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**Working Paper**

## Gifts and inheritances in Ireland

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## *Working Paper No. 579*

*December 2017*

### *Gifts and inheritances in Ireland*

Martina Lawless\*<sup>1,2</sup> and Donal Lynch<sup>3</sup>

*Abstract:* Information on the frequency, value and composition of household wealth transfers has been fairly limited in Ireland and this paper aims to fill this gap by drawing on the detailed data now available on the pattern of gifts and inheritances from the 2013 Household Finance and Consumption Survey. We find that a considerably larger number of older and wealthier households report having received a gift or inheritance compared to their younger, less wealthy counterparts. The household main residence and businesses/farms are identified as the most important asset type in wealth transfers. Overall slightly over 13% of home-owning households were gifted or inherited their household main residence. We also show some association between inheritance and position in the wealth distribution, controlling for other factors. We find that that having received an inheritance or gift moves a household up the wealth distribution by 15.4 percentiles on average relative to households of the same income level that did not receive an inheritance. This effect is particularly large when the inheritance takes the form of a business or a property (not the main residence).

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## 1. Introduction

Internationally the question of who receives an inheritance and how this contributes to wealth inequalities has been examined in a number of contexts. In Ireland, however, very little is known about the patterns of wealth transfers, with the only comprehensive analysis undertaken by Nolan (1992) relating to 1987 data. This paper aims to fill this gap by examining the information gathered in a wide-ranging household survey to establish how common it is to receive a wealth transfer (whether gift or inheritance) and what this is composed of (in terms of asset type, relationship to the donor and so on). We also examine how these patterns vary across households and to what extent having received a gift or inheritance is related to the current wealth position of the household.

This paper uses a recent source of information on gifts and inheritances in Ireland from the comprehensive survey of household finances carried out by the Central Statistics Office in 2013. This Household Finance and Consumption Survey (HFCS) contains information on whether a household has received a gift or inheritance and, if so, details on the year, asset type, original value, relationship to donor and whether the transfer was a gift or inheritance.

We find that approximately 29% of households have received at least one substantial gift or inheritance, a percentage that is at the lower end of reported estimates for Euro Area countries based on comparable survey data. A further 10% of households expect to receive a gift or inheritance in the future. The most common type of gift or inheritance households report having received is money with almost 12% of households report receiving this asset as a gift or inheritance. Close to ten per cent of all households inherited the household's main residence while businesses or farms also accounted for a substantial proportion of inheritances.

Older and larger households are more likely to have received some type of wealth transfer and these are most commonly received from parents. Households that are higher up in the wealth distribution are more likely to have received a gift or inheritance but the relationship between inheritance and income is non-linear with the highest rates of receipt at the top and bottom of the income distribution and lowest in the middle. Looking more formally at the relationship between various household characteristics and wealth transfers, we show that the probability of receiving an inheritance is strongly correlated with age, employment status and income group. The effect of household characteristics on the value of inheritances is found to be statistically less significant overall.

One particularly interesting question is how wealth transfers affect the overall wealth position of the household. As this paper is based on cross-sectional survey data, our evidence on this cannot be definitive but we can show some association on whether or not having received an inheritance affects where in the wealth distribution the household finds itself, controlling for other factors. We find that that having received an inheritance moves a household up the wealth distribution by 15.4 percentiles relative to households of the same income level that did not receive an inheritance. The inheritance of a business or a property (not the main residence) has the largest effect on the household's position in the current wealth distribution with a much smaller effect observed for having inherited money or the main residence.

The remainder of the paper is structured as follows: Section 2 describes the household survey data used and Section 3 discusses issues relating to estimating the present day value of previous gifts and inheritances. Section 4 presents descriptive statistics on the share of households receiving gifts and inheritances and the household characteristics most associated with their receipt. Section 5 presents some further econometric exploration of the patterns of household types and the probability of receiving a gift or inheritance and its value. We also show some descriptive evidence of the link between receiving a gift or inheritance and the household's net wealth position. Finally, section 6 concludes with some policy implications of the patterns. An Annex to the paper provides updates as of 2013 to many of the 1987 statistics estimated by Nolan (1992) which focused on gifts and inheritances of property, such as houses and businesses/farms.

## 2. Description of the Data on Gifts and Inheritances in the HFCS

While there are a number of possible sources of quantitative data for research examining the pattern of gifts and inheritances in Ireland - including tax data from the Revenue Commissioners, survey data of elderly households (TILDA and SHARE) as well as the Survey of Income and Living Conditions (SILC) - there are not insignificant drawbacks to using any of these sources for this particular purpose. Reflecting this, the most recent relatively comprehensive study of wealth transfer patterns was based on 1987 Household Survey data collected by the ESRI (Nolan, 1992)

A relatively new source of data on gifts and inheritances in Ireland comes from the Central Statistics Office's 2013 Household Finance and Consumption Survey (HFCS) (CSO, 2015) which is the basis for the analysis in this paper. The HFCS, along with its broad focus on the structure of assets and liabilities held by individual households and information on related economic decisions by those households, captures a range of information on gifts and inheritances. It is the most comprehensive data source covering both gifts and inheritances available, although it is subject to the usual caveats regarding survey data. A key point to bear in mind is that the HFCS data is based on households whereas legally wealth transfers may well be from one individual to another.

Out of the 5,419 households in the survey, 1,566 report having received some type of gift or inheritance. For the purposes of this paper, all figures are grossed up using weights from the CSO to present estimates for the entire population. In this case for example, the survey responses would be equivalent to 485,000 out of a total of 1,690,073 households (i.e. 29%) having receiving any gift or inheritance.

The principal question in the HFCS relating to gifts or inheritances asks whether:

(In addition to the household main residence,) (have you/has any member of the HH) ever received an inheritance or a substantial gift, including money or any other assets (from someone who is not a part of your current household)?

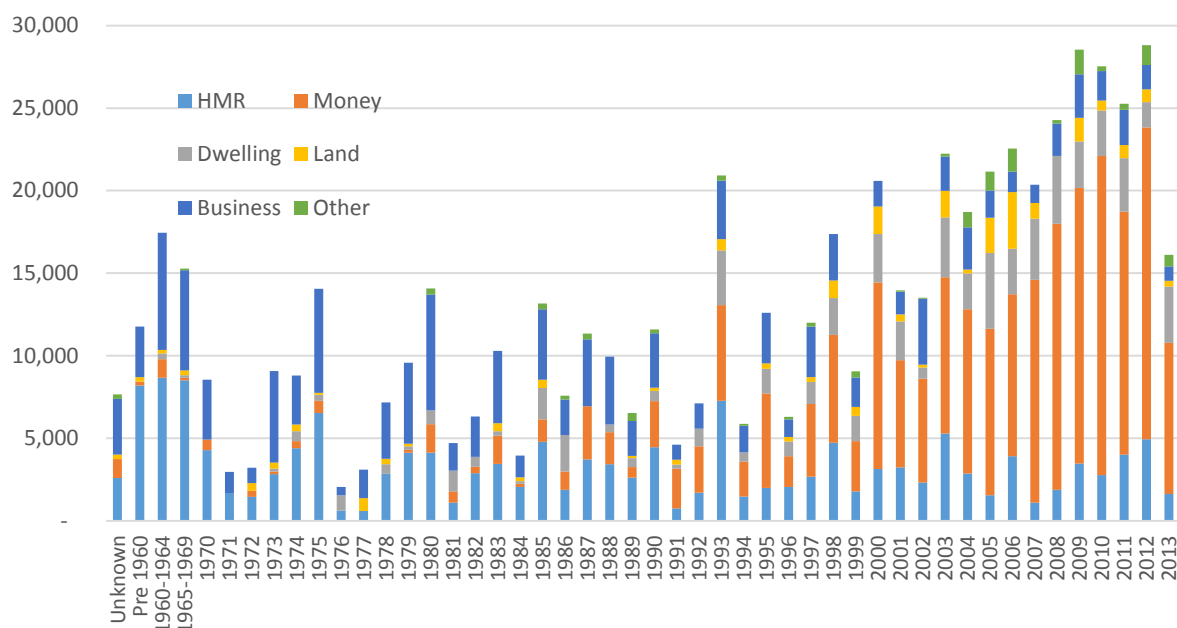
The distinction between gifts and inheritances used in the survey is that gift refers to a "transfer of assets made during the life of a donor, not connected to the death of that person" whereas an

inheritance refers to a “transfer of assets in connection with death of a decedent”. The definition, “a transfer of assets”, excludes purchases of services (whole or in-part) or payment towards events such as parents paying for a wedding celebration.

Two important features of the question can be noted. Firstly, transfers between members of the household (intra-household wealth transfers) are not captured. As indicated by its name, the HFCS is a household level survey and its focus is on the household rather than individuals in the household. In any case, the household focus reflects the living arrangements of most individuals given that resources are typically shared within households. Secondly, the word “substantial” is used to qualify what gifts should be reported. The meaning of substantial is left to the respondent. As such, what may be considered substantial may differ from one household to another and may affect the recall of transfers received in the past compared to more recent gifts or inheritances.

After the first order question on whether a household has received a gift or inheritance, additional wealth transfer queries in the survey relate to the number of gifts inheritances received and whether a further gift or inheritance is expected in the future. For individual wealth transfers, detail is also sought on the year, asset type, original value, relationship to donor and whether the transfer was a gift or inheritance. This detail is available for the Household Main Residence (HMR) if it is owned (excluding relationship to donor) and the first two most important non-HMR gifts and inheritances for each household. As a result, this detail is not available for the small number of third, fourth and fifth (non-HMR) gifts/inheritances reported by some households. It should be noted that in the case of the HMR, only the main method of acquisition is reported. This means that people who inherited part of a property but acquired the remainder in a different way might not be captured.

Figure 1: Estimated Number of Gifts/Inheritances by Year and Type



\* As the survey was conducted over the summer of 2013, the lower number of wealth transfers reported in 2013 reflect that households could only report receiving a gift or inheritance in the first half of the year.

Households in the HFCS report receiving some 630,000 wealth transfers in total over time. Excluding those third, fourth and fifth (non-HMR) gifts/inheritances detail is available for 620,000 wealth transfers. The pattern of reporting for these gifts and inheritances is presented in Figure 1.

Each wealth transfer corresponds to the transfer of an individual asset in a given year. In a small proportion of instances, two or more transfers in the one year may relate to the same gift or inheritance (e.g. if a household inherited money and land from the same deceased person, these are reported separately). Some 62,000 or 10% of all gifts and inheritances are reported by households who received multiple asset types by wealth transfer in the same year where no distinction could be made on the basis of available detail (relationship to the donee or whether the transfers were gifts or inheritances).

Particularly noteworthy from Figure 1 is the incidence with which gifts and inheritances are reported in more recent years compared to earlier periods. This is likely to be strongly influenced by recall rather than a marked change in the frequency of wealth transfers. This is emphasised by the marked drop in reported money transfers going back in time. It would be expected that receiving a physical asset would be much more easily recalled than money. An alternative explanation would be that the amounts of money received in the past are not considered “substantial” when reporting receipts now.

A second feature related to household’s capacity to recall wealth transfers can be seen in the increased reporting of gifts and transfers in the years ending 3 and 8 (i.e. 5, 10, 15 years prior to the survey) and years ending in 0 and 5. These reflect tendencies to round the time of receipt to either five or ten years. This can be most clearly seen in the very high incidence of reported transfers in 1993, twenty years before the survey and also in the peaks of reported transfers in 1975, 1980 and 1985. As the survey was conducted over the summer of 2013, the lower number of wealth transfers reported in 2013 reflect that households could only report receiving a gift or inheritance in the first half of the year.

We also note in this regard that gifts are much more heavily concentrated in the recent past than inheritances. Close to 70 per cent of gifts reported are in the decade to 2013 whereas that figure is one-third for inheritances. The asset forms the different wealth transfers take also differs. A much larger proportion of gifts (70%) than inheritances (31%) take the form of money.

### 3. The Value of Gifts and Inheritances

In order to compare the value of wealth transfers which occurred at different times, it is necessary to put the value of gifts and inheritances into common units. For instance, a gift of €1000 received in 2013, is very different to a gift of €1000 (£787) received in 1981.

The standard method in the literature for calculating the present value of past gifts and inheritances is to adjust the original value of the wealth transfer by both indexing to inflation and applying an assumed rate of return, typically 3% (Wolff & Gittleman, 2014). Adjusting for inflation means that the cash value of assets at receipt is indexed to the CPI so that the same purchasing power is maintained irrespective of the change in consumer prices over time. Therefore if someone had

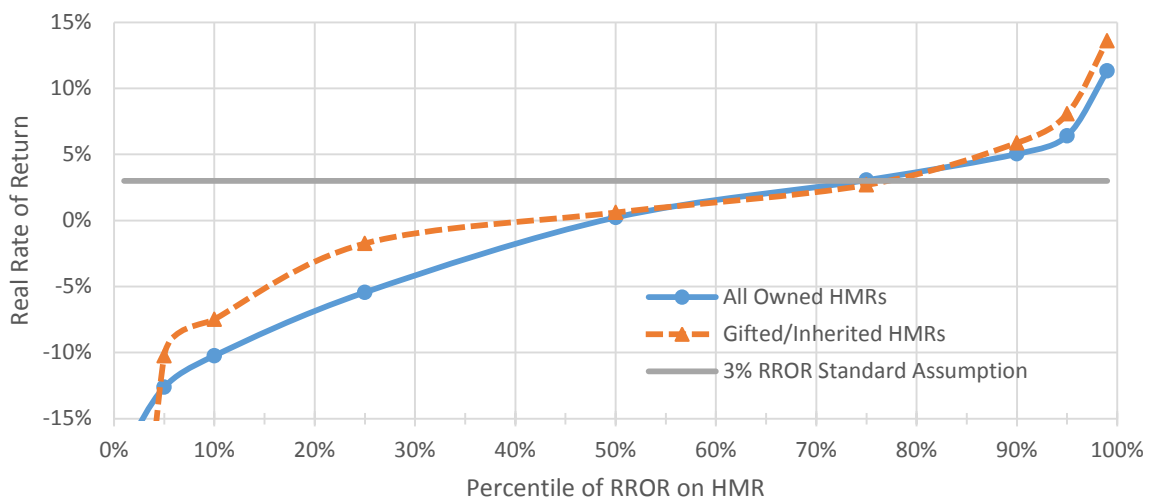
inherited €1000 (£787) in 1981, to have the same relative consumer purchasing power in 2013, an inheritance would have to be approximately €3000.

The application of a rate of return works on a similar basis, increasing the value of the gift/inheritance by some assumed rate. In the literature the most commonly used rate is 3%. The HFCS includes data on the year of acquisition, value at acquisition and current value of all owned-HMRs. By adjusting for CPI inflation since the date of acquisition, as described earlier, the original value of the HMR is put in 2013 prices. Comparing the current value to the original value in 2013 prices using the formula below calculates the Real Rate Of Return (RROR aka Compound Annual Growth Rate) on owned-HMRs that was realised.

$$RROR = \left( \frac{\text{Current Value HMR}}{\text{Original Value HMR in PV 2013}} \right)^{\left( \frac{1}{2013 - \text{Year of Acquisition}} \right)} - 1$$

The underlying assumption here is that the recipient invested (or could have invested) the value of the bequest and achieved an assured rate of return on it. While it appears reasonable to assume that all households could have invested in a relatively secure fund and achieved fixed returns, it is clear that they do not. This can most readily be seen by looking at the actual range of returns on assets that were inherited and subsequently held. This information is available for the Household Main Residence (HMR), where owned, in the HFCS and is presented in Figure 2. Sorting the RRORs from smallest to largest, the chart plots the distribution of RROR for all HMRs (blue line) and for inherited or gifted HMRs (orange line). This figure shows that the tenth percentile of gifted/inherited HMR RRORs is about -7.5%, meaning that ten percent of homeowners in the survey lost more than 7.5% per annum on their HMR up to 2013 in real terms. The median (fiftieth percentile) RROR for HMR inheriting households was 0.5%, and it was 6% for the 90th percentile. The pattern of RRORs for gifted/inherited HMRs broadly tracks that of all HMRs.

Figure 2: Distribution of Real Rates of Return on HMR from Acquisition to 2013



Due to this considerable variation in actual rates of return on HMRs inherited, a pattern which could be expected to be replicated for other asset types, it does not seem reliable to take the approach of applying an assumed rate of return to the gifts/inheritances in the survey. Such an approach would, in the case of the HMR at least (but likely in the case of other assets), dramatically overstate the value of the asset received for some households and understate it for others. Furthermore the median RROR at 0.5%<sup>2</sup> is closer to 0% than 3%. As a result of this, all further references to present values or CPI 2013 prices, adjust only for consumer price inflation not for any assumed rate of return or other use which the wealth from the transfer could have been put to.<sup>3</sup>

Even in converting the original values of gifts and inheritances to present values, there are a number of weaknesses deriving from the HFCS data. From Figure 1, it could be seen that the year of receipt of the gifts/inheritance is unknown for approximately 7,500 wealth transfers. As a result a present value cannot be calculated in these cases. Of greater importance is that for an estimated 128,000 gifts/inheritances in the survey (21% of the total of 630,000) the original value is unknown and hence a present value cannot be calculated for these wealth transfers.

There is a pattern evident across the unknown original values of gifts/inheritances, in that more original values are unknown for higher wealth households. Table 1 shows that the original value of one quarter of the wealth transfers reported by the wealthiest ten percent of households are unknown. For the thirty percent of households with the lowest wealth, less than one-twentieth of reported gifts/inheritances have an unknown original value. In between these two limits, the proportion of unknown original values for wealth transfers is around the average of one-fifth.

Missing original values of gifts/inheritances causes a slightly greater problem when calculating present values of cumulative wealth transfers. Households who have received multiple wealth transfers are more likely to report one or more missing original gift/inheritance value which cannot then be cumulated with known values. When the cumulative value of wealth transfers is considered only households with full information on all their wealth transfers are included. Some 23% of households who received a gift/inheritance report receipt of a wealth transfer with an unknown value. One third of households in the top wealth decile are missing one or more original value. These caveats should be borne in mind when discussing any findings based on present values in this paper. In general, we focus mainly on whether a wealth transfer has been received but we will look at how the values also correlate to household characteristics and current wealth in Section 5.

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<sup>2</sup> Given recent increases in residential property prices, the HMR RROR would be expected to rise in the next iteration of the survey.

<sup>3</sup> Additionally applying the real rate of interest to gifts/inheritances only, implicitly assumes that other income sources (labour income) are consumed in totality whereas inheritances can be viewed as superfluous to this consumption. However in most cases, a not insignificant amount of labour income could also be invested at the assumed rate of return on the same basis. On the other hand, the gift/inheritance of a HMR in the past may have meant that other assets (e.g. money) could have been used to invest rather than in purchasing the HMR (fungibility of money).

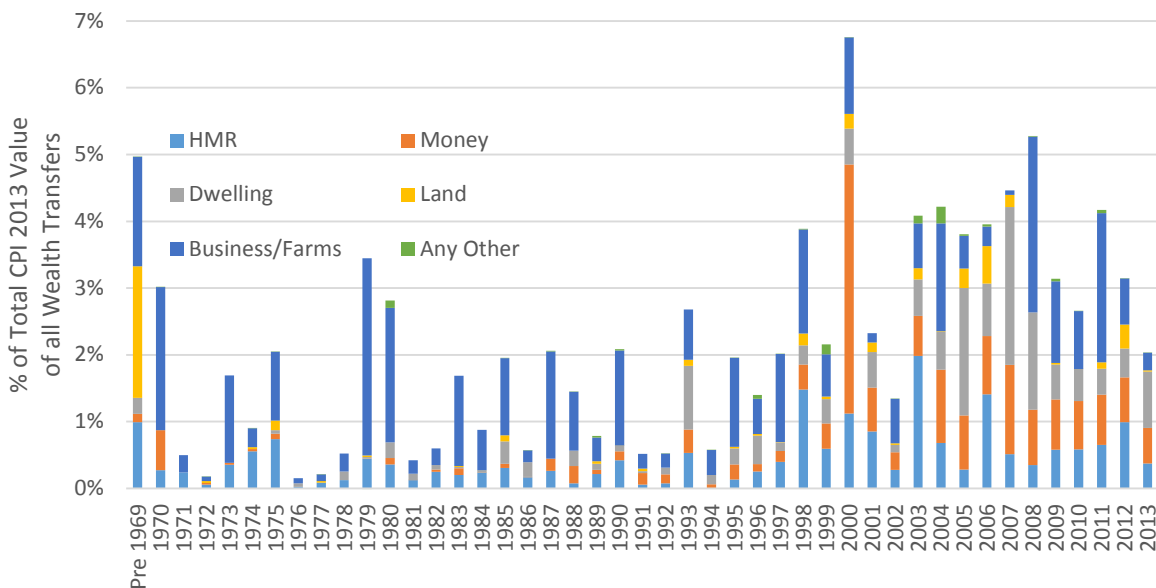


Table 1: Proportion of Missing Observations by Wealth Decile

Net Assets Decile	Gifts/Inheritances		Households who received a gift/inheritance	
	Proportion Missing Original Value	Proportion with Original Value	Proportion missing one or more original value	Proportion with all original values
1	4%	96%	5%	95%
2	1%	99%	2%	98%
3	6%	94%	6%	94%
4	15%	85%	15%	85%
5	21%	79%	25%	75%
6	22%	78%	24%	76%
7	21%	79%	21%	79%
8	18%	82%	18%	82%
9	24%	76%	27%	73%
10	25%	75%	33%	67%
All	21%	79%	23%	77%

Bearing in mind the caveats just highlighted, when all wealth transfers for which the necessary details are available are put into present value (CPI 2013) prices, the pattern of the value of gifts and inheritances by year and type can be seen in Figure 3. This is the counterpart of Figure 1 which dealt with the number of wealth transfers.

Figure 3: Proportion of Estimated Gifts/Inheritances Present Value (CPI 2013) by Year and Type



The patterns observable are similar to those in Figure 1 with the (CPI 2013) value of wealth transfers tending to be higher in recent years (though lower after 2008), and in years ending in 3 and 8 and also those ending in 0 and 5. The same caveats regarding recall are at play here. Noteworthy too is that wealth transfers of money comprise a much smaller share of value than they do of volume of transfers (Figure 1). The year 2000 is striking for the value of gifts/inheritances which took place in that year. This is due to a pronounced rounding to end of decade effect in combination with a very small number of households who received very large value wealth transfers in that year.

#### 4. Descriptive Statistics

This sections looks at the patterns across households in terms of the likelihood of having received gifts and inheritances and the extent to which this receipt varies in any systematic way across different types of household. We also look at the patterns across households of those that might be expecting to receive a wealth transfer in the future. Given its importance in the overall wealth holdings of Irish households, we also present some separate statistics on the inheritance of the household’s main residence.

A large minority of households<sup>4</sup>, some 29%, report having received at least one substantial gift or inheritance. This is very much at the lower end of reported estimates for Euro Area countries which ranged between 26% and 40% in the first wave of the HFCS conducted in 2010 (Fessler & Schürz, 2015; Leitner, 2016; Tiefensee & Westermeier, 2016).<sup>5</sup> Receipt of an inheritance is much more common than receiving a gift, with one quarter of households have received one, compared to less than 5% who have received any gift. Given the relatively small proportion of households that have received gifts, all subsequent results presented address both gifts and inheritances combined, except where otherwise specified.

Table 2: Households in Receipt of any Gift or any Inheritance

	% of Households who Received:
Any Gift or Inheritance	28.8%
Any Inheritance	24.9%
Any Gift	4.4%

The survey also asked about whether households expected to receive a substantial gift or inheritance in the future. Table 3 shows that an additional 10% of households do expect one or the other. In total then 39% of households have received or expect to receive at least one gift or

<sup>4</sup> The survey grosses to a total of 1,690,073 households.

<sup>5</sup> Ireland did not take part in the first survey wave for the HFCS which was carried out for a number of other European countries in 2009-2010. The Irish survey was undertaken as part of the second European-wide wave of data collection. While directly comparable figures for previous Irish estimates of the frequency of wealth transfers are not available, a partial comparison is possible with Nolan (1992). These are detailed in the appendix but indicate a substantial reduction in the proportion of households reporting a gift or inheritance of property from 25% in 1987 (Nolan, 1992) to 17.7% in 2013. Further detail is available in Annex 1.

inheritance. As well as those who have not received a wealth transfer but expect to receive one, some 4% of households who have previously received one expect to receive a further gift or inheritance.

Table 3: Households in Receipt or Expecting Receipt of any Gift or Inheritance

		Gift/Inheritance		
		Not Received	Received	Total
Gift/ Inheritance	Not Expected	61.1%	24.8%	85.8%
	Expected	10.1%	4.0%	14.2%
	Total	71.2%	28.8%	100.0%

The headline figures on the proportion of households who have received gifts or inheritance can be examined across a range of household characteristics. In the next number of figures, we show how the receipt and expectation of gifts or inheritances vary by household age, size, wealth and income.

The top bar in Figure 4 shows the same information as Table 3. The yellow bar is the 61% of households who have not received a gift/inheritance and do not expect one. The grey bar is the 10% of households who have not received either but do expect one. Combined, they comprise the 71% of households who have not (yet) received a wealth transfer. Their counterpart is the 29% of households in receipt of a wealth transfer (comprised of the blue bar 25% who don't expect any more and the orange bar 4% who do). Combined, 14% of households (orange and grey bars) expect to receive a gift/inheritance.

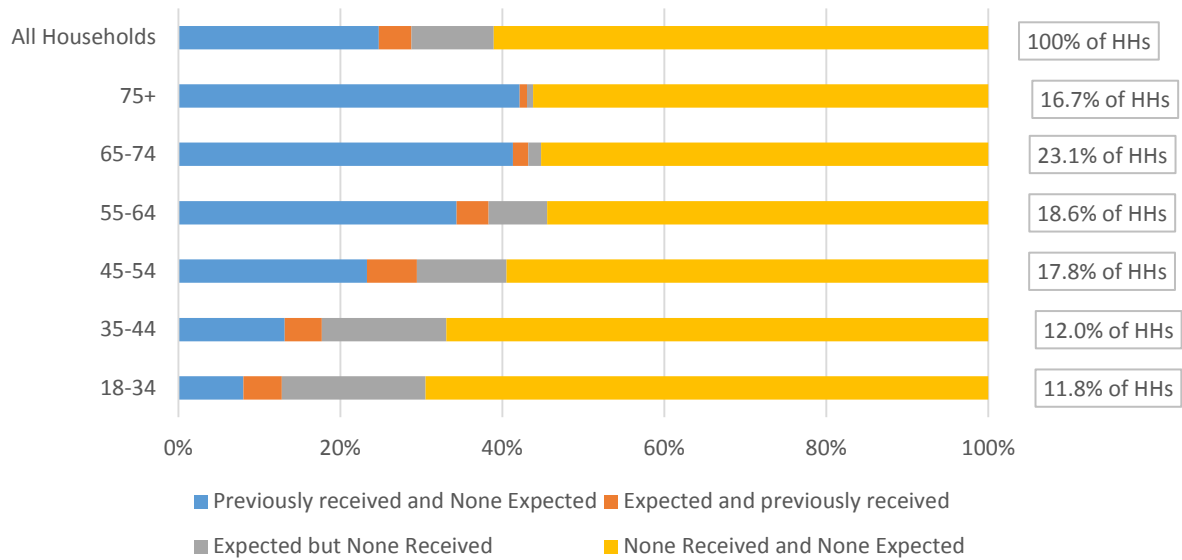
In terms of the pattern of gifts and inheritances across different age groups, Figure 4 shows a number of clear trends. Firstly the older that the eldest member of the household is, the more likely the household is to have received a gift or inheritance. Some 13% of households where the eldest household member is under 35 have received a gift or inheritance. The proportion increases for each age group, reaching 43% of households where the eldest household member is 65 or older. Interestingly, this progression in households reporting receipt of a wealth transfer as age increases appears to be stronger in Ireland than in other Euro Area countries (Westermeier, 2016)<sup>6</sup>.

Secondly, this trend is reversed when it comes to expectations. Some 23% of the youngest households expect to receive a gift or inheritance in future. By comparison just 2% of the oldest households expect to receive one. A third point can be seen from the combined figures for receipt and expectation which stands around 45% for households with a member over 55. If the future pans out as younger households expect around 32% would receive a gift or inheritance in their lifetime, substantially less than the oldest households. However, receipt of unexpected gifts and inheritances

<sup>6</sup> The comparison of other Euro Area countries with Ireland is on the basis of the age of the 'head of household' or respondent to the survey rather than for the oldest member of the household as is shown here. The pattern of receipt by age of head of household in Ireland is very similar, though slightly less pronounced, and the oldest (75+) heads of households are slightly less likely to report an inheritance than their 65-74 year old counterparts.

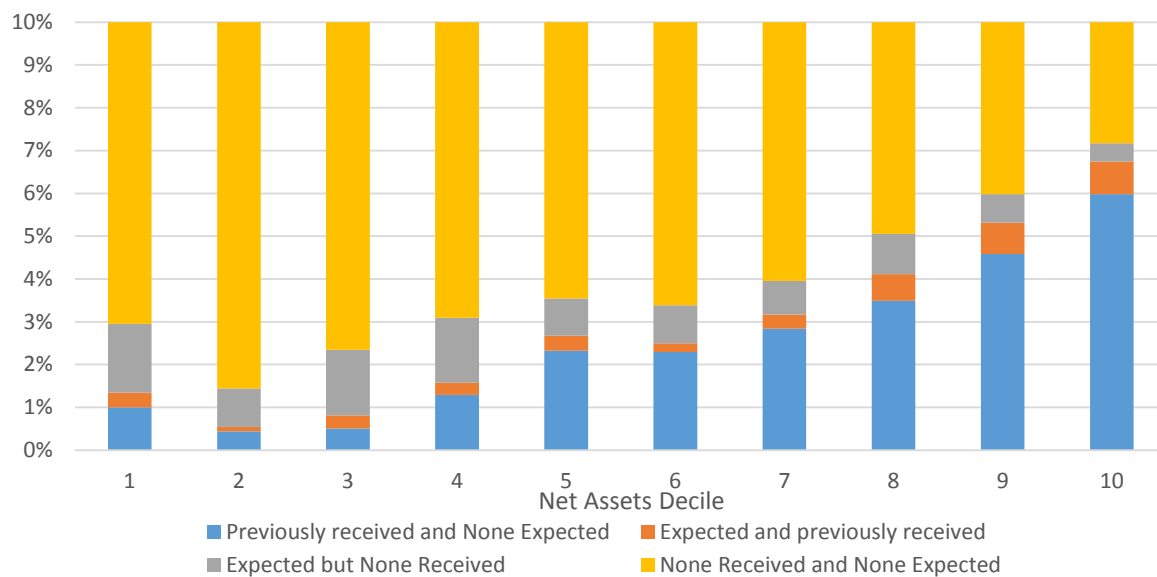
would be anticipated to account for some of this difference though changed patterns of receipt are also plausible.

Figure 4: Receipt/Expectation of Gift/Inheritance by Oldest Household Member



The receipt and expectation of gifts and inheritances can also be considered by wealth decile, that is all households ranked by net wealth and then divided into ten groups (deciles) each representing an equal number of households. For instance, household wealth exceeds €546,090 in the wealthiest ten per cent of households (see Lawless and Lynch, 2016, for further information on the composition and distribution of wealth for Irish households).

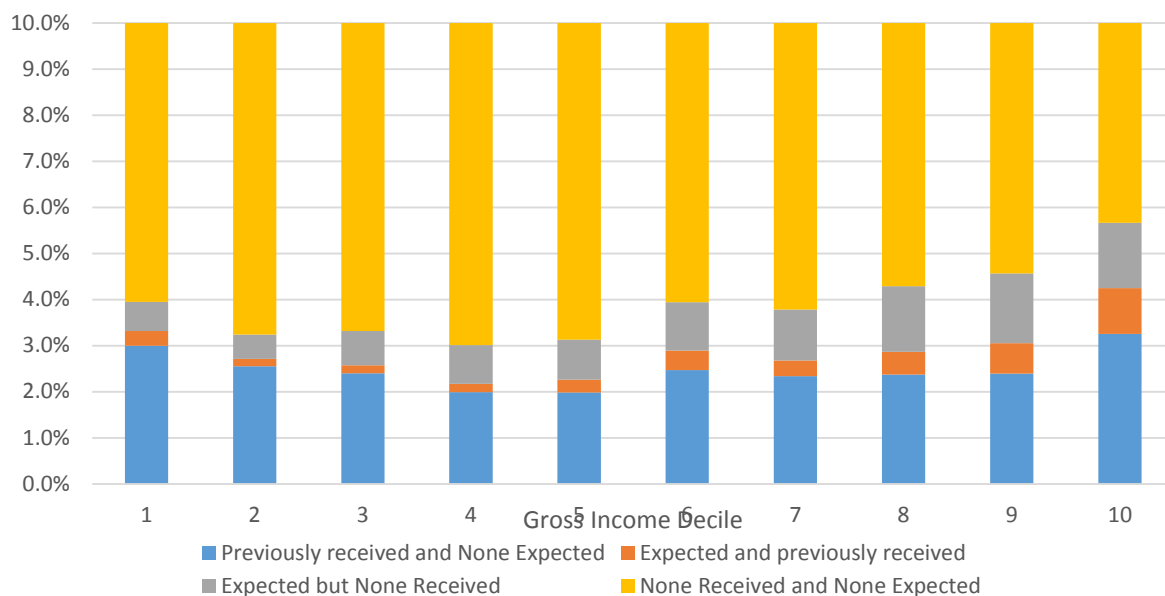
Figure 5: Gift/Inheritance Received and/or Expected by Wealth Decile



There is a clear correlation shown in Figure 5 between the receipt of a gift or inheritance and the wealth of households. Two-thirds of households in the top wealth decile (6.7% of all households) have received one compared to one-twentieth (0.5% of all households) in the second wealth decile. In general, this pattern is similar to that in other Euro Area countries with some slight differences in magnitude in that in Ireland the incidence of receipt appears below that of comparator countries from the second to the seventh wealth deciles and is amongst the highest in the bottom and top wealth deciles (Bönke et al., 2016 [Table A2]). Expectations for gifts or inheritances are conversely distributed to reported receipt, appearing slightly higher in the bottom four wealth deciles and relatively flat thereafter.

It is important to emphasise that the finding that more wealthy households have received a gift or inheritance is not exactly the same as saying that wealthier households receive more gifts or inheritances. These households could have been in lower wealth deciles at the time of receipt.

Figure 6: Gift/Inheritance Received and/or Expected by Income Decile



The relationship between wealth transfers and income level is much less pronounced. On an income decile basis, Figure 6 shows the receipt of gifts or inheritances approximates a shallow U-shaped pattern, with the highest incidence of receipt in the top and bottom gross income deciles. Ireland is in the middle of the range of Euro Area Countries in terms of the strength of the relationship between income and receipt of wealth transfers (Westermeyer, 2016). The expectation of receiving a gift or inheritance in future is greater for higher-income households also.

Having considered the receipt and expectation of gifts and inheritances across various household characteristics, the remainder of this section focuses on the characteristics of the wealth transfers themselves. The asset type, the relationship of the beneficiary to the donor and the present value of gifts and inheritances are discussed in their own right and along the wealth distribution.

Table 4: Proportion of Households by Wealth Decile who received a Gift/Inheritance by Asset Type<sup>7</sup>

Net Assets Decile	Any Gift/Inheritance	HMR	Dwelling (Excl. HMR)	Money	Land	Business/Farm	Other
1	13%	1%	2%	10%	1%	0%	0%
2	5%	0%	0%	5%	0%	0%	0%
3	8%	0%	0%	6%	0%	0%	1%
4	16%	5%	1%	8%	1%	1%	0%
5	27%	12%	2%	11%	1%	1%	0%
6	25%	12%	2%	9%	2%	3%	0%
7	32%	13%	4%	14%	1%	6%	0%
8	41%	11%	9%	18%	1%	8%	1%
9	53%	15%	8%	20%	3%	20%	1%
Top	67%	24%	10%	18%	2%	39%	3%
All HHlds	28.8%	9.4%	3.7%	11.9%	1.3%	7.7%	0.7%

The most common type of gift or inheritance households report having received is money (Table 4). Almost 12% of households report receiving a gift or inheritance of money<sup>8</sup>. The next most frequent asset types received are the Household Main Residence (9.4% of households), a business or farm (7.7%), a residential dwelling (3.7%) and land (1.3%). Note that some households have received more than one type of gift or inheritance. It is also worth highlighting that as 29.5% of all households do not own their Household Main Residence (HMR), the 9.4% of all households who received their HMR by gift or inheritance is equivalent to 13.3% (or one in eight) of all homeowners having either inherited their HMR or were gifted it.

The asset types of wealth transfers that households report receiving also varies substantially by current wealth. While 13% of households in the in the first wealth decile have received any gift or inheritance, no households report receiving a business/farm. By contrast, almost 40% of households in the top wealth decile report a wealth transfer involving a business/farm. This emphasises the impact that wealth transfers can have on household wealth. In the HFCS, 99% of households who were gifted or inherited a business/farm<sup>9</sup> held a farm at the time of the survey. As the value of farms represents 19% of gross assets (25% of net wealth) in the HFCS wealth base and are largely held by

<sup>7</sup> Note that reported receipt of any gift/inheritance is not the sum of receipt of the different asset categories as households who received wealth transfers of more than one asset type will only be counted once in the any gift/inheritance column. By definition, the proportions for all households are the averages of the ten deciles.

<sup>8</sup> When considering the number of gifts/inheritances rather than number of households, the form of gift received is much more likely to have been money (70% of gifts were money) compared to inheritances (31% of inheritances were money).

<sup>9</sup> The survey questionnaire did not distinguish between businesses and farms when detail on gifts/inheritances is sought. Respondents were asked to indicate the type of wealth transfer among a number of categories one of which was 'business (including farms)'.

households in the top wealth decile( Lawless and Lynch, 2016), recipients of gifts or inheritances of farms would by definition be expected to be highly concentrated in the upper wealth deciles.

The same logic applies to a lesser extent to the other asset types. Households in the upper wealth deciles are more likely to have been a wealth transfer recipient for all asset types. Very few households in the bottom four wealth deciles received their HMR by gift/inheritance, this rises to a proportion in the low teens in the next five deciles. Almost one quarter of households (24%) in the top wealth decile inherited or were gifted their HMR. While this will reflect, in part, age, farm holding and home ownership patterns by wealth decile among other factors<sup>10</sup>, it is a remarkable figure. The incidence of households having received wealth transfers of money shows a more even distribution of receipt across the wealth deciles than other asset types, though households in the top three deciles are still 2.5 times more likely than the bottom three deciles to have received a gift or inheritance of money.

Looking in particular at gifts and inheritances of residential properties<sup>11</sup>, we find in Table 5 that overall 13.3% of home-owning households were gifted or inherited their HMR<sup>12</sup>. Of those that were acquired in the five years to 2013, 21% were from a wealth transfer. This contrasts strongly with those who acquired their HMR in the decade to 2008 where we find that 6% had inherited or were gifted their HMR. These patterns likely reflect the extremely high and low volumes of residential property transactions in these periods while the number of HMRs received by gift or inheritance was relatively more stable.

Generally, the incidence of having received their HMR by wealth transfer is higher for households who acquired their current HMR longer ago. There may be some composition bias as those who have maintained the same HMR for longer are less likely to be representative of households generally, but it does appear that inheriting (or being gifted) a HMR was a larger factor in previous decades.

There is also a declining pattern in terms of the proportion of houses inherited which are currently the HMR. In more recent time periods, approximately half of residential properties received by wealth transfer are occupied as the recipients HMR. While caveats will also apply here, notably that recall of wealth transfers of other dwellings will be significantly weaker than whether the current HMR was a gift or inheritance, it does appear that inheritances or gifts of dwellings are less likely to be used as the HMR more recently.

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<sup>10</sup> For instance 98% of households in the top two wealth deciles own their HMR as compared to a third of households in the lowest four deciles.

<sup>11</sup> This box considers the direct acquisition of residential properties by gift or inheritance. Of course, other forms of wealth transfer can be used to finance property acquisition. Kelly and Lydon (2017) estimate that a little over 20% of home-buyers under 40 received an inheritance in the 5 years prior to mortgage drawdown.

<sup>12</sup> Interestingly almost a quarter (24.5%) of home-owning households constructed their HMR while 62.3% of homeowners report purchasing their HMR.

Table 5: HMR/Dwelling Acquisition Over Time

Period Acquired	A	B	C = B/A	D	E = B + D	F = B/E
	Total Current HMRs Acquired	Owned HMRs Received by Gift/Inheritance	% Owned HMRs Received by Gift/Inheritance	Other Dwellings Received by Gift/Inheritance	Total HMRs/Dwellings Received by Gift/Inheritance	% of Dwellings Reported Received by Gift/Inheritance that are HMR in 2013
#1945 - 1963	45,000	16,000	35%	-	16,000	100%
#1964 - 1983	269,000	51,000	19%	7,000	56,000	91%
*1984 -1993	200,000	33,000	16%	11,000	43,000	76%
1994 -1998	121,000	13,000	11%	7,000	19,000	66%
1999 -2003	187,000	16,000	8%	11,000	27,000	59%
2004 - 2008	281,000	11,000	4%	17,000	29,000	39%
2009 -2013	80,000	17,000	21%	14,000	31,000	55%
Total	1,183,000	156,000	13.3%	66,000	221,000	70%

# 20 year period \*10 year period

Gifts and inheritances must be received from someone. For assets other than the HMR, a breakdown is available as to the relationship of the recipient household to the donor (Table 6). By far the most households report receiving a gift or inheritance from a parent (16.2%).

Table 6: Proportion of Households in each Wealth Decile who received a Gift/Inheritance by donor relationship

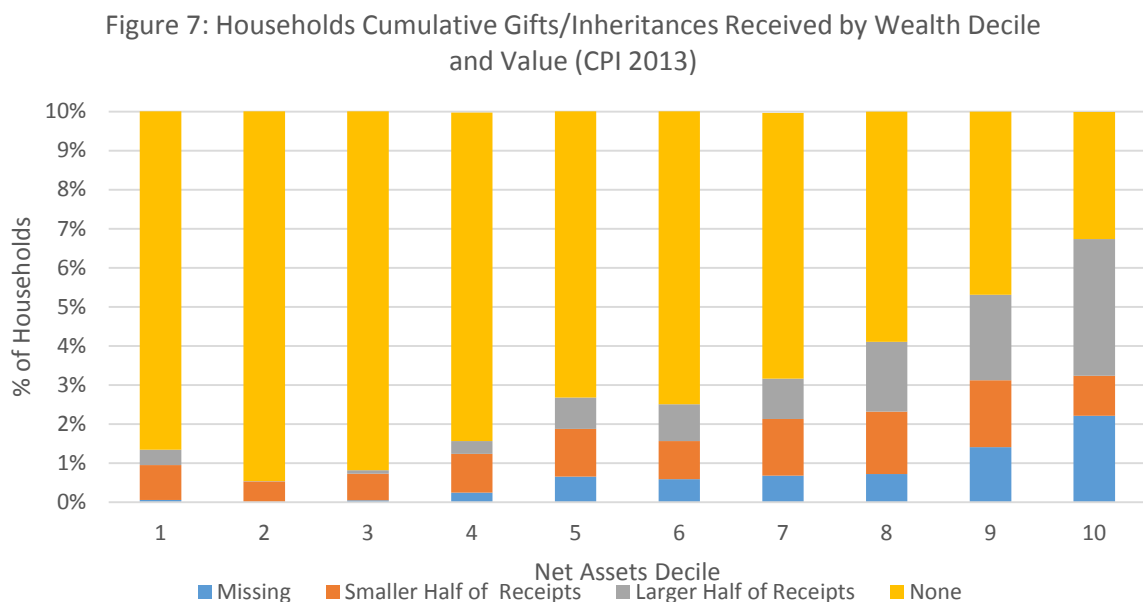
Net Assets Decile	Any Gift/Inheritance	Any Gift/Inheritance excl. HMR	Grandparents	Parents	Other Relative	Unrelated
1	13%	12%	1%	10%	1%	0%
2	5%	5%	1%	1%	2%	1%
3	8%	8%	2%	4%	1%	1%
4	16%	11%	1%	7%	3%	0%
5	27%	15%	1%	8%	4%	1%
6	25%	15%	1%	9%	4%	1%
7	32%	24%	1%	16%	6%	1%
8	41%	34%	2%	23%	8%	1%
9	53%	48%	2%	32%	14%	1%
Top	67%	63%	2%	52%	12%	3%
All	28.8%	23.6%	1.6%	16.2%	5.5%	1.1%
HHlds						



In general, irrespective of the relationship between the donor and the beneficiary, the proportion of households who have received a gift or inheritance rises as wealth increases. The high proportion of households in the upper wealth deciles who report receiving a gift or inheritance is driven by wealth transfers originating from parents and (to a lesser extent) relatives other than parents or grandparents. Over half (52%) of households in the top wealth decile have received a gift or inheritance from their parents compared to a low of 1% of households in the second wealth decile.

Certain asset types and beneficiary-donor relationships may be associated with higher value gifts and inheritances. However, the values of individual wealth transfers need to be cumulated to account for households who receive multiple gifts and/or inheritances. As mentioned earlier, missing observations do cause a problem when attempting to calculate the present value of cumulative wealth transfers. In Figure 7, the larger proportion of households in the upper wealth deciles for whom the present value of their cumulative gifts and inheritances cannot be calculated, can be clearly seen.

The remaining recipient households can be divided into two groups based on whether the present values of their cumulative wealth transfers is in the top half or bottom half of known cumulative wealth transfers. It is evident that not only have a larger proportion of households in the higher wealth deciles received gifts or inheritances, but the wealth transfers received by wealthier households have also been of cumulatively higher value (in present value terms). Part of this is definitional, for instance unless all or most of a very large inheritance was consumed, then that beneficiary will be in the top wealth decile irrespective of what their initial wealth was.



As can be seen in Figure 7, the recipients of smaller acquisitions are relatively evenly distributed across the wealth deciles with only a slightly higher incidence/proportion of households in the higher wealth deciles reporting having received these smaller acquisitions.

## 5. Household characteristics and receiving gifts and inheritance

This section looks further into the relationship between various household characteristics and wealth transfers, using more formal econometric estimations to examine how they are linked to the (relative) probability of receiving a gift or inheritance, the value of the transfer and how having received a transfer affects the current net wealth position of the household. As we are using cross-sectional data, we must emphasise the caveat that these results show correlations and that causal relationships would require considerable additional information, in particular on the household characteristics before and after the transfer occurs rather than the snapshot of data that we use in this paper. Nonetheless, the descriptive patterns show some interesting relationships and highlight areas where more in-depth research might be fruitful.

The first question relates to what types of households are most likely to have received a gift or inheritance. We begin by defining a dummy variable  $Inher_d$  which is equal to one if the household has received any wealth transfer, either in the form of a gift or inheritance, and zero otherwise:

$$Inher_d = 1 \text{ if inheritance} > 0 \text{ or gift} > 0$$

$$Inher_d = 0 \text{ otherwise}$$

We then set up the econometric specification as a probit regression of the form:

$$\Pr(Inher_d) = \alpha + \beta X + \varepsilon$$

Where  $X$  is a vector of household characteristics: we include age categories for the household reference person (35-44, 45-54, 55-64, 65-74 and 75+), a dummy variable if the reference person is female, indicator variables for the size of the household, the main work status of the reference person (self-employed, retired or other not working, with employee as the reference category), an education category (secondary or tertiary level education) and a control for Irish nationality. In addition, we include indicators of the household's income position measured as the quintile of total gross household income. The estimates we present are relative probabilities compared to a reference household defined as a 1 person household in the first income quintile, headed by a male aged 18-34 who is an employee with primary education only. Finally  $\varepsilon$  is the error term.

We run four specifications to allow different characteristics to affect different types of intergenerational transfer. These are: 1) any gift or inheritance; 2) inheritance; 3) gift and 4) inheritance of main residence. The results of these four probit regressions are presented in Table 7. The first noticeable pattern confirms the descriptive statistics earlier that the probability of receiving an inheritance is strongly correlated with the age of the household reference person. As we are looking at inheritances acquired at any point in the past, this is perhaps not very surprising. There is some variation across the different types of transfer however. We find a larger effect of age on the probability of having inherited the household main residence relative to that of having had any type of inheritance. To the contrary, we then find that the probability of having received a gift has no significant association with age for the under-55 age groups and then a negative relationship for the older groups.

Table 7: Relative Probability of receiving a gift or inheritance				
	(1) Gift/Inheritance	(2) Inheritance	(3) Gift	(4) Main residence
<b>Age 35-44</b>	0.269*** (0.067)	0.381*** (0.076)	0.024 (0.089)	0.510*** (0.151)
<b>Age 45-54</b>	0.662*** (0.067)	0.876*** (0.075)	-0.055 (0.096)	0.961*** (0.144)
<b>Age 55-64</b>	0.867*** (0.071)	1.151*** (0.078)	-0.470*** (0.122)	0.992*** (0.144)
<b>Age 65-74</b>	1.035*** (0.094)	1.337*** (0.100)	-0.720*** (0.188)	1.386*** (0.160)
<b>Age 75+</b>	0.989*** (0.105)	1.305*** (0.110)	-0.778*** (0.212)	1.336*** (0.169)
<b>Female</b>	0.059 (0.039)	0.031 (0.041)	0.113* (0.064)	-0.008 (0.058)
<b>2 persons</b>	-0.161*** (0.056)	-0.112* (0.058)	-0.255*** (0.091)	-0.346*** (0.077)
<b>3 persons</b>	-0.222*** (0.069)	-0.184** (0.072)	-0.258** (0.106)	-0.330*** (0.099)
<b>4 persons</b>	-0.298*** (0.072)	-0.206*** (0.076)	-0.415*** (0.111)	-0.487*** (0.113)
<b>5+ persons</b>	-0.302*** (0.079)	-0.198** (0.082)	-0.442*** (0.122)	-0.477*** (0.125)
<b>Self-employed</b>	0.629*** (0.066)	0.631*** (0.068)	0.251** (0.103)	0.550*** (0.093)
<b>Not working</b>	0.014 (0.055)	0.044 (0.058)	-0.077 (0.092)	0.084 (0.084)
<b>Retired</b>	-0.038 (0.080)	-0.062 (0.081)	0.363** (0.157)	-0.153 (0.107)
<b>Secondary education</b>	0.063 (0.065)	0.081 (0.066)	0.011 (0.136)	-0.085 (0.075)
<b>Tertiary education</b>	0.224*** (0.074)	0.187** (0.075)	0.228 (0.143)	-0.500*** (0.099)
<b>2nd income quintile</b>	-0.004 (0.067)	-0.004 (0.070)	-0.047 (0.117)	0.041 (0.088)
<b>3rd income quintile</b>	0.074 (0.070)	0.058 (0.072)	0.037 (0.117)	-0.076 (0.096)
<b>4th income quintile</b>	0.224*** (0.073)	0.189** (0.076)	0.128 (0.120)	-0.025 (0.105)
<b>5th income quintile</b>	0.331*** (0.078)	0.265*** (0.081)	0.297** (0.126)	-0.152 (0.118)
<b>Irish nationality</b>	0.388*** (0.055)	0.336*** (0.058)	0.314*** (0.087)	0.593*** (0.108)
<b>Constant</b>	-1.698*** (0.117)	-1.975*** (0.125)	-1.986*** (0.201)	-2.375*** (0.204)
<b>Observations</b>	5,419	5,419	5,419	5,419
<b>Pseudo R-squared</b>	0.098	0.122	0.06	0.177

Probit regressions on receipt of gift or inheritance. Standard errors in parentheses \*\*\* p<0.01, \*\* p<0.05, \* p<0.1. Reference group: 18-34, male, 1 person household, employee, primary education, first income quintile.

Comparing these results to those from the UK in Crawford and Hood (2016), they find no significant association with age of the household but include information on the age at which the parent of the household reference person died. As parents are the main source of inheritance (both in the UK data and in the Irish survey) their results show that having no surviving parent has a very strong effect on the probability of having received an inheritance. It is likely that our variable on the household age is effectively proxying for this more direct effect.

The size of the household has a negative effect on the probability of having had an inheritance or gift of any type, although the reason why this would be the case is not clear. One possible interpretation is that when a wealth transfer of the same total value is divided among a larger number of people in the household, it is less likely to be considered “substantial” which is the term used in the survey questionnaire. Another aspect may be that some assets (e.g. family home or farms) are regarded as less suitable to divide between multiple beneficiaries compared to other asset types such as money. In terms of work status, there is a strong positive effect for the self-employed to have received an inheritance relative to any other group. The inclusion of farmers in this group potentially drives the result, given that the occupation and inheritance of the asset are closely linked.

For education and income group, we again have some variation across the different types of wealth transfer. The group with tertiary level education are more likely to have received some type of inheritance but less likely to have inherited the current household main residence (possibly reflecting higher geographic mobility). There may be an association here between higher levels of education and wealthier family background but the data is not available to investigate this further. Education is not found to have any statistically significant association with receiving a gift. For income, being in a higher income group (the fourth or fifth quintile) is positively associated with having received an inheritance but, as with education, not with inheriting the current family home. Only the highest income quintile has a higher probability of having received a gift.

Having received a gift or inheritance, are there any systematic relationships between household characteristics and the values of these gifts or inheritances? Table 8 presents the results for the values (in logs and transformed into constant 2013 values to ensure consistency of comparison) using an OLS regression:

$$\text{Ln}(\text{TransferValue}) = \alpha + \beta X + \varepsilon$$

Where  $X$  represents the household characteristics as in the probit regression above. As with Table 7 on the probability of receiving a regression, we run separate specifications for the different wealth transfer types: 1) any gift or inheritance; 2) inheritance; 3) gift and 4) inheritance of main residence. The sample here is restricted to households that did receive the type of transfer in question. Given this, an alternative specification would be to estimate the probability of receipt and the value simultaneously using a Heckman selection model. We did so and found that there was no evidence of selection bias and the results are similar to those presented here from the two stages separately.

Table 8: Relative Value of gift or inheritance (if received)				
	(1) Gift/Inheritance	(2) Inheritance	(3) Gift	(4) Main residence
<b>Age 35-44</b>	0.878***	0.731***	0.839***	-0.228
	(0.203)	(0.256)	(0.313)	(0.332)
<b>Age 45-54</b>	1.081***	0.849***	1.150***	-0.531*
	(0.199)	(0.246)	(0.335)	(0.320)
<b>Age 55-64</b>	0.920***	0.578**	0.865	-0.650**
	(0.200)	(0.244)	(0.531)	(0.319)
<b>Age 65-74</b>	1.317***	1.028***	0.518	-1.179***
	(0.249)	(0.288)	(0.808)	(0.346)
<b>Age 75+</b>	1.001***	0.706**	-0.264	-1.735***
	(0.277)	(0.314)	(0.880)	(0.361)
<b>Female</b>	-0.034	-0.030	0.009	0.248**
	(0.107)	(0.116)	(0.242)	(0.122)
<b>2 persons</b>	-0.345**	-0.425***	-0.266	-0.220
	(0.142)	(0.154)	(0.330)	(0.151)
<b>3 persons</b>	0.274	0.164	0.455	-0.273
	(0.184)	(0.201)	(0.385)	(0.211)
<b>4 persons</b>	-0.218	-0.341	-0.130	-0.267
	(0.194)	(0.213)	(0.391)	(0.229)
<b>5+ persons</b>	-0.226	-0.446*	0.428	-0.162
	(0.212)	(0.232)	(0.428)	(0.272)
<b>Self-employed</b>	0.878***	0.755***	1.606***	-0.080
	(0.163)	(0.174)	(0.351)	(0.195)
<b>Not working</b>	0.202	0.125	0.359	0.005
	(0.156)	(0.170)	(0.359)	(0.182)
<b>Retired</b>	0.230	0.209	0.561	0.440*
	(0.196)	(0.205)	(0.697)	(0.230)
<b>Secondary education</b>	0.047	0.066	-0.429	0.185
	(0.173)	(0.180)	(0.587)	(0.150)
<b>Tertiary education</b>	-0.149	-0.207	-0.173	0.456**
	(0.196)	(0.207)	(0.601)	(0.209)
<b>2nd income quintile</b>	0.552***	0.545***	0.562	-0.014
	(0.179)	(0.193)	(0.427)	(0.170)
<b>3rd income quintile</b>	0.536***	0.427**	1.231***	0.029
	(0.187)	(0.202)	(0.435)	(0.196)
<b>4th income quintile</b>	0.729***	0.646***	1.438***	0.190
	(0.193)	(0.210)	(0.419)	(0.226)
<b>5th income quintile</b>	0.779***	0.805***	1.016**	0.421*
	(0.202)	(0.221)	(0.421)	(0.246)
<b>Irish nationality</b>	0.497***	0.417**	0.536	-0.664**
	(0.162)	(0.182)	(0.324)	(0.277)
<b>Constant</b>	8.815***	9.397***	7.902***	12.177***
	(0.341)	(0.374)	(0.871)	(0.478)
<b>Observations</b>	1,060	906	184	319
<b>R-squared</b>	0.127	0.098	0.337	0.247

OLS regressions on values (in 2013 terms) of gifts or inheritances received. Standard errors in parentheses  
\*\*\* p<0.01, \*\* p<0.05, \* p<0.1. Ref group: 18-34, male, 1 person household, employee, primary educ., 1st income quintile.

There are fewer statistically significant relationships in the estimation of the transfer values relative to those on the probability of receiving a transfer and it should be noted that the sample size is quite a bit smaller so more caution should be attached to any inferences from these results. The value of any gift or inheritance received increases with household age but, somewhat surprisingly, this does not apply to the value of the main residence if it was inherited. Along with having a higher probability of receiving a gift or inheritance, the self-employed and those in the higher income quintiles are likely to have inherited the largest amounts. The positive tertiary education effect on receiving an inheritance on the other hand is not reflected in higher asset values, apart from in the event of inheriting the main residence.

Our final step follows Fessler and Schürz (2015) to examine how gifts and inheritances affect the net wealth position of households. Given the difficulty in measuring the values of inheritances received in the past in today's values, the estimation method focuses on whether or not having received an inheritance affects where in the wealth distribution the household finds itself, controlling for its place in the income distribution. In other words, does having received a wealth transfer at some point translate into the household being at a different place in the wealth distribution than can be explained by their income position and other characteristics? To do this we run an OLS regression of the cumulative net asset function to measure the position of the household on an inheritance dummy (as defined above), the cumulative income distribution and a vector of household characteristics:

$$Net\_asset\_position = \alpha + \beta_1 Inher_d + \beta_2 Income\_position + \beta_3 X + \varepsilon$$

Again we would emphasise that these provide descriptive not causal relationships. The results are presented in Table 9. These show that having received an inheritance increases the position of the household in the wealth distribution by 15.4 percentiles relative to households of the same income level and other characteristics that did not receive an inheritance. This is extremely close to the 13 to 14 percentile increase found for the European pooled data from 2010 used by Fessler and Schürz. They also ran their estimation separately on each of the thirteen countries data was available for and found that this inheritance effect varied from a six percentile increase effect (in Slovakia) to seventeen percentiles (in Austria). This places the Irish result well within the range across Europe.

The positive and significant relationship between the household's position in the income distribution and its wealth position is to be expected but we find that the size of the coefficient is quite a bit smaller than that estimated for the pooled European data. In our estimates, a one percentile increase in the household's income position is associated with being 0.29 percentiles higher in the wealth distribution. The European pooled estimate for this relationship is close to 0.4 percentiles. The Irish estimate is within the range of estimates produced by the country-specific regressions run by Fessler and Schürz, albeit towards the lower end of the range with four out of the thirteen point estimates being lower than the Irish coefficient estimate.

<b>Table 9: Inheritance and net wealth position</b>		
	(1)	(2)
<b>Received gift/inheritance</b>	0.154***	
	(0.007)	
<b>Inherited HMR</b>		0.070***
		(0.011)
<b>Inherited money</b>		0.078***
		(0.009)
<b>Inherited dwelling (not HMR)</b>		0.179***
		(0.017)
<b>Inherited business</b>		0.256***
		(0.012)
<b>Inherited land</b>		0.140***
		(0.026)
<b>Income position</b>	0.290***	0.294***
	(0.013)	(0.012)
<b>Female</b>	0.018**	0.018**
	(0.006)	(0.006)
<b>Age</b>	0.017***	0.017***
	(0.001)	(0.001)
<b>Age squared</b>	-0.001***	-0.000***
	(0.000)	(0.000)
<b>Tertiary education</b>	0.009	0.021***
	(0.007)	(0.007)
<b>Retired</b>	0.048***	0.058***
	(0.011)	(0.011)
<b>Self-employed</b>	0.148***	0.122***
	(0.010)	(0.010)
<b>Household size<sup>13</sup></b>	0.002	0.001
	(0.002)	(0.002)
<b>Constant</b>	-0.322***	-0.322***
	(0.028)	(0.027)
<b>Observations</b>	5,419	5,419
<b>R-squared</b>	0.449	0.475

We then go a little further than the Fessler and Schürz paper to examine if there is any variation across the type of inheritance in terms of its effect on the net wealth position of the household. We do this by including separate dummy variables for different types of inheritance, namely the

<sup>13</sup> Fessler & Schürz (2015) control for thirty types of household composition, here we proxy this control using household size.

household main residence, money, a dwelling that is not used as the household residence, a business or land. The reference category remains not having received any inheritance. The effect of income position and other characteristics on wealth position are unchanged but we find that the coefficient estimates for the different types of inheritance vary quite considerably in terms of their effect on the household's wealth position. The inheritance of a business (incl. farms) or a dwelling not used as the household's main residence are the most strongly associated with a move up in the wealth distribution compared to much smaller effects for having inherited money or the main residence. Inheriting a business (incl. farms) moves the household almost 26 percentiles higher in the wealth distribution than would be expected for its place in the income distribution.

## 6. Policy Implications

In regards to tax policy, the pattern of gifts and inheritances can directly inform taxation of wealth transfers which in Ireland takes the form of Capital Acquisitions Tax. Most countries operate an inheritance tax which is a tax on the donor (or the estate of the donor) and depends on the value of the individual bequest. By contrast, an accessions tax such as Capital Acquisitions Tax (CAT) is a tax on the beneficiary (acquirer) and depends on the cumulative amount the beneficiary has received over his or her lifetime. In terms of their underlying policy rationales, the goal which operating an accessions type tax rather than inheritance tax system is to promote a wider dispersion of wealth and discourage unearned accumulations of wealth.

As currently implemented, CAT in Ireland is a partial accessions tax because the tax on the beneficiary depends not solely on the value of lifetime gifts and inheritances above a certain threshold but on the value of lifetime wealth transfers above the respective thresholds in each of three different relationship groupings. Higher exemption thresholds based on consanguinity (family relationships) are a common feature of wealth transfer taxation (Commission on Taxation, 2009). In addition, CAT incorporates a large range of special treatments and exemptions for certain asset types and in combination with certain relationships<sup>14</sup>. The higher thresholds and exemptions reflect prior claims and expectations vis-à-vis family and relatives while the stated aim of the special treatments typically includes encouraging productive use of business assets and preventing the sale or break-up of enterprises or residences in order to pay the CAT liability.

The evidence coming from the HFCS for gifts and inheritances (which will be somewhat influenced by the existing tax regime) is that these channels where CAT is relaxed from a full accessions tax are the same channels that conduit the bulk of wealth transfers.

- Parents are the primary source of gifts and inheritances for most households
- The high proportion of households in the upper wealth deciles who report receiving a gift or inheritance is driven by wealth transfers originating from parent.

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<sup>14</sup> <https://www.revenue.ie/en/gains-gifts-and-inheritance/gift-and-inheritance-tax-cat/index.aspx>



- Money is the most common type of gift or inheritance households report having received but is of smaller value. This leaves gifts and inheritances of businesses/farms and dwellings (HMR & other) as the most important asset type in wealth transfers.
- The high proportion of households in the upper wealth deciles who report receiving a gift or inheritance is driven by wealth transfers of dwellings (HMR & other) and businesses/farms.

These stylised facts bear out the trade-off between the goals underpinning the Capital Acquisitions Tax. Given these patterns of gifts and inheritances, CAT cannot effectively encourage the greater diffusion of wealth at the same time as reflecting the structures of familial responsibility.

Simply put, the higher any exemption threshold from CAT is, the less effective CAT will be at encouraging the wider distribution of wealth. In particular, according to the analysis just presented, it is the parent-child donor-beneficiary relationship threshold which will have the most bearing on the dispersion of wealth. The other side of the coin is that the lower any exemption threshold from CAT is, the less CAT accommodates intra-familial responsibility and it is the parent-child donor-beneficiary relationship threshold which will have the most bearing on this.

Likewise, the higher any CAT exemptions and special treatments for different asset types, the more CAT's wealth dispersion function will be impaired. The analysis bears out that it is exemptions and special treatments relating to the HMR and businesses/farms in particular, which will have the greatest impact in this regard. This must be then weighed against the extent to which the exemptions and special treatments succeed in encouraging productive use of business assets.

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## Annex 1 – Developments in the Patterns of Gifts and Inheritances of Property in Ireland 1987-2013

### Introduction and Survey Differences

The research paper ‘Gifts and Inheritances in Ireland’ presents a variety of estimates on the incidence of receipt of gifts and inheritances including analysis by characteristics including age, household composition, income and wealth. The characteristics of wealth transfers themselves are explored in their own right and along the wealth distribution with respect to asset type, the relationship of the beneficiary to the donor and the present value of gifts and inheritances. Where available, these results are put in the context of the patterns of gifts and inheritances in other European countries. However, limited attention is devoted to examining how the estimates for Ireland have changed over time. This purpose of the present annex is to fill this gap.

Using data from the 1987 ESRI ‘Survey on Income Distribution, Poverty and Usage of State Services’, Nolan (1992) analysed the characteristics of inheritors and the relationship of inheritance to wealth. The Nolan paper focuses on gifts or inheritances of property, in other words, households where an individual reports receiving a house (including the current house) or business/farm by gift/inheritance.

This annex follows the format of the Nolan paper providing updated figures based on the 2013 Household Finance and Consumption Survey (HFCS) which can then be compared and contrasted with the estimates underpinned by the 1987 Survey. In the main the annex focuses on how the characteristics of inheritors has changed over time. The value of inheritances are not examined for the reasons detailed in the main research paper.

It should be noted that the 2013 HFCS identifies a separate category of property gifts and inheritances involving land, distinct from businesses (including farms). These are a small but not insignificant percentage of wealth transfers and as such are included in the estimates reported for 2013. Where wealth transfers are disaggregated into different types of property, land is reported separately.

In the case of each table presented, the corresponding table in the Nolan paper is identified and the main differences and similarities between the 2013 and 1987 estimates are highlighted. Some tables are not directly comparable to the Nolan estimates due to differences for instance in methodology between the surveys and the information collected. In a few cases, it is not possible to generate estimates for 2013 which are in any useful way comparable to 1987 and in these cases the respective estimates have been omitted from the annex.

For the interested reader, this annex is best considered side-to-side with the original Nolan paper for direct comparability of estimates. This allows the similarities and differences to be easily identified.

It should be borne in mind that differences in the composition of recipients of gifts and inheritances between 1987 and 2013 will reflect not just changes in different groups’ probability of receiving

wealth transfers but also changes in the overall composition of households. For example, it is worth noting that the age profile of all households is substantially younger in 2013. The proportion of households headed by someone under 25 quadrupled over the period from 2% in 1987 to 8.3% in 2013. At the same time the proportion of households headed by someone over 75 nearly halved from 7.5% to 4.1%.

Some factors identified by Nolan as major influences on the importance of property transfers in 1987 have diminished in weight by 2013, namely owner occupation of housing and the size of the farms sector. In the 1987 Survey, 78% of households owned their own home compared to 70% in 2013. Some 16% of households owned a farm in 1987 compared to 11% in 2013.

### 2013 Update of Estimates from 1987

At a high level, there has been a seven percentage point reduction in the proportion of households who report receiving a wealth transfer of property in the 26 years since the earlier survey. In 1987, 24.8% of households had received a gift/inheritance of a house or business/farm. By 2013, 17.7% of households report any property wealth transfer. Wealth transfers reported by households have fallen for each property type, houses and business/farms. The largest fall over the quarter century is in the proportion of households receiving wealth transfers of both a house and a business farm.

Table A1: Households in Receipt of Gift/Inheritance of Property

	<b>% of Households in Receipt:</b>	
	<b><u>1987</u></b>	<b><u>2013</u></b>
House only	12%	8.9%
Business/Farm only	5%	4.2%
Both House & Business/Farm	8%	3.5%
Land	N/A	1.3%
<b>Any Property</b>	<b>24.8%</b>	<b>17.7%</b>

The probability of having received an inheritance of property has fallen since 1987 for all age categories, though the broad pattern has remained the same. In relative terms, the reduction is most notable for younger households. In 1987, 11.1% of households headed by someone under 25 (and 11.9% of households headed by someone between 25 and 35) had received a property gift/inheritance. In 2013, the respective figure was 3.1% (and 7.2%).

% Receiving		% of Recipients	Age of Head	% Receiving		% of Recipients
House only	All			House only	All	
<b>1987</b>	<b>1987</b>	<b>1987</b>		<b>2013</b>	<b>2013</b>	<b>2013</b>
7.5%	11.1%	0.9%	<25	2.5%	3.1%	1.5%
5.2%	11.9%	10.4%	>24 <35	3.2%	7.2%	9.6%
9.2%	21.1%	15.8%	>34 <45	7.4%	15.1%	18.7%
9.9%	23.1%	15.7%	>44 <55	11.1%	22.0%	22.0%
14.5%	33.4%	24.1%	>54 <65	11.9%	28.6%	24.4%
18.4%	36.2%	22.9%	>64 <75	18.3%	31.6%	16.8%
21.0%	34.2%	10.3%	>74	20.3%	30.3%	7.0%
<b>12%</b>	<b>24.8%</b>	<b>100%</b>	<b>All</b>	<b>8.9%</b>	<b>17.7%</b>	<b>100%</b>

Table A2: Households in Receipt of Gift/Inheritance of Property by Age of Representative Person

Source: Nolan (1992), Table 2

Some 85% of farmers report receipt of a property gift/inheritance in 2013 compared to 77.2% in 1987. This makes farmers the only labour group who are more likely to report in 2013 than 1987 that a wealth transfer of property had been received (though this may be in part due to identifying farmers in the HFCS as self-employed who hold farms). Employees and Retirees make up a substantially larger proportion of those reporting receipt of property in 2013 (58%) than in 1987 (33%) while farmers make up a substantially smaller proportion (15% in 2013 vs 38.4% 1987). Note again that these differences likely reflect changes in the overall composition of households over the period.

Table A3: Households in Receipt of Gift/Inheritance of Property by Labour Force Status of Representative Person

% Receiving		% of Recipients	Labour Force Status	% Receiving		% of Recipients
House only	All			House only	All	
<b>1987</b>	<b>1987</b>	<b>1987</b>		<b>2013</b>	<b>2013</b>	<b>2013</b>
5.7%	11.8%	29.8%	Employee	5.7%	11.8%	29.8%
5.3%	85.0%	15.0%	Farmer	5.3%	85.0%	15.0%
8.0%	9.4%	3.3%	Self-employed	8.0%	9.4%	3.3%
9.3%	12.0%	8.7%	Unemployed	9.3%	12.0%	8.7%
17.3%	26.6%	27.8%	Retired	17.3%	26.6%	27.8%
8.9%	18.2%	15.3%	Other	8.9%	18.2%	15.3%
<b>8.9%</b>	<b>17.7%</b>	<b>100%</b>	<b>All</b>	<b>8.9%</b>	<b>17.7%</b>	<b>100%</b>

Source: Nolan (1992), Table 4

By tenure status, owner occupied households with a mortgage are more likely in 2013 than in 1987 to report having received a property gift/ inheritance while the reverse is the case for owner occupied households without a mortgage. This is likely to reflect the increased prevalence of mortgaged households across all households (e.g. older households) in 2013.

Table A4: Households in Receipt of Gift/Inheritance of Property by Tenure

Tenure	% Receiving		% of Recipients
	House only	All	
	<b><u>2013</u></b>	<b><u>2013</u></b>	<b><u>2013</u></b>
Owner Occupied Without Mortgage	18.7%	35.2%	73.0%
Owner Occupied with Mortgage	5.0%	11.6%	22.3%
Rented (Private or Local Authority)	1.3%	2.8%	4.7%
<b>All</b>	<b>8.9%</b>	<b>17.7%</b>	<b>100%</b>
	<b><u>1987</u></b>	<b><u>1987</u></b>	<b><u>1987</u></b>
Owner Occupied Without Mortgage	22.8%	47.5%	87%
Owner Occupied with Mortgage	3.6%	7.6%	10.5%
Rented (Private or Local Authority)	0.2%	2.6%	1.5%
<b>All</b>	<b>12%</b>	<b>24.8%</b>	<b>100%</b>

Source: Nolan (1992), Table 5

Table 6 in Nolan (1992) details the incidence of property gifts/inheritances by Disposable Income Decile in 1987. While not directly comparable, Table A5 shows the incidence of property gifts/inheritances by Gross Income Decile in 2013.

Table A5: Households in Receipt of Gift/Inheritance of Property by **Gross** Income Decile, 2013

Decile	% Receiving					% of Recipients
	House only	Business/Farm only	House plus Business/Farm	Land	All	
1	15.8%	2.3%	2.9%	0.8%	21.5%	12.1%
2	10.9%	1.5%	5.0%	0.9%	18.2%	10.3%
3	10.3%	4.0%	2.3%	1.9%	17.9%	10.1%
4	6.2%	4.6%	4.1%	0.4%	15.3%	8.7%
5	6.1%	4.0%	3.0%	0.7%	13.7%	7.7%
6	9.1%	4.4%	3.9%	1.4%	18.2%	10.3%
7	8.4%	4.4%	3.6%	1.6%	17.8%	10.1%
8	6.4%	5.5%	3.0%	1.8%	16.5%	9.3%
9	6.7%	4.9%	3.0%	0.8%	15.5%	8.8%
Top	9.0%	6.1%	4.2%	3.2%	22.1%	12.5%
<b>All</b>	<b>8.9%</b>	<b>4.2%</b>	<b>3.5%</b>	<b>1.3%</b>	<b>17.7%</b>	<b>100%</b>

The tables in the Nolan paper which relate property wealth transfers to net wealth decile are directly comparable to the following 2013 tables. All wealth deciles are less likely in 2013 to report having received a property gift/inheritance than the equivalent wealth decile in 1987. Between 1987 and 2013 the likelihood has fallen most for the 3rd and 4th deciles, largely due to reduced likelihood of having received a house. The same strong correlation between net wealth decile and reporting receipt of a wealth transfer is evident in both 1987 and 2013.

Table A6: Households in Receipt of Gift/Inheritance of Property by Net Wealth Decile

Decile	% Receiving					% of Recipients
	House only	Business/Farm only	House plus Business/Farm	Land	All	
<b>2013</b>	<b>2013</b>	<b>2013</b>	<b>2013</b>	<b>2013</b>	<b>2013</b>	<b>2013</b>
1	2.9%	0.0%	0.0%	1.0%	3.7%	2.1%
2	0.1%	0.0%	0.0%	0.0%	0.1%	0.0%
3	0.7%	0.0%	0.1%	0.3%	1.1%	0.6%
4	5.9%	0.8%	0.0%	1.2%	7.9%	4.5%
5	13.8%	1.0%	0.0%	1.3%	16.0%	9.1%
6	12.4%	1.1%	1.4%	2.0%	16.7%	9.5%
7	13.1%	2.1%	3.6%	1.1%	19.7%	11.1%
8	15.7%	5.6%	2.3%	1.2%	24.3%	13.8%
9	12.6%	10.9%	8.8%	3.0%	34.9%	19.8%
Top	11.9%	20.3%	18.8%	2.3%	52.2%	29.6%
<b>All</b>	<b>8.9%</b>	<b>4.2%</b>	<b>3.5%</b>	<b>1.3%</b>	<b>17.7%</b>	<b>100%</b>
<b>1987</b>	<b>1987</b>	<b>1987</b>	<b>1987</b>	<b>1987</b>	<b>1987</b>	<b>1987</b>
Bottom 2	1.2%	0.5%	0%		1.6%	0.7%
3	14.6%	2.1%	2.3%		19.0%	7.7%
4	16.1%	1.6%	1.7%		19.4%	7.9%
5	16.7%	2.7%	3.7%		23.1%	9.4%
6	15.1%	3.4%	6.0%		24.6%	10.0%
7	16.2%	3.9%	6.8%		26.8%	10.9%
8	10.2%	6.4%	15.0%		31.6%	12.9%
9	10.5%	12.1%	16.3%		38.9%	15.8%
Top	12.0%	16.6%	32.3%		60.8%	24.7%
<b>All</b>	<b>12%</b>	<b>5%</b>	<b>8%</b>	<b>N/A</b>	<b>24.8%</b>	<b>100%</b>

Source: Nolan (1992), Table 8

Households reporting receipt of wealth transfers are more concentrated in the higher wealth deciles in 2013 (top 2 deciles 50% of inheritors) than in 1987 (top 2 deciles 41% of inheritors). In 1987 the mean wealth of those who had received a property gift/inheritance was 1.76 times the mean wealth

of all households. In 2013 the mean wealth of those who had received a property gift/inheritance was 2.25 the mean wealth of all households. This is potentially influenced by the incidence of negative equity in 2013.

Table A7: Mean Wealth of Households by Net Wealth Decile and Whether Inheritance Received

Decile	Mean Wealth		% of "inheritors"
	all households	"inheritors" (of property)	(of property) in decile
<b><u>2013</u></b>	<b><u>2013</u></b>	<b><u>2013</u></b>	<b><u>2013</u></b>
1	-€75,508	-€91,333	2.1%
2	€172	€300	0.0%
3	€4,889	€4,277	0.6%
4	€25,863	€32,639	4.5%
5	€75,163	€76,658	9.1%
6	€124,366	€125,079	9.5%
7	€178,869	€181,560	11.1%
8	€257,565	€262,021	13.8%
9	€408,666	€416,182	19.8%
10	€1,162,162	€1,112,664	29.6%
<b>All</b>	<b>€216,143</b>	<b>€485,559</b>	<b>100.0%</b>
<b><u>1987</u></b>	<b><u>1987</u></b>	<b><u>1987</u></b>	<b><u>1987</u></b>
Bottom 2	£329	£1,134	1.3%
3	£8,400	£8,916	7.6%
4	£15,272	£15,406	7.8%
5	£21,104	£20,415	9.3%
6	£26,962	£27,221	9.9%
7	£34,280	£33,537	10.9%
8	£45,243	£45,461	12.8%
9	£66,032	£66,978	15.6%
10	£156,616	£161,565	24.7%
<b>All</b>	<b>£37,531</b>	<b>£66,372</b>	<b>100.0%</b>

Source: Nolan (1992), Table 9

The 1987 survey had two parts, a questionnaire for households (answered by the household head) and for adults in those households. Using information from the survey of adults Table 10 in Nolan (1992) details the age of recipients of property transfers at the time of the interview/questionnaire in 1987. The 2013 HFCS survey was responded to by the household representative person for the full household and information on who the individual recipient(s) was, is not captured. For illustrative purposes, Table A8 displays the age of the oldest household member in 2013 for households who had received a property transfer.



Table A8: Households in Receipt of Gift/Inheritance of Property by Age of Current **Oldest Member** (When Interviewed), 2013

Age of Head	House only		Business/ Farm		House plus Business/Farm		All	
	% of recipients	% of age group	% of recipients	% of age group	% of recipients	% of age group	% of recipients	% of age group
<25	1.8%	2.4%	0.0%	0.0%	0.8%	0.4%	1.2%	3.1%
>25 <35	6.5%	2.7%	6.9%	1.4%	1.2%	0.2%	7.3%	6.1%
>35 <45	14.7%	6.0%	20.3%	3.9%	10.6%	1.7%	15.9%	12.9%
>45 <55	20.8%	10.5%	22.0%	5.2%	18.6%	3.7%	20.2%	20.3%
>55 <65	21.0%	12.0%	26.8%	7.2%	31.1%	7.0%	23.8%	26.9%
>65 <75	19.7%	16.2%	17.5%	6.7%	25.1%	8.1%	19.4%	31.7%
>75	15.4%	21.7%	6.3%	4.1%	12.6%	7.0%	12.2%	34.0%
<b>All</b>	<b>100%</b>	<b>8.9%</b>	<b>100%</b>	<b>4.2%</b>	<b>100%</b>	<b>3.5%</b>	<b>100%</b>	<b>17.7%</b>

On the same 'Age of Oldest Household Member' basis as Table A8, Table A9 estimates the distribution of ages at the time of receipt rather than at the time of interview. Note that this table shows the age at the time of property transfer of the oldest household member in 2013. It is quite possible that the oldest household member in 2013 was not the oldest at the time of receipt.

Table A9: Age at Time of Receipt of Property Gift/Inheritance of Current **Oldest Household Member**, 2013

Age of Oldest	House	Business/Farm	House plus Business/Farm	Total
<25	14.6%	20.7%	26.6%	16.9%
>25 <35	27.1%	40.2%	32.4%	31.9%
>35 <45	23.6%	20.7%	24.5%	22.5%
>45 <55	19.1%	8.7%	6.7%	15.2%
>55 <65	9.3%	6.2%	5.0%	8.2%
>65 <75	4.5%	2.8%	4.0%	3.8%
>75	1.9%	0.7%	0.9%	1.4%
	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100.0%</b>
<b>Mean Age</b>	40.44	35.10	33.67	37.86

### Conclusion

In summary, the general patterns of gifts and inheritances of property and the characteristics of households receiving them are broadly similar in 1987 and 2013. Less households report having

received a property gift/inheritance more recently and the age profile of recipient households is older.

Nolan, B. (1992). *The Pattern of Inheritance in Ireland: Household Survey Evidence* (No. WP035). Economic and Social Research Institute (ESRI).

Year	Number	Title/Author(s)
2017		
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