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Intergenerational altruism and house prices: Evidence from bequest tax reforms in Italy[☆]

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A B S T R A C T

The degree of intergenerational altruism is estimated in a benchmark Barro-type OLG framework with imperfect altruism, exploiting the exogenous variation generated by reforms of the tax treatment of bequests and *inter vivos* real estate donations enacted in Italy between 2000 and 2001. Using longitudinal information on the housing stock and house prices in 13 large Italian cities between 1993 and 2004, the structural parameter of interest is estimated via the effect of the reform on house prices. We estimate a degree of intergenerational altruism ranging between 0.2 and 0.3, a magnitude consistent with existing parameterizations for the US economy.

1. Introduction

The degree of intergenerational altruism is a key parameter in dynamic models with overlapping generations, a framework that is widely used in macroeconomics to analyze a variety of questions such as fiscal policy, taxation, and social security. However, only a few estimates of such parameter exist, and they are typically based on incidental indirect inference conducted in the course of calibration exercises for the US economy (e.g., Han and Mulligan, 2001; Nishiyama, 2002; Barczyk, 2016). No direct empirical evidence has been brought to bear on estimation of this parameter, nor are estimates for continental European countries available.

This paper provides a direct, structural estimate of the degree of intergenerational altruism in a Barro-type model (Barro, 1974) for Italy. Although different bequest motives (e.g., intergenerational altruism, exchange, strategic behavior) have been emphasized in the literature, we focus here on imperfect altruism *á* la Barro because of its conceptual simplicity and relevance in quantitative macroeconomic applications. We exploit the exogenous variation generated by reforms of inheritance taxation (estate tax, in the US) and taxes on *inter vivos* donations (gift tax, in the US), henceforth "bequest tax",[1] that occurred in Italy between 2000 and 2001. This variation is exogenous (which greatly facilitates identification) because it is generated by tax reforms motivated by the 2001 electoral contest in Italy. We identify a degree of intergenerational altruism of between 0.2 and 0.3. This estimate refers to a large European country, is a direct counterpart of the existing estimates based on US data, and agrees by and large with the latter,

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[1] Inheritance and gift taxes are often unified to prevent the use of donations as a mean to avoid the inheritance tax.

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Table 1
Bequest tax rates in Italy when the grantee is a spouse or direct relative.

Legal reference	Tax base	Bracket	Rate (%)
Law 346/1990	Total estate	0–125 K	0
		125–175 K	3
		175–250 K	7
		250–400 K	10
		400–750 K	15
		750–1500 K	22
		>1500 K	27
Law 342/2000	Estate per recipient	0–175 K	0
		>175 K	4
Law 383/2001		Any amount	0

The table reports the bequest and inter-vivos donation tax rates in Italy before and after the 2000 and 2001 reforms. These rates refer to the case of a grantee who is either a spouse or a direct relative of the deceased or the donor. Rates for all other individuals are higher, see Jappelli et al. (2014) for more details.

suggesting that intergenerational altruism may be similar across advanced economies.

Besides providing a structural estimate of an important parameter for a large European country (certainly the first for Italy), this paper makes a number of contributions of general interest. First, our estimate is obtained in a general equilibrium setting exploiting the relationship between real estate (asset) prices, the change in bequest taxation, and bequest behavior emerging from the model. This approach connects the asset pricing perspective and the estimation of intergenerational altruism in a novel fashion. Second, and most important, we adopt a quasi-experimental method, exploiting an exogenous change of the bequest tax parameter fully leveraging the uniqueness of the Italian case. Such cases are uncommon and quite valuable; as Poterba (2001) puts it: "searching for additional sources of plausibly exogenous variation in the tax rates on gifts and bequests, and using such variation to study the elasticity of gift-giving, is a natural direction for further work" (p. 263). To the best of our knowledge, this paper is the first contribution to follow up on this suggestion in estimating one of the crucial determinants of gift-giving: intergenerational altruism. Finally, from a methodological viewpoint, we combine the pros of structural methods, calibration, and the quasi-experimental approach. These different empirical methods are often contrasted, but they can fit together quite well.

The quasi-experiment we exploit is the following. Until year 2000 the tax rate on bequests and donations in Italy had a progressive structure, as reported in Table 1, and was particularly unpopular. On October 13, 1999 the Italian Parliament rejected a bill, proposed by the conservative opposition leader Silvio Berlusconi, which aimed at repealing the tax. With a general election looming ahead in the Spring of 2001, the move of the opposition leader was clearly part of an early electoral campaign. As a consequence, the incumbent government was forced to act and reform the tax: two weeks later, the Finance Minister Vincenzo Visco announced that a reform of the inheritance and gift tax would be implemented "at the soonest, and in such a way that the tax rate will be single-digit". The government pushed through the Italian Parliament a reform as soon as the following month (December 1999), during the approval of the 2000 budget. This reform introduced a flat rate of 4% and increased the exemption threshold, and became effective at the end of 2000. The complete abolition of the inheritance and gift tax became a major issue in the political platform of the conservative coalition for the 2001 general election. In June 2001, only one month after the elections, the new government led by Silvio Berlusconi repealed the tax. Later on, in 2006, bequest taxation was reintroduced by the new center-left government led by Romano Prodi, at the same 2001 flat rate, but with such a high exemption threshold to make the tax immaterial.

In order to exploit these events and provide a structural estimate of the intergenerational altruism parameter, we built a unique panel data set using a variety of sources. The data set includes information on house prices, the housing stock, and non-housing consumption for the 13 largest cities in Italy over the period 1993–2004. The empirical investigation is based on a stylized OLG model in which individuals may either sell their assets or donate them to their offspring. The model formalizes a mechanism through which the bequest tax affects market (i.e., sales) and non-market (i.e., donations) real estate transactions, and the dynamics of house prices.

The key implication of the model for the purpose of identifying the parameter of interest is that, *ceteris paribus*, house prices respond to changes in the bequest tax rate if and only if the degree of intergenerational altruism is different from zero. Intuitively, a lower bequest tax rate makes asset donations more attractive to an altruistic parent, relative to liquidating the asset for own consumption purposes. Therefore, lowering bequest taxation drives up the shadow value of housing, thus increasing house prices and donations.[2] The effects of bequest taxation on asset prices is not limited to housing. However, because of data availability and because of the special relevance of housing in intergenerational transfers, this asset is a natural target for structural estimation.

Heuristic evidence consistent with this economic mechanism is reported in Fig. 1, which shows sales and donations per household, as well as the mean bequest tax rate and house prices in Italy between 1993 and 2004. When the bequest tax rate was

[2] The distortionary effects of bequest taxation in the US have been investigated, among others, by Holtz-Eakin and Marples (2001), Kopczuk and Slemrod (2001), and Joulfaian (2006). The optimal structure of bequest taxation, a question that we do not address in this paper, has been studied by Farhi and Werning (2010). A baseline result is that in a model with a fictitious dynastic agent like the one we employ here, a zero bequest tax rate is optimal. Kopczuk (2009) provides an overview of theory and evidence.

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