronounced than income inequality in many countries.
- **Stagnant Growth:** In a context of economic stagnation, inherited wealth becomes more decisive than labor income for an individual's economic trajectory.
- **The Role of Real Estate:** Italy has high home-ownership rates, making real estate the primary component of household wealth and intergenerational transfers.



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- **Stagnant Growth:** In a context of economic stagnation, inherited wealth becomes more decisive than labor income for an individual's economic trajectory.
- **The Role of Real Estate:** Italy has high home-ownership rates, making real estate the primary component of household wealth and intergenerational transfers.
- **Policy Relevance:** Italy's inheritance tax is one of the most lenient in Europe, making an analysis of potential reforms highly relevant.



Research Questions

1 Introduction and Motivation

1. What is the current landscape of **real estate inheritance and wealth inequality in Italy?**



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1 Introduction and Motivation

1. What is the current landscape of **real estate inheritance and wealth inequality** in Italy?
2. What would be the potential **redistributive impact** of a revenue-neutral reform of the Italian inheritance tax system?



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Data Source

2 Data and Methodology

Bank of Italy's Survey on Household Income and Wealth (SHIW)

Wave: 2022.

Sample: 9,641 households, representative of the Italian population.

Content: Detailed information on income, wealth, real and financial assets, and socio-demographic characteristics.

Unit of Analysis: The household, represented by the main income earner.



Methodology

2 Data and Methodology

Part 1: Empirical Analysis

- Descriptive statistics.
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Part 2: Microsimulation

- Static non-behavioural model.
- Simulates replacing Italy's tax system with 13 international alternatives.
- A two-stage "tax-and-transfer" scheme to assess redistributive impact.



Limitations of the Study

2 Data and Methodology

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- **"Lower-Bound" Analysis:** The analysis is restricted to the inheritance of the household's primary residence, excluding other real estate and financial assets. As a result, the findings represent a "lower-bound" estimate of the total impact of inheritance.
- **Static Model:** The microsimulation is static, capturing the immediate "day-after" impact. It does not model potential long-term behavioral changes (e.g., in savings or labor supply).



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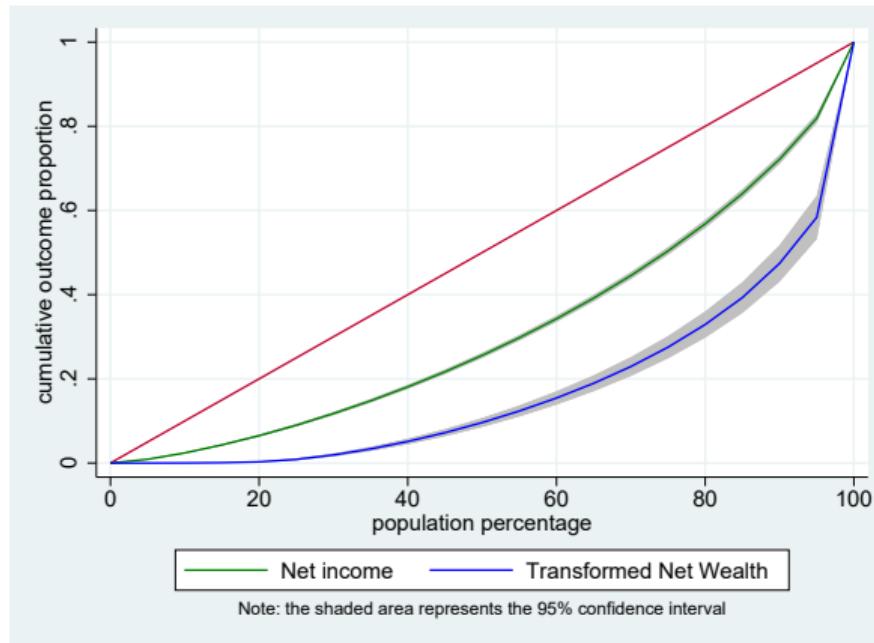
3 Empirical Findings

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Finding 1: Wealth Is Far More Unequal Than Income

3 Empirical Findings



- Gini for Income: 0.365
- Gini for Wealth: 0.659



Finding 2: The "Wealth Floor" Effect

3 Empirical Findings

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 - This advantage is driven almost entirely by real assets (**+43%** relative to the mean).
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- **Why?** It acts as a "wealth floor," compressing the lower tail of the wealth distribution. For many beneficiaries, the inherited home is their main asset.



Finding 2: The "Wealth Floor" Effect

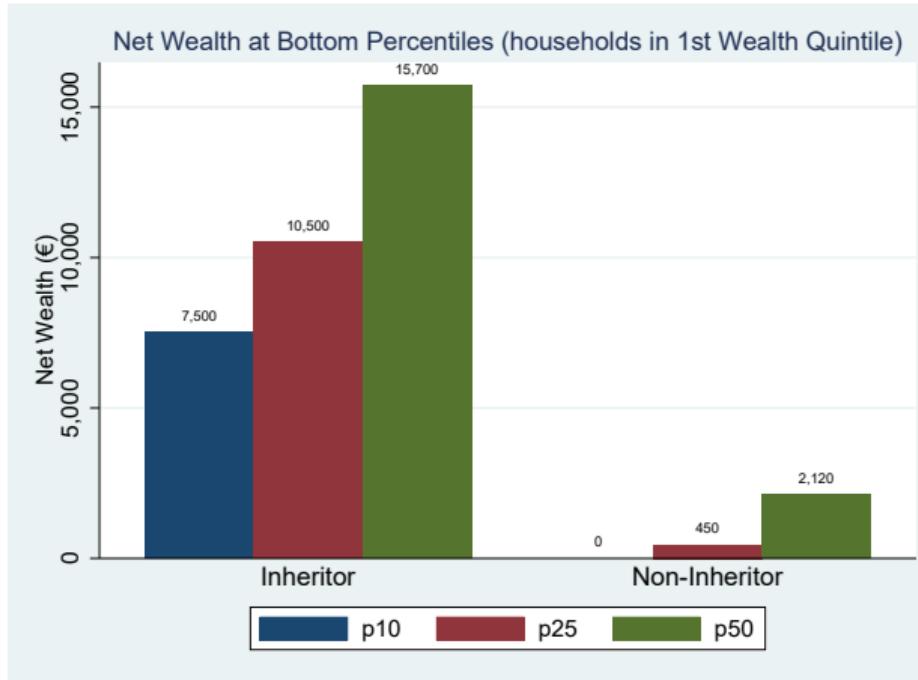
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- **Why?** It acts as a "wealth floor," compressing the lower tail of the wealth distribution. For many beneficiaries, the inherited home is their main asset.
- The Gini for "self-made" wealth (excluding inherited homes) is **higher** (0.699) than for total net wealth (0.659).



Finding 2: Visualizing the "Wealth Floor"

3 Empirical Findings





Finding 3: The Life-Cycle Effect

3 Empirical Findings

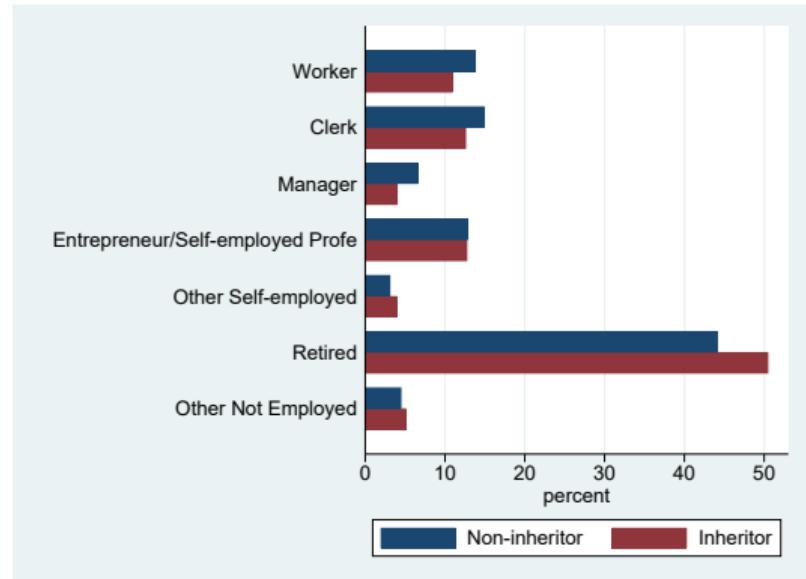
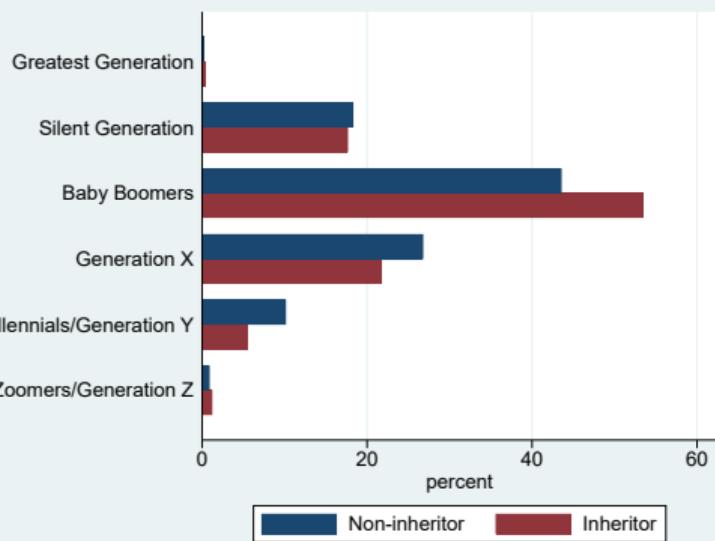




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Microsimulation: The Italian Context

4 Microsimulation of Tax Reform

The current Italian tax system is defined by four main categories, based on the relationship between the deceased and the beneficiary:

Beneficiary Relationship	Tax-Free Allowance	Tax Rate
Spouse & Direct Relatives	€1,000,000	4% (on value exceeding allowance)
Siblings	€100,000	6% (on value exceeding allowance)
Other Relatives (up to 4th degree)	None	6% (on total value)
All Other Individuals	None	8% (on total value)



Motivation & Simulation Design

4 Microsimulation of Tax Reform

- Due to the high threshold and low rate, the current tax is **functionally dormant**.
- My simulation shows that only **0.8%** of parent-child inheritances generate any tax revenue.
- **Goal:** To quantify how alternative regimes could make the allocation of housing wealth more equitable.



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Simulation Design: A Two-Stage Process

Tax Simulation: "Borrow" the inheritance tax regimes from 13 other countries and apply them to the Italian data to calculate potential revenue.

Budget-Neutral Redistribution: The entire revenue pool is redistributed via four scenarios: **Targeted** (to the bottom 10% of households) and **Universal**. Both are simulated as a *flat lump-sum* and as a *per-capita* transfer.



Simulation Results: Impact on Wealth Inequality

4 Microsimulation of Tax Reform

Table: Effects of Different Regimes on the Gini Index

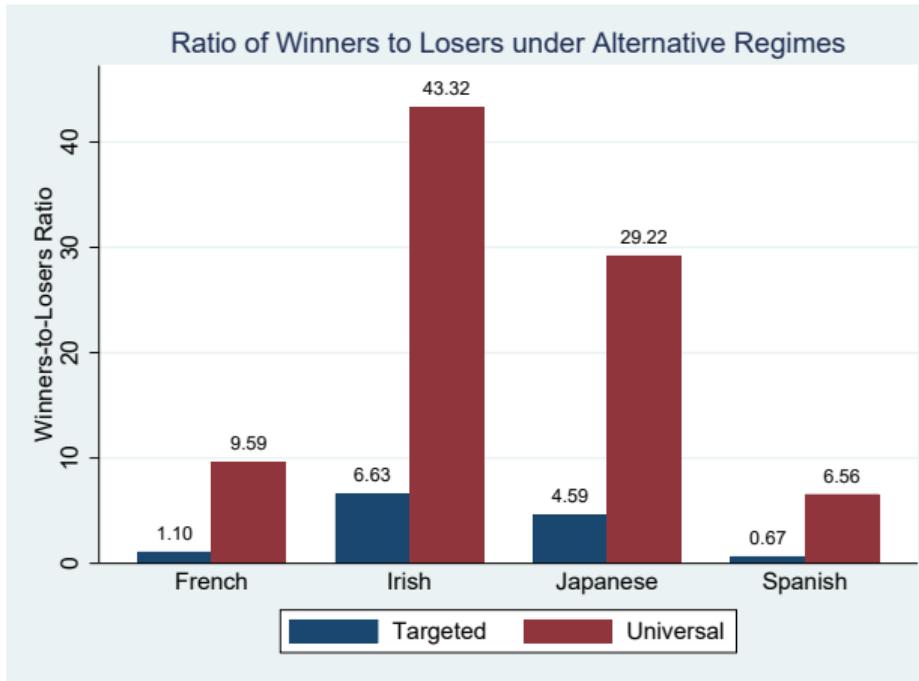
Regime	Tax Effect	Lump-Sum		Proportional	
		to W_{10}	Universal	to W_{10}	Universal
French	-0.18	-2.58	-1.21	-2.63	-1.15
Irish	-0.35	-1.26	-0.53	-1.25	-0.50
Japanese	-0.24	-1.21	-0.55	-1.20	-0.52
Spanish	+0.04	-3.74	-1.81	-3.57	-1.72

Note: All values represent the percentage change ($\Delta\%$) in the Gini index.



Political Economy: Who Wins and Who Loses?

4 Microsimulation of Tax Reform





Simulation Results: Key Findings

4 Microsimulation of Tax Reform

- 1. The Tax-Free Allowance is Crucial:** The allowance, not the top tax rate, is the single most important determinant of a system's redistributive power.



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- 3. Targeted Transfers are Most Effective:** A lump-sum transfer targeted to the poorest decile has the largest impact on reducing the Gini coefficient.
- 4. Universal Transfers are More Feasible:** They create a broad base of support by generating far more 'winners' than 'losers' from the reform.



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Summary of Main Findings

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5 Conclusion

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- Italy's current inheritance tax system is functionally dormant as a redistributive tool.
- A well-designed, revenue-neutral reform could be a powerful tool to mitigate wealth inequality. The design of the allowance and the use of revenues are the most critical policy choices.



Policy Implications & Future Research

5 Conclusion

Policy Implications

Substantially lowering the €1 million allowance is necessary for any meaningful reform.

Policymakers must decide between statistically efficient targeted transfers and potentially more viable universal transfers.

Administrative challenges (e.g., wealth reporting) must be addressed.



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Future Research

Develop behavioral microsimulation models to account for tax avoidance.

Incorporate all forms of inherited wealth, not just real estate.

Analyze the long-run, multi-generational impacts of reforms.



Thank you for listening!

Any questions?