Tax-exempt intergenerational transfers: do they reduce household indebtedness?

Yue Li and Mauro Mastrogiacomo

Discussion by Jochem de Bresser

Tilburg University

October 2016

Research question

Does policy allowing for **tax-exempt transfers** affect the size of **voluntary mortgage repayments**?

- Inheritance and in-vivo transfers subject to tax
- Key policy: one tax-free transfer per child, if used to buy a house or pay down mortgage
- Requirements for tax-free transfer loosened in 2013

Policy regimes

Transfers allowed if...

- Up to 2013Q3
  - Only from parent to child
  - Child age 35 or younger
  - Maximum 52,000 euros
- 2013Q4-2014Q4
  - Everybody can donate
  - No age limit for recipient
  - Maximum 100,000 euros
- 2015Q1-now
  - Only from parent to child
  - Child age 40 and younger
  - Maximum 52,000 euros

Data and methods

Data

- Mortgage-level data for loan i in quarter t
- Debt outstanding: m_{it}
- Payment: $\Delta m_{it} = m_{it} - m_{i,t-1}$
- **Voluntary** payment: "irregular, large payments"

Methods (diff-in-diff)

$$\Delta m_{it} = \gamma_1 t1_{it} + \gamma_2 t2_{it} + \mathbf{x}'_{it}\boldsymbol{\beta} + \alpha_i + \varepsilon_{it}$$

- $t1_{it} = \mathbb{1} \left\{ \begin{array}{l} t \leq 2013Q3 \;\&\; age_{it} \leq 35 \\ 2013Q4 \leq t \leq 2014Q4 \\ t \geq 2015Q1 \;\&\; age_{it} \leq 40 \end{array} \right\}$
- $t2_{it} = \mathbb{1}\left\{2013Q4 \leq t \leq 2014Q4\right\}$

Preliminary conclusions

Two estimates:

- Voluntary payments are 127 euros higher on average under treatment 1 (13% of sample average)
- The additional difference in 2014 (limit 100,000 euros) is 134 euros

But: these are early days!

The paper has a lot of promise

- Unique loan-level data
  - Breadth: contains majority of loans
  - Depth: lots of information on nature of loan and borrower
- Interesting and powerful policy variation during period studied
- Intersting for both policy makers and academics

Thoughts – research question

Potential effects of policy on recipient of transfer:

1. Stimulate renters to buy house (extensive margin)
2. Change decisions of buyers (intensive margin)
    - Same house, lower mortgage
    - Bigger house, same mortgage
3. Change decisions of current owners
    - **Voluntary repayments** (extensive and intensive margins)
    - Other (non-real estate) savings

- Given that transfer occurs, indebtedness as measured here decreases by same amount
- Question: did loosening requirements lead to more transfers? (1st stage)
    - Behavior of donors, not recipients
    - To look at indebtedness of recipients, need info on buying and wealth

Thoughts – data (I)

Clarifications

- "[data] covers approximately 80% of Dutch population"
  - What does this mean? 80% of all existing (stock) or new mortgages (flow)?
  - Is this a random sample?
  - How do you interpret standard errors?
- Unique loan and borrower identifier means you can follow loans **if borrower stays with same lender**
  - Relevant limitation? How often do borrowers switch?
  - Changing lenders or mortgage might be outcome of policy if money can be used to pay fines

Thoughts – data (II)

Clarifications

- Definition voluntary repayments: "irregular (large)" differences in loan outstanding
  - Large: diff. with 5-quarter mode $> €2000$
  - Are your results sensitive to threshold?
  - Why not use overall repayments?
  - Can you use available income data to better identify voluntary repayments financed by transfers?

Thoughts – data (III)

Additional descriptives for mortgage payments (Δm_{it})

- Describe distribution of payments (regular and voluntary)
- For given mortgage: are they stable over time?

Additional descriptives for voluntary payments

- Extensive margin: how often do you see voluntary repayments? (overall/for given loan/by quarter)
- Intensive margin: describe distribution if larger than zero
- Is there bunching around maximum tax-free transfers?
- You know type of mortgage. Do interest-only mortgages have zero regular repayment? Can this be used to motivate definition of voluntary repayments?

Thoughts – data (IV)

Other ideas

- Can data be matched to wealth records?
  - Helps to identify repayments that result from transfers
  - Required to assess overal indebtedness: does overall wealth change, or is the HH portfolio reshuffled?

Thoughts – identification

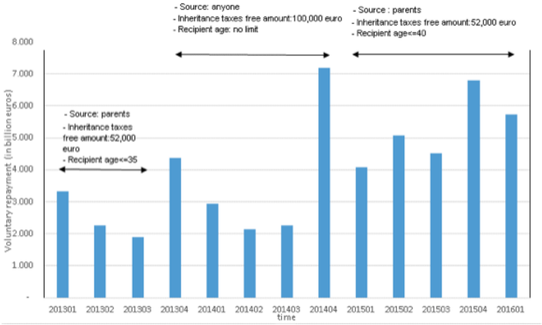

Figure 1, development of national total amount of voluntary mortgage repayments

Figure 1 is difficult to relate to estimates

- Maybe present this info by eligibility status in each year
- Check age groups 30-35/35-40/40-45

Thoughts – specification

- Specification pools transition regime1/regime2 and regime2/regime3
  - Would be easier to interpret separate models for those transitions?
  - Would allow for more transparant inclusion of quarter-dummies
  - Why are 2013Q3 and 2014Q1 baseline?
- Within each period you could do a regression discontinuity on age
  - Evaluate robustness of results to identification strategy
- Hurdle model may well be appropriate
  - Mean voluntary repayment: 950 euros (despite minimum difference of 2000 euro)
  - Suggests that large fraction has zero voluntary repayment

Other points

- Move footnote 6 (definition DV) to main text
- Relationship between conclusions in abstract and analysis in paper not explained