

**THE PROCESS OF INTERGENERATIONAL  
TRANSMISSION OF HOUSING WEALTH**

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## **ABSTRACT**

### **THE PROCESS OF INTERGENERATIONAL TRANSMISSION OF HOUSING WEALTH**

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For several decades, Turkey has witnessed increasing investments in housing. There is evidence that some households benefited from this increase. The transfer of housing assets today is also an extensive social and economic phenomenon different from the traditional processes. There are several issues related to this process the most significant being the universal concern for its contribution to wealth polarization. Supply impacts in the markets are other aspect of the same process.

Since greater accumulation of housing wealth has pooled in the hands of household heads aging 50 and more, the process of housing wealth transfers will gain significance soon.

No extensive study of this process has yet been made. After reviewing the factors affecting the process of wealth transfers and elaborating the institutional background of inheritance, the intergenerational property transfers in Turkey are examined with the 1994 Households Income and Consumption Expenditures Survey, The Population Census and The Death Statistics of Turkey.

It is possible to develop a model to investigate the number of potential benefactors and beneficiaries and, the prospective property transferred in one year as a result of inheritance. Then, the amount of transfer taxes by Ministry of Finance could be compared with taxes realized for the same year, as one method of exploring problems of process of housing inheritance in Turkey.

The results depict that in one year 30 477 individual property owners die and approximately 102 000 individuals benefit. It is concluded that property wealth is in general transferred to those who are already homeowners. It is observed that the amount to be taken by the Treasury as inheritance tax should be 13 times greater than the actual amount transferred.

And finally, it is concluded that taxation system should not be the only solution for the problems in inheritance processes, but Reverse Mortgage may be a solution for transmission of wealth inequalities and for the efficient use of inherited property. It is also mentioned that inherited properties may be pilot areas for new rehabilitation projects for declining neighborhoods.

Keywords: Housing Inheritance, Property Wealth, Aging Households, Inheritance Law, Inheritance and Gift Taxation, Inequality

## ÖZ

### KONUT VARLIĞININ KUŞAKLARARASI EL DEĞİŞTİRME SÜREÇLERİ

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Türkiye’de son yıllarda konuta yatırımlar artmıştır. Bu artışlardan bazı hanehalklarının önemli ölçülerde yararlandığı görülmüştür. Konutun el değiştirmesi geleneksel süreçlerden farklı olarak sosyal ve ekonomik bir olay olmuştur. Bu süreç hakkında birçok konu olsa da mirasın varlığa dayalı farklılaşmaya etkisi evrensel tartışma konusu olmuştur. Bu sürecin konut sunumuna etkisi de diğer bir tartışma alanı olmuştur.

Daha fazla konut varlığının 50 ve üzeri yaşlardaki hanehalkı reislerinin ellerinde toplanması konut varlığın kuşaklararası el değiştirme sürecinin daha da önem kazanacağını göstermektedir.

Bugüne kadar bu süreç hakkında Türkiye’de herhangi bir çalışma yapılmamıştır. Bu çalışmada ise, el değiştirme sürecini etkileyebilecek faktörler incelenmiş, bu süreçte etken olabilecek yasal durumun Türkiye’deki yapısı araştırılmıştır. El değiştirme süreçleri 1994 Hanehalkı Gelir ve Tüketim Anketi verileri, Nüfus ve Ölüm İstatistikleri kullanılarak incelenmektedir.

Oluşturulan bir modelle, potansiyel miras ve mirasçı sayısını, bir yılda ölüm nedeniyle miras bırakılma potansiyeli olan taşınmaz varlığını incelemek mümkündür. Daha sonra, el değiştirme süreçlerindeki sorunları ortaya çıkarmanın bir yöntemi olarak Maliye Bakanlığı’nca alınan veraset ve intikal vergisi hacmi, çalışma sonucunda elde edilen değerlerle karşılaştırılmaktadır.

Analiz sonuçları, bir yılda taşınmaz sahibi 30 477 kişinin öldüğünü ve yaklaşık 102 000 mirasçının el değiştiren varlıktan yararlandığını göstermektedir. Taşınmazların birçoğunun evsahiplerine geçtiği sonucuna varılmıştır. Hazineye aktarılması gerekli veraset ve intikal vergisi miktarının gerçek değerlerin 13 katı daha fazla olması gerektiği görülmüştür.

Sonuç olarak, sadece vergi sisteminin taşınmaz varlığının miras yoluyla el değiştirme sürecinde belirlenen problemlere bir çözüm olarak getirilemeyeceği, fakat Ters İpotek sisteminin eşitsizliğe ve konutun verimli kullanılmasına bir çözüm olabileceği önerilmektedir. Bunun yanında el değiştiren taşınmazların yenileme projelerinde pilot bölgeler olabileceği belirtilmektedir.

Anahtar Kelimeler: Taşınmaz Varlığı, El Değiştirme Süreçleri, Yaşlı Hanehalkları, Miras Hukuku, Veraset ve İntikal Vergisi, Eşitsizlik

To my family

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## **CHAPTER 1:**

### **INTRODUCTION**

In every society, individuals die and their power and wealth are transferred to following generations. Whole lifetime individuals accumulate their wealth to pass to successors as an 'intergenerational continuity' of their institutions. For years, the right of accumulating and transferring has been given to the individuals.

How and in what proportion the inherited wealth will be transferred, how the testator could dispose of his assets before his death, who could get special privileges from the inherited assets are historically determined in every society. These relations are often defined in some forms of regulations.

Traditional and social rules often regulate the problems of inheritance, or otherwise some religious system defines the inheritance relations. Social and economic conditions and the position of men and women in family are the basic sources of these rules. The distribution of wealth between men and women, the inequalities in the transfer of wealth are often considered as problems in inheritance relations.

However, today even these regulations are valid in some part of the world or in rural areas. In the modern world inheritance relations are regulated mostly under Civil Law, which is based on interpretations of 'equality'.

According to Henretta (1984), parents can transfer advantage to their children in two ways: 'material aid' and 'socialization'. Material aid includes bequests,



and transfers of wealth during parents' lifetime. The second course of action covers styles, attitudes, preferences or ways of acting. Accordingly, Zhu Xiao Di and Yi Yang (2002) explain that there are two major ways which parents transfer advantage to their children; housing and education.

In this context, housing, besides being a shelter, is both a consumption and an investment good, and thus constitutes a major part of the households' total wealth. During recent decades, owing to increases in homeownership and rising demand for housing, housing became a more important component of wealth for households. In addition, with the increase in the market price of housing inventory, much argument is comment about the role of housing in causing significant social divisions between those who have abundance of housing wealth and non-homeowners.

Over the decades, as the households who could accumulate greater housing wealth aged and extensively transferred their assets to the following generations, intergenerational transmission of housing wealth and its impacts on social inequality gained greater social significance.

Inheritance is always a significant issue in transferring intergenerational wealth inequalities according to economic studies. However, property inheritance became significant in 1990s mostly in Britain, Australia and Canada where major changes occurred in the rate of homeownership and housing prices.

Inheritance-generated housing debates are focused in two topics. In the empirical studies on property inheritance (Munro, 1988; Hamnett et. al., 1991; O'Dwyer, 2001, etc.) the impact of inheritance on inequalities based on housing wealth is studied by examining the relation between the beneficiaries' probability of inheriting with his age, social class, tenure type and geography in detail. The use of inherited properties and its impacts on property markets also became relevant in theoretical studies on housing inheritance. Also, arguments on 'the meaning of home for elders and new housing policies for aging people complement these studies.

Since the era of Ottoman Empire, property has been one of the most important assets that an institution could own. The transfers of the property have been an important phenomenon as well. During the Ottoman Empire, first the process of inheritance was regulated according to religion (Koran), which regulated that sons inherit two times more of transferred assets than the daughters. Since in societies man is the household head who regulates the economic condition, sons became the major inheritors. Following that, 'Mecelle', which was regulated by the Ottoman Empire came into existence. It has been used until the establishment of Turkish Republic

Similar to religious rules, Ottoman Civil Law 'Mecelle' also exclude women from the right to inherit. This was mainly because of the decision that in society man is the one that meet the needs of a family, and woman is considered as dependent.

Today, inheritance is regulated by Turkish Republican Civil Law, which was adopted form Swiss Law. Since one of the most significant aims of this law is 'equality', the process of intergenerational wealth transfers also depends of equality by religion, race and gender. However, in rural areas still gender bias is dominant. Traditional regulations try to exclude daughters/sisters from inheritance.

For example, the results of State Institute of Statistics (SIS) 1994 Households Income and Consumption Expenditures Survey depicts that 99% of the housing wealth is accumulate in household heads, and, 90% of these household heads are men.

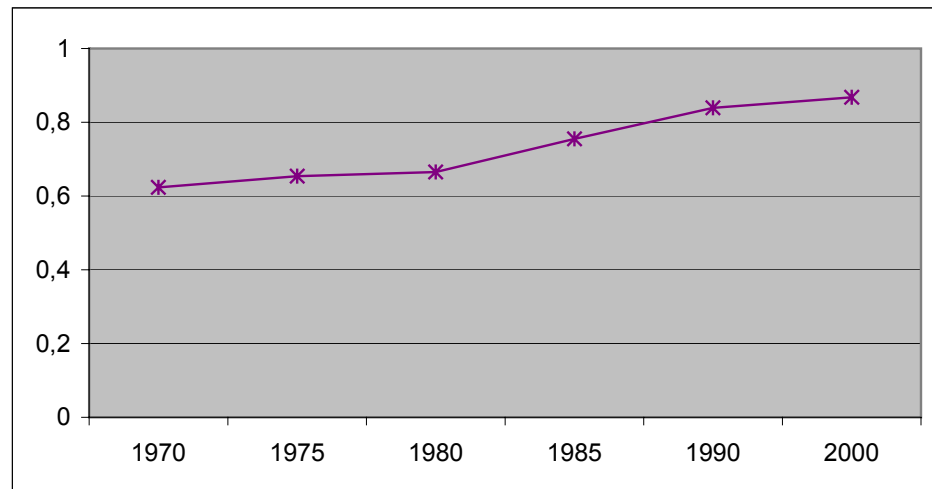
In Turkey, during the last four decades, cities have grown rapidly and the housing stock increased drastically. Additionally, with the large investments in housing, the market price has increased. 'Flat Ownership' had been a fundamental catalysis in this development by developing new relationships between landowners, developers and investor-households (Balamir, 1975, 1992). As a result of these changes, housing has become the most important component of the total wealth holdings for a major part of urban households, like in many countries of the world.

Due to this incidence, in addition to the studies on the growth of housing, formation of squatters, migration, the social stratification based on housing wealth has been studied in Turkish literature (Balamir 1992, Tuna 1999). However, transmissions of housing wealth and its significance have not been extensively investigated. This is mainly due to the lack of data on inheritance.

Moreover, like in many Western countries, the shifts in the age structure from a lower birth rate and a stabilizing population cause significant changes in Turkish population. The increase in the number of elderly people shows that inheritance process will be more in coming years. The policies on aging people and on inheritance will be much more needed.

Additionally, comparing the housing stock with the number of children (in which the children are the most probable beneficiary group) by years, it is clearly evident that the scale of housing stock per children increased (Figure 1.1). While, the household size decrease with a faster rate and the housing stock increase by year, it can be said that in the future the accumulation of housing stock among children via inheritance will be much more greater.

Figure1.1: The distribution of the housing stock ( $m^2$ ) per children by years



Source: SIS, Construction Statistics, 2001 and the Population Census

This study aims to survey the existing theoretical arguments on housing inheritance. The patterns of intergenerational transmission of property wealth and its significance in Turkey are examined. It attempts to analyze the inheritance process in Turkey and seeks to investigate the property transfers in terms of quantities by means of developing a model. After that, possible problems on inheritance process in Turkey is investigated. This study aims to be a guidance for further researches on housing wealth transfers.

In the second chapter of the study, research and arguments on intergenerational transmission of housing wealth are reviewed in details. The theoretical framework on the effects of inheritance on wealth distribution in general, the impacts of housing wealth transfers, the uses of inherited property and its impacts on property markets and finally the future of intergenerational transmission of housing wealth are examined. The extensive theoretical background is surveyed partly by means of publications that reviews the related literature.

According to studies on housing inheritance (Munro, 1988; Hamnett et. al., 1991; Thorns, 1994 a,b; O'Dwyer, 2001), the state of intergenerational transmission of wealth is a product of a number of factors: the growth of homeownership, increase in housing stock, rising house prices and the demographic trends. In respect of this, in the third chapter, the history of housing growth, change in house prices and the social stratification on the basis of housing wealth in Turkey is investigated. After that, the demographic trends, household formation and their effects on intergenerational transmissions of property wealth are investigated.

In the fourth chapter, the main concern is the institutional background of intergenerational transmission of property wealth, which are the inheritance law and the inheritance taxation system. In this study, the laws and customs governing inheritance, bequeathing patterns, the new Civil Law and its impacts on bequeathing patterns; systems of taxation and its implications, the problems in regulations governing intergenerational wealth transfers are studied.

The scope of this thesis is not only to review the theoretical framework on intergenerational transmission of property wealth but also develop a method for assessing the volume of property wealth transfers in measurable forms.

Fifth chapter of the study includes the empirical analysis of intergenerational transmission of housing wealth using available databases in Turkey. This analysis is then considered under a model, which is developed on the basis of a model established by Morgan Grenfell (1987) and in which the bequeathing patterns in Turkey are taken into consideration.

The study seeks answers of how many property-owning household heads are deceased in one year, and how many successors benefit from the transferred wealth. How much property wealth is then transferred to the next generation via inheritance in one year, how much property wealth is accumulated per beneficiary, how much money should be transferred to State Treasury as 'inheritance and gift tax' income.

In this model intergenerational transmission of housing wealth are investigated in terms of measurable volumes and values. It is here that a method of estimation of such transfers is developed. However, official information on this process is almost impossible to acquire. Data available and easily accessible in most European countries, either requires special permissions and long procedures, or totally out of reach in this country.

In this study, using data from State Institute of Statistics (SIS) the completed database of 1994 Households Income and Consumption Expenditures Survey, the prospective number of benefactors deceased in one year and the number of beneficiaries have been employed. Moreover the features of the beneficiaries are estimated. In addition, the amount of property wealth transferred as a result of inheritance in one year is computed.

As a result, the property wealth per beneficiary is calculated, which allows reaching the amount of potential transfer taxes to be collected by public authorities in one year. These figures are compared with the transfer taxes collected in the same year by the Ministry of Finance.

In the conclusion part, after evaluating the findings on intergenerational transmission of housing wealth, some policies and regulatory devices that could be devoted to the problems via intergenerational property wealth transfers in Turkey are proposed.

## **CHAPTER 2:**

### **THEORETICAL FRAMEWORK**

#### **2.1. Introduction**

In this chapter, a framework for intergenerational property wealth transfers will be elaborated. Firstly, the arguments on the effects of inheritance on the wealth distributions is reviewed. Then, the researches and empirical studies on the process of intergenerational housing wealth transfers, the impacts of housing inheritance, the arguments on the uses of inherited property and its impacts on property markets is explained. And finally, the decisions of the future of intergenerational housing wealth transfers is studied in detail.

Mostly as a result of increasing rate of homeownership and housing price boom in some Western countries inequalities based on housing wealth gained significance. As the first generation of post-war house buyers died and left their houses to beneficiaries, many researchers considered the process of intergenerational transmission of property wealth also as worth to study. This subject, became significant in 1990s mostly in Britain, Australia and Canada. Hamnett et. al. (1991, 151-152) explain as :

*In contrast, outside Britain (and probably the USA) little attention seems to have been paid to housing inheritance, and the sudden surge of interest in housing inheritance in Britain is unique. ... We would argue that the explanation lies in the unique conjunction of two interrelated events in Britain. The first is the pace of the post-war*

*expansion of homeownership. ... The second factor has been the rapid growth of house prices in Britain since 1970.*

In debates of the housing processes, homeownership is described both as a cultural asset which provides a social status, and as an economic asset which provides wealth accumulation to owners. This is emphasized by Agnew (1981, 466-467) with his statement that:

*there are two major ways in which homeownership can contribute to practice of the personal life: first, the possession of a house offers a major physical object for use as an indicator of status and source of personal autonomy, and, second, the house is an exchange-value as it is a commodity that can be bought and sold.*

Agnew (1981, 467) expresses that homeownership exclusively provides status and personal autonomy. He declares that:

*Tenants as members of a transient and debtless social group, therefore, become 'pariahs'. They are not integrated into society through the threat of mortgage foreclosure, debt commitment and acquisition of social esteem associated with homeownership. They are an out-group who are unsettled and unsettling. Owners to the contrary have invested themselves in their houses through debt and obtained the social esteem and the 'freedom' from landlords that renters cannot acquire.*

According to him in order to obtain use-values (including status-values) of a house one must command exchange values and a house requires considerable financial investment. Accordingly, a house can become a potential source of profit and a source of financial security.

As in many Western countries, homeownership became the most extensive form of tenure during the recent decades and compared to other assets, housing became a more dominant component of wealth holding of households. As a result of such changes in housing tenure and house prices,



people argue that housing could thus cause a social divide between homeowners and the others.

The arguments on the nature and effects of wealth transfer are all in one way or the other related to the criticism of market processes. As most arguments in full faith to markets, transfers of assets are efficiently maintained by the market. One basic approach in the transfer of assets is the filtering process which serve as claimed by Grigsby (1963) and others.

According to the theoretical framework on “filtering”, problem of housing demand of low-income households can be solved in the housing sub-markets. According to “filtering” process, households frequently move to maximize the utility of their housing (Megbolugbe et. al., 1994). While higher-income households prefer to settle in new housing added to the stock, low-income groups will move to houses filtered-down by higher-income groups.

“Filtering” process was explained by Grigsby and proposed as a way for solving the problem of housing need in the market. Grigsby explained the “filtering” process as:

*... the availability of low-income housing depended on the housing consumption behavior of higher-income groups. Unlike higher-income families who can afford newly built homes, low-income households, he reasoned must accept whatever existing stock trickles down to them at prices they can afford (Megbolugbe et. al., 1994, 1781)*

Nevertheless, in many of the Western societies, as a result of privatization of the public stock built-up since early 20<sup>th</sup> century under ‘policies of the new right’, rate of homeownership increased, and the tenant groups living in low-valued social housing were further marginalized. This transformation and division in tenure styles caused more intensive discussions on whether housing wealth cause a ‘socio-tenurial polarization’ or not. Following these discussions, ‘Housing Classes’ analysis was proposed by Rex and Moore.

*In political and policy discussion it has been claimed that a higher level of home ownership will produce a more democratic pattern of wealth holdings and will have significant intergenerational effects as regards wealth transfers. In sociological and social policy debates, wealth in the form of owner occupied dwellings is seen as a major developing social divide between the haves and the have nots with important implications for the social structure. (Forrest and Murie, 1989, 25)*

In a different perspective, Saunders (1984, 207), stated that ownership of 'key means of consumption' like housing represent a new 'fault line' in British society, declares that:

*Housing tenure, as one expression of the division between privatized and collectivized means of consumption, is analytically distinct from the question of class; it is neither the basis of class formations (as in the neo-weberian tradition) nor the expression of them (as in the neo-marxist tradition), but is rather the single most pertinent factor in the determination of consumption sector cleavages. Because such cleavages are in principle no less important than class divisions in understanding contemporary social stratification, and because housing plays such a key role in affecting life chances, in expressing social identity and (by virtue of the capital gains accruing to owner occupiers) in modifying patterns of resource distribution and economic inequality, it follows that the question of homeownership must remain as central to the analysis of social divisions and political conflicts."*

Nevertheless, Thorns (1994b) criticized him that he did not give sufficient attention to the variation within the ownership by ethnicity, gender and location and gave insufficient attention to the links between housing and the labor market. Moreover, according to Hamnett (1991), Saunders' claim that consumption is an independent dimension of social stratification and consumption locations are independent of class to some extent is correct but they are related rather than independent. He added that while there are individual discrepancies between class and consumption location, at the aggregate level consumption tends to reflect class position.

## **2.2. Intergenerational Transmission of Housing Wealth**

One of the obvious facts of human society is that individual homeowners pass away and society and its institutions remain. Thus, all power and wealth are transferred to surviving relatives in almost all of market economies today. Inheritance is defined as a means of 'security provision' for the next generation and as an 'intergenerational continuity' of the institutions.

Over the decades, as households who were able to accumulate greater housing wealth get older, die and transfer their assets to the following generation, intergenerational transmission of housing wealth gain increasing social significance. Additionally, debates on the meaning of home for older homeowners gain relevance in these discussions. As Dupuis and Thorns (1996) explained, their interest in the meanings of home for older people arose during examining the social, political and economic implications of intergenerational transmission housing wealth.

Especially in England, as the first generation of post-war house buyers died and left their houses to beneficiaries, many researchers considered this topic as significant. Horsman (1978), Munro (1988), Forrest and Murie (1989), Hamnett, Harmer and Williams, (1991), Hamnett (1991) in Britain; Badcock (1994), Thorns (1994a,1994b), O'Dwyer (1999, 2001) in Australia and New Zealand studied intergenerational transmission of housing wealth and its implications.

In this study, discussions on the effects of inheritance on wealth distribution are reviewed first and then, the studies and contraversies on the process of intergenerational transmission of housing wealth are explained.

### **2.2.1. Effects of inheritance on wealth distribution**

The first major study on the significance of inheritance was carried out by Wedgwood in the UK in 1920s. He believes that inheritance affects and accentuates inequalities in wealth holding, and lists six major ways in which inheritance can foster inequality (Hamnett et. al., 1991):

- 1) laws and customs governing inheritance and bequests;
- 2) systems of taxation;
- 3) extent of charitable bequests;
- 4) marriage customs;
- 5) size of families;
- 6) degree of stability of economic and political conditions.

The future of assets (stocks and bonds, real estate etc.), transferred as a result of inheritance is arranged by laws and customs governing inheritance. According to Hamnett et. al. (1991) under English law, individuals can dispose of their property in any way they choose, but most European countries socially restrict the rights of the wealth leaver in order to protect the interests of the surviving family. As a result, it can be claimed that in most of the European countries the laws and customs governing inheritance result in 'inherited asset sharing' between surviving family members and mostly benefit the surviving relatives of the testator. According to Wedgwood, the laws and customs governing inheritance are one of the major determinants of unequal wealth distribution.

The aim of systems of taxation applied on the wealth transferred by inheritance is to provide equity between beneficiaries and to decrease the inequality in wealth holding. In each country, there are different taxation policies. Whether, administered inheritance tax regime has leveling effects or not is a focal topic in theoretical and practical discussions.

According to Wedgwood the third way in which inheritance can foster inequality is the extent to which charitable bequests are made by the dying individuals. These bequests, like the death duties taken by government, affect the amount of wealth eventually reaching individual beneficiaries. From his own study, he concludes that in England and Wales about 5 per cent of wealth is given to charity (Hamnett et. al, 1991). According to Horsman (1978), bequests to charity are usually small and charity institutions are seldom main beneficiaries.

Another way in which inheritance accentuates inequality is the formation of marriage customs. According to Hamnett et. al. (1991) although there is undoubtedly more social mobility than there was, class strongly influences the choice of marriage partner. In most of the societies rich is married with rich and poor is married with poor. Harbury and Hitchens, (1976) restudying inter-marriage among the rich (first studied by Wedgewood) for 1970s, mentioned that 60% of rich sons (daughters) of rich fathers marry daughters (sons) from wealthy families. As a result, the social inequality between people is reproduced and even consolidates further.

Researches carried in most countries concluded that assets are transferred to surviving family members. In his study on the samples chosen randomly from the wills of people dying in England and Wales, Horsman (1978) concludes that main beneficiaries are surviving spouses and children. On account of this, the size of a family is another way in which inheritance influences inequality. According to Menchik (1979), "the child-parent comparison is very much dependent on family size: in one-child families, most children hold more wealth, while in families with three or more children most children hold less wealth than their parents." In Britain, Wedgwood concludes that, on the whole, poorer parents have larger families than richer parents (Hamnett et. al., 1991).

At last, Wedgwood identifies the degree of stability in economic and political conditions prevailing in a State as the final important factor (Hamnett et. al., 1991). As Hamnett et. al. (1991) mentions the longer a country is established, the more important inheritance is likely to be entrenching wealth inequality. Moreover, social and economic stability generally strengthen the influence of inheritance on wealth holding (Hamnett et. al., 1991).

After Wedgewood's study, many economists also studied inheritance and its effects on wealth distribution. Wedgewood's study for the 1920s, was repeated for 1950s by Harbury (1962) and for 1960s by Harbury and MacMahon (1973). In both of the later studies, it was claimed that there was no change in the relative importance of inheritance between the mid-twenties and mid-fifties and mid-sixties in Britain. However, both of the studies

concentrated on top wealth leavers in Britain and excluded the major part of the society.

According to Atkinson (1971), in a hypothetical egalitarian society there is still inequality in wealth distribution because of life cycle factors and differences in wealth holding according to age. Therefore, significance of life-cycle factors have to be considered regarding inequality in inherited wealth. By using the Estate Duty statistics of the distribution of wealth within age groups and by making a number of assumptions, he concluded that there is considerable inequality among people of the same age, which can be explained by the way in which wealth is transmitted between generations.

Atkinson (1972), following Wedgewood, concludes that the relationship between the inherited wealth received by one generation and that received by the next is dependent on three factors (Hamnett et. al. (1991):

- 1) the degree to which the elder generation build upon or squander its inherited wealth;
- 2) the ways in which the estates of the first generation are allocated to inheritance;
- 3) demographic factors, including family size and marriage patterns.

### **2.2.2 Intergenerational transmission of housing wealth**

In general, inheritance generated housing debates are focused in two topics. First, housing assets comprise part of the estates transferred and, are an element in the inequality generated (Forrest, Murie and Williams, 1990). The impacts of inheritance on social inequality based on housing wealth are the basic topics in researches on intergenerational transmission of housing wealth. The second topic is the impact of inherited estates in the property market. In many of the studies on uses and impacts of inherited property, it is stated that the beneficiaries inherit properties at middle or old age and have an already established housing career and therefore, intergenerational transmission of property wealth will considerably affect the housing supply (Munro 1988, O'Dwyer, 1999).

### **2.2.2.1. The scale and value of intergenerational transmission of housing wealth**

To determine the impacts of housing inheritance on social inequality based on housing wealth and the effects of inherited properties in the property markets, first we need to answer how many assets are transferred to next generations in each year, the value and kind of these assets and we also need to know how many people shared these inherited assets.

There are two basic ways of determining the number of cases of intergenerational transmission of housing wealth; the direct and the indirect methods (Hamnett, 1991). The direct method uses pilot study survey data on properties transferred upon owners at death. However, official data tend to be unreliable or unavailable and direct forms of investigation are often hampered by understandable personal sensitivities during surveys and the complex and lengthy legal procedures involved (Forrest and Murie, 1989). In the indirect method, known figures on homeownership rates by age groups and known death rates are used. This method provides an estimation of the scale or volume of housing subject to inheritance procedures by using easily accessed homeownership and death rates.

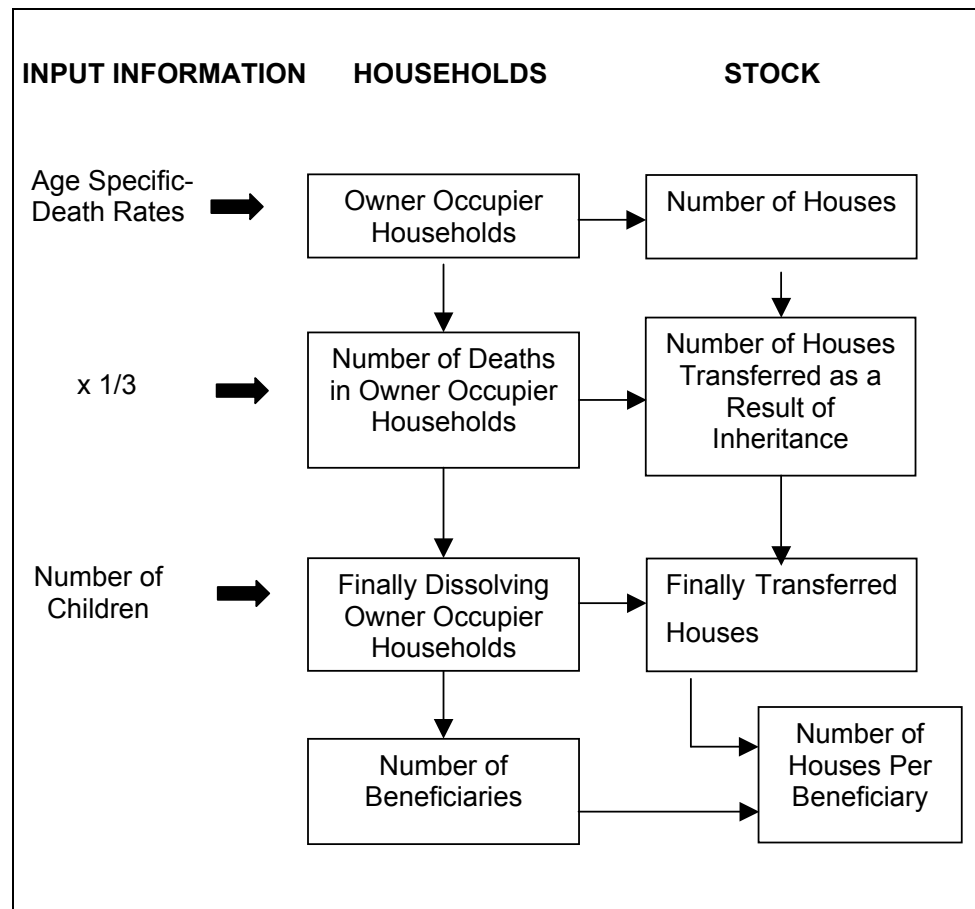
Hamnett (1991) argues that the indirect method takes known figures on home ownership rates by age groups and applies known age specific-death rates to these figures to find out an estimate of the number of dying owners each year. This is then scaled down by about a third to allow for the proportion of surviving spouses and partners who continue to reside in the home. This then concludes an estimate of the number of 'finally dissolving' owner-occupied households each year (Figure 2.1).

By using the indirect method, Morgan Grenfell (1987) estimated the scale and value of owner-occupied properties to be inherited, the number of beneficiaries and the average inheritance per beneficiary. However, Grenfell's calculations include the following assumptions:

- 1) owner-occupied property passes on death and not before,
- 2) owners own only one house,

- 3) they do not own rented property,
- 4) the average value of houses bequeathed is equal to the mean value of all houses,
- 5) that no mortgages are outstanding on properties and that equity is not released before death (Hamnett et. al., 1991).

Figure 2.1: Model on intergenerational transmission of housing wealth (author's conceptualization after Grenfell (1987))



#### 2.2.2.2 The impacts of intergenerational transmission of housing wealth on wealth distribution

The debates on intergenerational transmission of housing inheritance mostly originate from the arguments on accumulation of housing wealth and its impacts on social stratification.



According to Badcock (1994), “the concentration of wealth within the housing market, together with the pattern of housing inheritance, is undoubtedly helping to create a more unequal society” (626). Similarly, Forrest and Murie (1994) declared that the differential accumulation of housing wealth has implications for social stratification for this generation and for the next, through intergenerational transfers, and added that “for the middle mass of home owners, patterns of wealth accumulation and inheritance through housing will be highly differentiated and may be more likely to accentuate rather than smooth out social divisions” (1989, 37).

Saunders (1986, 158) declared in general that current significant expansion of housing ownership has none of a leveling effect:

*...for the first time in human history, we are approaching the point where millions of working people stand at some point in their lives to inherit capital sums far in excess of anything which they could hope to save through earnings from employment.... taken together with the other potential advantages enjoyed by owner occupiers, the inheritance factor strongly suggests that consumption location may be every bit as important as class location in determining life chances.*

Additionally, Hamnett, Harmer and Williams (1991) declare that:

*The incidence of inheritance is not a random process but has a strong class and tenure bias, and this has a ‘cumulative effect’. The children of owner-occupiers are more likely to be homeowners themselves and the incidence of ownership is strongly class and socioeconomic group related. In other words, the process will build upon existing inequalities even though home ownership is now more widely distributed than any other tenure. (1991, 9)*

In fact, there is very little empirical evidence on impacts of intergenerational transmission of housing wealth. Existing studies are concentrated mostly in Britain, Australia and Canada where the tenure types and housing value inflation have changed drastically during recent decades.

Munro (1988) mentions in her study on the Commissary Records held at the Sheriff Court in Glasgow that, the importance of housing inheritance varies according to age, gender and marital status of the deceased person. She notes that under half of the wealth goes to living spouses and under a quarter to children. After the death of living spouses, the whole wealth could pass to next generations. So, housing inheritance is passing directly to people who already have an established career, instead of first time young buyers.

She identifies that the children of the owner-occupiers who are dying are owner-occupiers themselves. This results in deeper social divisions in the long term between owners and non-owners. By considering the laws on disposal of a married person's estate, she discusses that marital status at the time of death has a large influence in housing inheritance with less dispersion of the estates of the married than the single, widowed or divorced groups; since the only beneficiary of the married group is the surviving spouse.

According to Hamnett, Harmer and Williams (1991), preparing one of the most extensive studies on intergenerational transmission of housing wealth, declare that housing inheritance is highly unequal in its incidence, and an individual's chance of inheriting property is strongly associated with his age, social class, tenure and region, and not least by their parental tenure. They concluded that housing inheritance has benefited people who are middle-aged homeowners and those living mostly in south of Britain. They added that there is a strong correlation between the head of households' social class and the probability of a member inheriting house property.

In their study based on a national sample survey of beneficiaries, the results show that inheritance is not a random phenomenon and the cause of differential incidence of housing inheritance lies not with the characteristics of the beneficiaries but with the characteristics of the benefactors and their relationships to the beneficiaries. Supporting this assertion, Jenkins and Maynard (1983) show that children's tenure is strongly related to parental tenure. They declare that a child of a 1950 non-owner is 1.7 times more likely to be a non-owner in 1975-78, than a child of a 1950 owner in the same period.

Thorns (1994a), studied inheritance by using 1986 Family Expenditure Survey in Canada. He investigated the correlation between the amounts of gifts and inheritance transferred, and age, gender, family composition, income, occupation and tenure of the receiver. He summarizes that wealth transfers via gifts and inheritances provide additional fund to people who are already homeowners in middle life with middle to higher income. However, he argues for the need of more qualitative based research to assess the full impact that the transfers upon family relationships, social class position and lifestyles.

Additionally, Thorns (1994b) carried out an empirical study by using the data of Land Transfer Office in Christchurch in New Zealand. He concluded that the majority of bequeathers are over 50 (62.8 per cent of females and 53 per cent of males) and received inheritance in midlife well after the receiving household is well established. He also mentioned that in the majority of cases, the wealth transfers are to a spouse, with 47% going from husband to wife, 17% from wife to husband and 20% of cases were transfers to children. In conclusion he confirmed that the access to capital that homeownership provides to middle wealth owners and housing inheritance allow them to reproduce their position more successfully within the social structure and maintain their class position (Thorns, 1994b).

More recently, O'Dwyer (2001) examined the pattern of intergenerational transmission of housing wealth in Australia using property and estate database. She states that inherited wealth flows to persons having substantial wealth, who are mostly homeowners. According to O'Dwyer (2001) access to homeownership, housing wealth accumulation and income from participation in the labor force influence every household, while housing inheritance influences only a very small number of households.

#### **2.2.2.3. Spatial inequalities of intergenerational transmission of housing wealth**

During recent decades, housing tenure and house price inflation have changed drastically in most countries. This has brought considerable financial

gains to homeowners, however the scale of those gains has also been temporally and geographically uneven (Hamnett, 1992).

According to Murie and Forrest (1989, 30);

*the point of entry to home ownership is crucially affected by, for example, specific government policies, level of real interest rates and whether an area is taking off, settling down or declining in house price terms. At a more general level, the history of the development of homeownership is highly uneven and different regions and towns have varied histories of tenure change.*

Since increase in homeownership and house price inflation on which intergenerational transmission of housing wealth is based, changes geographically, the spatial inequalities of intergenerational transmission of housing wealth gain increasing significance.

Thorns (1994a) argues that economic and social changes have widened the gap between prosperous and declining regions, and therefore affected the rate of property based accumulation and the size of transfers on death.

According to Murie and Forrest (1989), assuming that one way of providing further evidence on housing inheritance is to look in more detail at outright owners aged 65 and over. They state that in the case of UK housing wealth is concentrated overwhelmingly in the southeast and southwest of England. They declare that this is a function of the distribution of elderly outright owners among the regions, as well as of differential patterns of house price inflation.

They concluded that the impact of intergenerational transfers will be affected also by residential location and the expectations will be that transfers of properties would be from low price to high price areas. Since children have moved away from their birthplace, general developments in the pattern of economic activity and employment opportunities would suggest a southward drift. Therefore it would be expected that recipients living in high-value owner occupied properties would inherit a lower-value property.

Hamnett mentions that there are marked geographical differences in the incidence of housing inheritance and adds that (1992, 320):

*“Although there is a net flow of inheritance from north to south (partly as a result of class-specific migration), because the majority of properties are inherited by beneficiaries living in the same region, there is not a major flow of inherited wealth from north to south. Housing wealth is generally recycled within regions. The uneven geography of housing wealth is maintained by housing inheritance but not generally intensified by it.”*

#### **2.2.2.4. The uses of inherited property**

Another point on housing inheritance discussed in the theoretical framework is the problem of use of inherited property by the beneficiaries. In many researches on intergenerational transmission of housing wealth it is concluded that most beneficiaries inherit when they have an established housing career. “This is a function of the timing of inheritance with the age structure and housing careers of the inheriting generation and begs the question of what to do with the inherited house” (O'Dwyer, 1999, 758). However, there are a number of competing views on how the inherited property is used.

Hamnett et. al. (1991,114-115), summarizes the uses of inherited properties under 6 topics:

1. Beneficiaries will keep the inherited property to live and occupy in themselves.
2. Property will be retained by beneficiaries to create a growing rental sector. Alternatively if sold, the property might again become part of the rental sector.
3. Property inheritance will lead to trading up as beneficiaries increase their housing consumption.
4. Property inheritance will lead to enhanced consumption by beneficiaries.
5. Property inheritance will result in parents giving increased aid to their children to establish themselves in the housing market.

6. As property rises in value, so there will be a growing tendency for the existing owners to extract some of the equity value.

Hamnett et. al. (1991) identify that most beneficiaries sell their inherited property and the volume of inherited property rented out is very small in comparison to other uses. The beneficiaries' decision on the inherited property varied according to the current condition of beneficiaries. In other words, 'sole beneficiaries' were more likely to retain the property to live in, while 'joint beneficiaries' normally sold the property immediately to divide the estate more simply. Additionally, most beneficiaries use the money released by the sale of inherited property into financial investments with building-society investments.

Similarly, O'Dwyer (1999) classifies the options of the beneficiaries as to liquidate the inherited property by selling or to become a landlord and claims, according to the data derived from records of property transfers in South Australia, that over half of beneficiaries sold the inherited property in order to divide the inherited wealth easily.

However, in contrast to Hamnett et. al. (1991), she argues that intergenerational transmission of housing wealth has important implications for the private rental sector mostly because of taxation provisions for attracting investors to the private rental sector or different mobility rates in Britain and Australia.

According to her, there are two ways by which inherited houses may become part of the private rental sector. First is the tendency for beneficiaries to be landlords (accidental landlords), and second is the way in which inherited houses are purchased by investors (purposive landlords) owing to their low capital value and central city location.

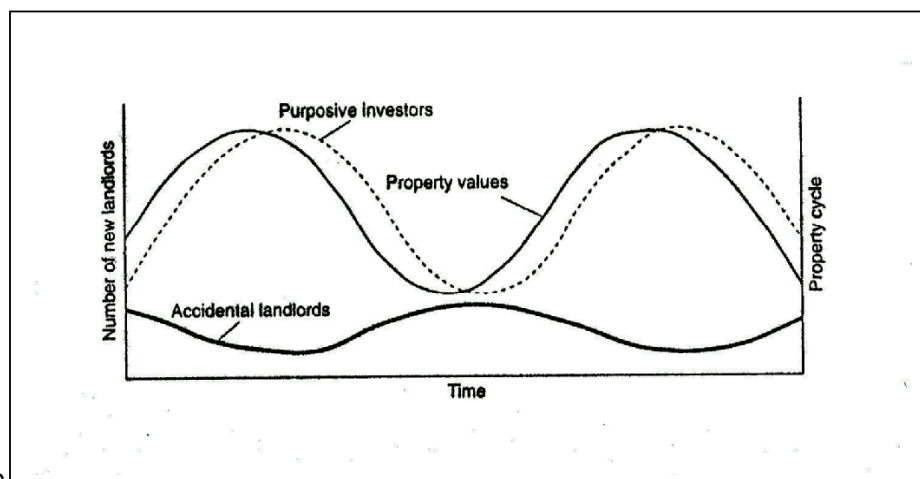
Additionally, she explains the investment behavior of accidental and purposive landlords that the purposive investors will tend to follow the property cycle as prices increase more investors will buy and when prices fall, few will buy. Conversely, the number of beneficiaries decreases when the property market is high and increases when it is depressed (Figure 2.2).

According to O'Dwyer (1999):

*Accidental landlords' participation in the private rental sector as landlords will tend to be counter-cyclical to the participation of other types of investors....*

*The figure (Figure 2.2) is intended to show that the number of investors entering the private rental sector (and thus supply of housing) is closely related to the property cycle, whereas the relationship between the property cycle and accidental landlords is an inverse one of less magnitude (769).*

Figure 2.2 Hypothesized investment regimes for private rental housing



Source: O'Dwyer (1999, 769)

#### **2.2.2.5. The impacts of inherited property on property markets**

The supply and uses of inherited property will inevitably affect the property markets. However, there are competing arguments on the impacts of inherited property in the property markets.

According to Forrest and Murie, the impact of property inheritances will vary and could be listed under 5 tendencies of behavior on behalf of inheritors: trading up; presumption of parental assistance; multiple ownership; growing rented sector; increased consumption (Hamnett et. al., 1991).

Hamnett et. al. (1991, 120) briefly summarizes the impacts of property inheritance on property markets as:

1. It may give assistance to those seeking to enter the housing market either directly through inheritance or through assistance from parents or relatives who have inherited.
2. It might allow existing owners to increase their consumption of housing by trading up, improving or extending their existing property or by buying a second home.
3. Through retention of the properties inherited, it might contribute to an expansion of the rental sector.
4. It could affect house prices either positively or negatively. Enhanced consumption power via inheritance could stimulate the demand for particular types of property and/or locations. Alternatively, the release of an inherited property could exceed the demand for property and thus prices might stabilize or even fall.

In his economic review, Grenfell (1987) asserts that the lump sum derived from property inheritance will not be reinvested in the property market but will find its way into a range of financial assets, such as unit trusts and building society accounts that are easily traded and there will be a fall in net equity in housing and a rise in personal sector assets (Hamnett et. al., 1991).

Munro (1988) claims that housing inheritance is not likely to be passed directly to young, first time buyers, but to people who already have an established housing career. So, most of the inherited property will be sold and increase the supply in the market, and there would be a negative price effect in the property market.

On the contrary, Lowe suggests that a considerable portion of the money released from property inheritance will find its way back into housing to sponsor-up market moves (Hamnett et. al., 1991).

Hamnett et. al. (1991) claim that there is little evidence that suggests there are substantial impacts on the property markets and explained that the survey



results have shown most beneficiaries (49%) invest in financial assets and 27% of the respondents invest in building societies.

#### **2.2.2.6. The future of intergenerational transmission of housing wealth**

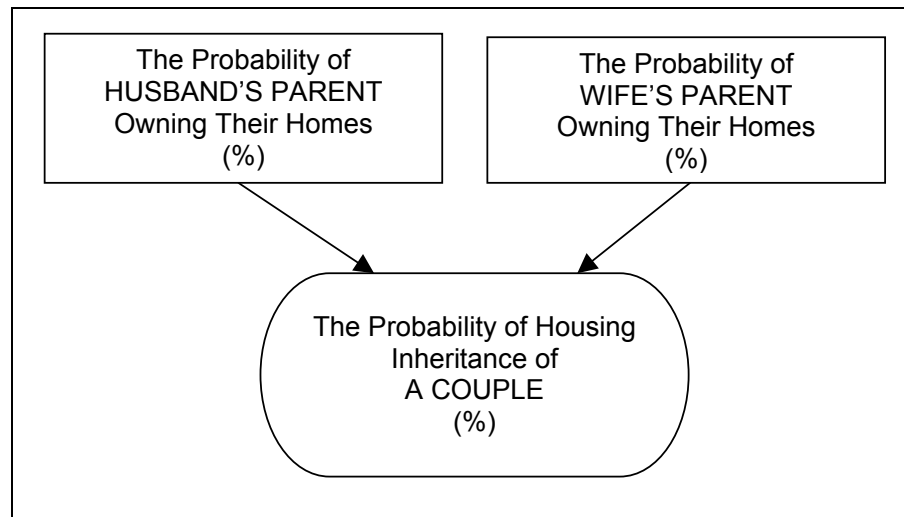
The future of housing inheritance depends on the future of factors affecting intergenerational transmission of housing inheritance. There are contrary conclusions on the future of housing inheritance.

Hamnett (1991) basing on the arguments that the inheritances of today are a product of the pattern of homeownership 30 or more years ago, and the contemporary structure of housing tenure will determine the structure of housing inheritance in future, developed a simple model of changing tenure structure and its impacts on housing inheritance.

In the model, he assumed that: (1) there are two tenures- owner occupation and renting, (2) that house inheritance occurs via owner occupation alone, (3) the probability of house inheritance by any individual reflects prevailing parental tenure structures, (4) the probability of house inheritance by couples is a product of the incidence of parental home ownership, (5) that the pairing of couples is random rather than class (and tenure) selective, (6) that all parental homes are available for inheritance by their children, and (7) all children can expect a share of the parental home (Hamnett, 1991).

He realizes a simple model on probability of housing inheritance amongst couples and applied this model in Britain. He claimed that in 1919, the tenure structure in UK was 90% renting and 10% owning where the probability of both sets of parents owning is  $10\% * 10\% = 1\%$ , neither set of parents owning is  $90\% * 90\% = 81\%$  and the probability of just one set of parents owning is  $10\% * 90\% * 2 = 18\%$  (9% for husband's parents and 9% for the wife's parents) (Figure 2.3).

Figure 2.3: Model on the future of housing inheritance (author's conceptualization after Hamnett (1991))



He prepared the probabilities of owner occupied housing inheritance from neither, one or both sets of parents in specific tenure structures as in Table 2.1.

Table 2.1: Probabilities of owner occupied housing inheritance from neither, one or both sets of parents in specific tenure structures (%)				
% of households		Neither parents	One set of parents	Both parents
Owning	Renting			
10	90	81	18	1
20	80	64	32	4
30	70	49	42	9
40	60	36	48	16
50	50	25	50	25
60	40	16	48	36
70	30	9	42	49
Source: Hamnett (1991, 533)				

As a result, Hamnett (1991, 533) claimed that “the growth of home ownership will open up the possibility of house inheritance to a much larger proportion of the population than at present and will serve to reduce the inequalities of

wealth inheritance. But at the same time, the division between those who stand to inherit and those who do not will become much sharper.”

As a rejoinder to Hamnett, Watt (1993) opposes that his probability model only works if one assumes, and there is limited housing mobility in terms of people moving from renting into owning, or vice versa, across the generations. In addition, Watt (1993) argues that claims about the future significance of housing inheritance rely upon predictions about future levels of house prices and equity withdrawal, both of which are highly uncertain.

The incidence of both inheritance and housing depends on many factors. Where housing covers sociological, economical and political factors, process of inheritance depends on laws and customs, and demographic factors. Changes in life expectancy, household size, tenure mobility, housing values have to be considered in predicting the future of housing inheritance.

Hamnett et. al. (1991) mentions that distribution of inheritance was mainly dependent on two factors :

*first, it was a product of the social distribution of homeownership a generation ago, .... second it was because the children of homeowners are themselves more likely to be owners than are the children of tenants. But, just as the current uneven distribution of house inheritance reflects the social distribution of home ownership a generation ago, the extension of this tenure across all social classes over the last thirty years and its further extension in the next decade means that housing inheritance in the future will be much more widely spread than at present. Home ownership is now the most heterogeneous tenure in social-class terms and this, in conjunction with a less rigid class structure, means that the benefits of housing inheritance should be enjoyed by a bigger proportion of the total population (158-159).*

According to Forrest and Murie (1994) there was the simple observation that while household structures were continuing to shift towards smaller units with

fewer children, the family was being extended through longevity. In other words, more people than ever have living grandparents and in that sense intergenerational links have greater.

According to Thorns (1994b, 27):

*The increased longevity of the population with more elderly (over 80s) increases the need for life care provisions and may well impact upon the size of any inheritance. The family house may well have been sold, with the couple transferring into a smaller unit and then after the death of one partner a final shift to a rest home or life care setting may have taken place, thus equity will have been used from the original property and the final size of the inheritance may be much less significant than some have suggested.*

Similarly, according to King and Baekgaard (1996, 11-12):

*The scale of transfers may be less than expected for a number of reasons. Firstly, there are signs that the current and coming generations of retirees think retirement is about 'spending and having fun' rather than living frugally in order to preserve an inheritance for children. Secondly, greater longevity may place additional demands on older people's finances through the need to meet health and caring costs. The current extent of public provision in these systems is not guaranteed to continue. Thirdly, a shift away from lump-sum to pension and annuity forms of superannuation payouts will reduce the funds available for transfer and, fourthly, there is a suggestion that many underestimate the impact of capital gains tax.*

To summarize, individual's all power and wealth passed to other generations as a result of inheritance and even most individuals earn through their lives to pass their wealth to other generations. As a result of this intention, it is argued that beside economic advantage, the social inequality between parents also passed to other generations by inheritance. Affected by several regulations controlling inheritance (taxation, inheritance law etc.) and other social and

demographical factors, it can be argued that wealth transfers has an increasing effect on social inequality.

In most of the Western countries with changing rates of homeownership and high inflation in house prices, more wealth is accumulated in the hands of individuals even if there are variations in the amount of equity by class and region. With the accumulation of housing wealth in households, increasing attention has been given to intergenerational transmission of housing wealth and its impacts.

There are several important issues on the impacts of intergenerational transmission of housing wealth. Firstly, in many studies, it is seen that parental tenure status may influence children's housing tenure as well. Children of homeowners are more likely to be homeowners, compared with the children of tenants. Secondly, the beneficiaries of the inherited property are the surviving spouse and the children. Related to this, inherited properties are transferred mostly to middle-aged people who have well-developed housing careers.

Related with this, the impacts of intergenerational transmission of housing wealth on housing markets and the use of inherited property gains significance. Efficient use of housing inheritance has come as an important problem.

Unlike many Western countries, Turkey experienced a rapid urbanization level. Because of the lack of housing regulations and public resources, new tenure types emerged and housing wealth has accumulated in the hands of several factions of urban society. Innovative tenure types in Turkey and the social inequalities based on housing wealth were examined by the dissertations of Balamir (1986) and Tuna (1999), which fundamentally relate the inequalities in the distribution of housing wealth to the dynamics of production. However patterns of intergenerational transmissions of housing wealth and their impacts on social inequalities remained largely unstudied. This may be due to the lack of data on relations of inheritance.

However, since the relationships between relatives are very strong and not only sociological relations but also legal regulations are forcing the individuals to transfer their wealth to successors, intergenerational housing wealth transfers and their impacts are worth of investigation.

Consequently, in the next chapters first, factors affecting patterns of intergenerational transmission of property wealth in Turkey will be studied in details. In connection that, the growth of housing stock and the investments in property markets, the state of homeownership by years will be investigated. After that, the demographic structure of Turkey will be examined. Additionally, the institutional background of intergenerational transmission of property wealth, inheritance law and the taxation system, will be elaborated. And finally, the state of intergenerational property wealth transfers in Turkey will be analyzed by developing a model.

### **CHAPTER 3:**

#### **FACTORS AFFECTING PATTERNS OF INTERGENERATIONAL TRANSMISSION OF HOUSING WEALTH IN TURKEY**

According to many sources, the state of intergenerational transmission of wealth is a product of a number of factors including the growth of homeownership, rising house prices and demographic trends (Munro, 1988; Hamnett et. al., 1991; Thorns, 1994a,b; O'Dwyer, 2001). Investments in housing; stock and value; the rate of homeownership are the main determinants of housing wealth accumulated in the hands of households. The distribution of this wealth among households may depict inequalities. Transmission of inequalities becomes the main subject of pattern of intergenerational transmission of property wealth in Turkey.

Since inheritance is a household related issue, the demographic factors will inevitably affect the transfers of housing wealth. Changes in the population structure and the households' formation will be significant factors in the process of property wealth transfers.

In this chapter the factors of patterns of intergenerational transmission of housing wealth in Turkey are examined first by investigating the patterns of housing development and the sector significance of housing industry in Turkey by years. After that, sharing of the housing stock and the state of stratification on the basis of housing wealth in Turkey are investigated.

Furthermore, changes in demographic factors by years are studied. Changes in the structure of the population, the birth and death rates, and their possible

impacts on the future of housing inheritance are investigated. The marriage patterns, household size, that influence the state of housing inheritance, in Turkey are elaborated.

### **3.1. Growth of Households' Housing Wealth in Turkish Cities**

#### **3.1.1 Housing Growth in Turkey**

Unlike many Western countries, growth of the housing supply in Turkey is based on two distinct processes, which result in authorized and unauthorized forms of housing. Generally, housing development in Turkey is considered in terms of different periods of time, and with a different perspective in each period.

According to Bilgin (1998), arguing that the history of housing development based on an explanation of the types and the institutions that control this development, three distinct periods can be identified. The first period began with the early years of the Turkish Republic, when this development was activated only by the State. In this period, housing was not provided under modern market conditions but only supplied due to the needs of special groups through state intervention.

According to Bilgin (1998) the second period starts with the end of World War II. Land development, construction financing, organization of construction work site, and relations with local authorities and improvement of the housing industry activated the housing market. This was a period of transferring from housing development by state intervention to housing production by small entrepreneurs. Also, as a result of the high rate of urbanization, migration from rural to urban areas and insufficient provision of building land and housing caused an increase in the unauthorized sector of housing development. As a result, especially in the larger cities of Turkey, on one side the apartment blocks provided by new economic relations and on the other side 'gecekondu' (squatter) areas constructed by low-income families came into existence.

In the third period starting from 1980's, with increasing interest rates and foreign exchange as a result of a liberal economy, the rate of housing



production fell in the market (Bilgin, 1998). Stagnation in the housing market affected other sectors adversely and this demonstrated the significance of the housing sector on the market. With state interventions after 1983 housing investments began to capture a high percentage of the GNP. The most important interventions of the State were the establishment of a Housing Administration, a development Fund and new regulations (Mass Housing Law) for promoting the housing growth (Sey, 1998). While the authorized housing stock increased drastically, the unauthorized housing development continued. However, in the beginning unauthorized housing development appeared because of insufficient supply of housing for low-income groups, after the 1980's it turned into a speculative pillage of many lands owned by the state in the larger cities.

Similarly, Tekeli (1996) discusses the history of housing development in Turkey in terms of four periods. In the first period, between 1923 and 1950, the urbanization rate was slow. After establishment of the Turkish Republic, the problems of housing were only confined to the supply of laborers' houses and of the public workers of Ankara, the new capital city. With the economic effects of World War II, decreasing housing supply and migration from rural to urban had caused a housing crisis.

During the second period, between 1950 and 1965, infrastructure investments and public resources were insufficient to meet the increasing urbanization rate and, consequently the housing supply did not meet the needs of individuals. Insufficient infrastructure caused Turkish cities' to grow in a compact manner and, as a result, the value of urban land rose dramatically. As an alternative to those expensive urban lands, the rural lands in the periphery of the cities were subdivided, ignoring all planning regulations. Moreover, in this period unauthorized housing development consistently increased.

In general, between 1950 and 1965, the arguments for and against 'Industrialization' and 'Urbanization' became prominent. According to those favoring industrialization, 'gecekondü' areas both provided cheap labor to the market and decreased the cost of urbanization and aided increased

investments in industrialization, and according to planners it consisted as one of the most significant housing problems.

Tekeli (1996) describes that in the third period, between 1965 and 1980, flat ownership relations increased apartment building construction. 'Yapsat' had emerged as a new form of ownership suitable for Turkey's urbanization and capital accumulation. In this period, squatter settlements continued its significant growth and in 1965 comprised 35% of the total housing supply.

In the final period, between 1980 and 1990, there was an increase in mass-housing and cooperative construction as types of housing supply due to state interventions with the establishment of a Housing Administration.

Looking from a different perspective, Balamir (1996) describes the developments of Turkish urbanization as a globally significant performance despite low levels of capital accumulation and scarcity of public and private resources. In Turkey, an adequate level of production was achieved only through the procurement of innovative methods of cooperation and different processes for raising capital. During late 1940's and early 1950's the informal or semi-formal arrangements between households, landowners, developers and other groups aimed to minimize costs and increased housing production. Emphasizing that the physical changes are related with demographic, economic, institutional and cultural changes of social dynamics, Balamir (1996) identifies three distinct processes that form housing development and property relationships in Turkey.

First, direct 'appropriation' of public or private land and construction of squatter housing is an illegal form of housing development. Political tolerance for squatters enabled the claims to legitimate ownership of property. As a result, the need for housing especially that of migrants from rural areas was met by squatter development. "Furthermore, administrative tolerance, provisions of titles and rights at incommensurable costs and obligations, maintenance of public services and infrastructure also led to social differentiations among the residents of squatters as non-beneficiary tenants, owners and rentier individuals." (Balamir, 1996, 337)

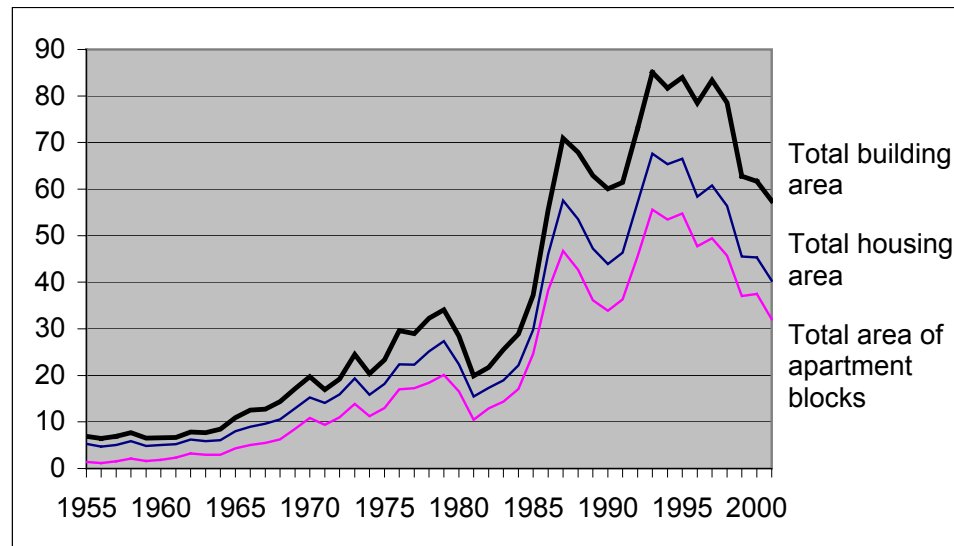
'Apportionment' as a second kind of property development process, took place in larger agricultural tracks of land at the peripheries of larger settlements. According to development regulations that aim to control the irregular urban growth, and to maintain the agricultural activities, the subdivision of land is forbidden beyond specific sizes. In the process of 'apportionment', individuals jointly own the land, which is then subdivided by semi-formal agreements. In this case, even if land is owned legally the constructional activities are absolutely unauthorized (Balamir, 1996). Compared to forms of direct appropriation, the process of apportionment represents a more organized effort to achieve social relationships.

The third form is described by Balamir (1996) as the process of "appurtenance" which assist the construction of flats in multi-story apartment blocks. Scarce public resources for infrastructure investments that limited the supply of buildings and increasing land values in the local markets caused the procurement of high density, multi-unit buildings. Thus, in this process, landowners, developers and investor-households realize new values and assume new relationships. In the early 1950's, the "flat ownership" system became an innovative property relationship, as a response to capital scarcity in the construction sector.

As an indicator of the quantity of housing inventory by years, production of new housing units in Turkey according to construction permits is used. According to Figure 3.1 from 1960's to 80's, production of new housing units increased continuously (Balamir, 1996; Tekeli, 1996; Bilgin, 1998). Especially between 1965 and 1979 the construction activities increased drastically over 200%, and housing comprised nearly 80% of all building construction. This is mostly provided by 'apartments' (Balamir, 1982).

After 1980s, housing development has continued to increase and reached its top in 1995s. However, because of the economic crisis in 1994 and 1999, the housing construction has increased by a decreasing rate.

Figure 3.1: Annual production of new building units in Turkey according to construction permits ('000'000 m<sup>2</sup>)



Source: SIS, Construction Statistics, 2001 (Updated from Balamir, 2002)

For Data See Table B.1 (Appendix B)

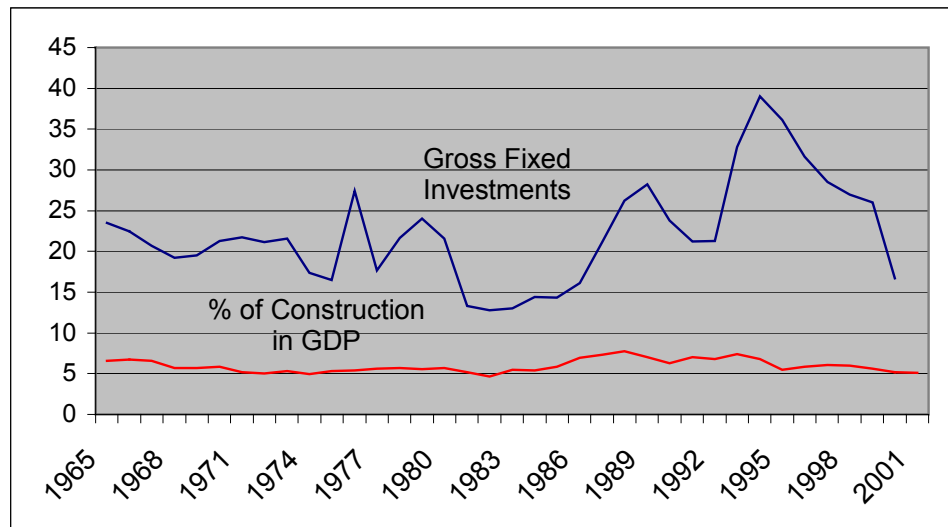
### 3.1.2. Sectoral Significance of Housing Industry in Turkey

Related to the fluctuations in housing development in Turkey from year to year according to economic and social conditions of the country as well as the housing policies, the housing construction industry also varies but never lost its significance.

As an indicator of the sectoral significance of housing industry in Turkey, share of housing in total gross fixed investments and the share of construction in GNP is shown in Figure 3.2. It is clearly evident housing construction constitutes approximately 20% of gross fixed investments. This share reached to 40% in 1995s.

According to share of the income gained by homeownership (Figure 3.3), which contains the real and imputed rent subtracting the expenditures, it is clearly evident that housing wealth of households comprises 4-8% of GNP.

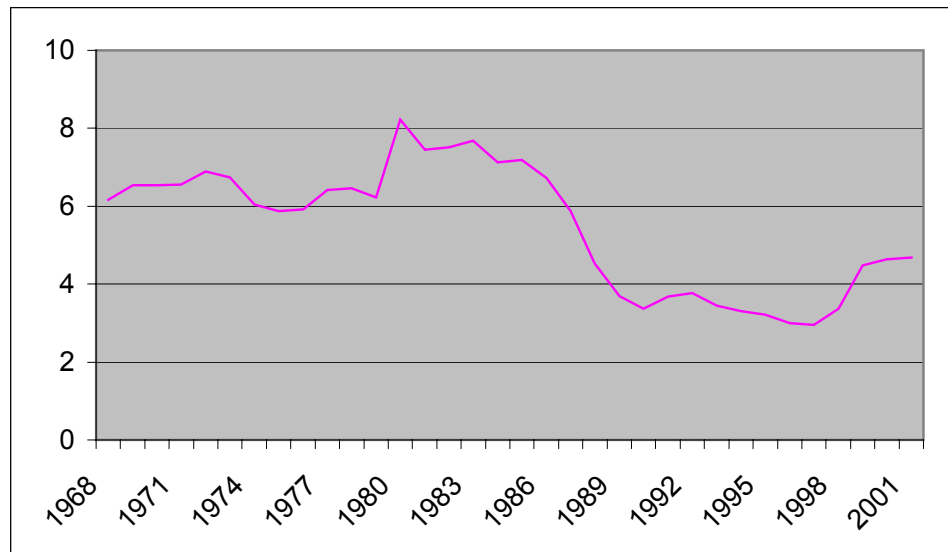
Figure 3.2: Share of Construction in GNP (at current prices, % share) and share of housing in total gross fixed investments



Source: SPO, SIS

For Data See Table B.2 (Appendix B)

Figure 3.3: Income gained by homeownership in GNP by years (at current prices, % share)



Source: SPO

For Data See Table B.2 (Appendix B)

Similarly, Balamir (1982) explains that especially, compared to the period between 1950 and 1960, and during the period of 1960-1980 housing sector

took off. According to the results of share of construction industry per GDP during 1960-80, more sources will be invested in housing production.

### 3.1.3 Rate of Homeownership (Sharing of Housing Stock)

Dependent on the changes in housing development and policies over the decades, there have also been changes in the tenure pattern in Turkey, and like in many other Western countries, homeownership is encouraged. Households in Turkey prefer homeownership, not only for occupation but also for investment and financial security.

As Türel (1996) explains since the establishment of Turkish Republic homeownership has been promoted while very little source is used for social housing. Ownership is activated by general policies and the inflationary economy. Since, there was no policy developed for tenancy in Turkey, homeownership tendencies dominated.

Even though there is no systematic statistical data on housing, ownership status by years could be observed by means of the general population census (Figure 3.2). According to the survey results, rate of households not paying rent in urban areas is approximately 65%.

Table 3.1: Rate of tenancy in urban areas (%)		
	Households Not Paying Rent	Tenant Households
1965	61,34	38,66
1970	62,04	37,96
1975	63,86	36,14
1980	-	-
1985	63,49	36,51
1990	58,92	41,08
2000	68,4	31,6
Source: SIS, Population Census		

However, it should be pointed out that the housing stock is not shared evenly between households. As Balamir (1992) and Tuna (1999) mentions, according to some survey results in Ankara nearly 20% of households are multiple owners who have more than one house. This depicts that housing wealth is accumulated unevenly and some households benefit from the investments in housing more.

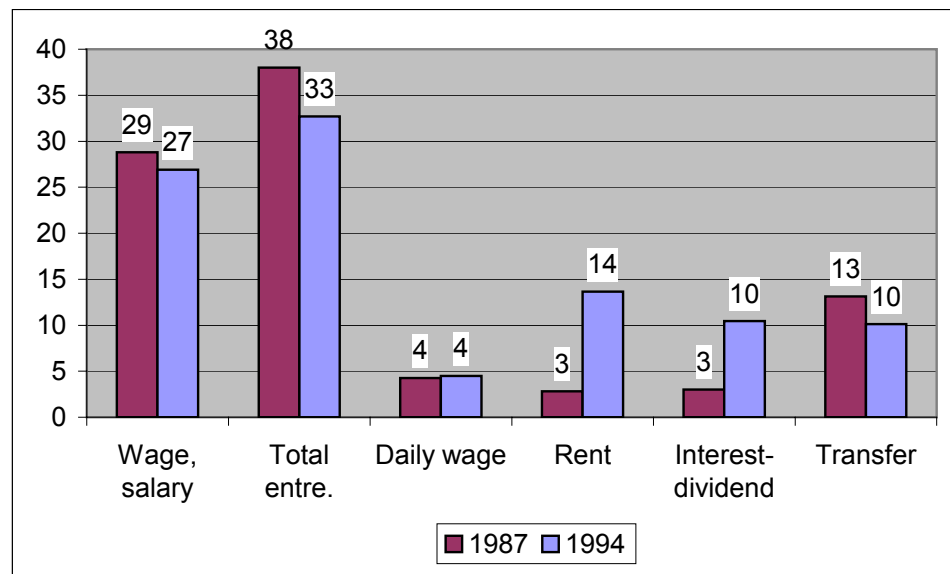
Table 3.2: Distribution of households in tenure groups according to the three databases in Ankara					
	Number of households	Multiple owner	Single house owner	Owner tenant	Non-owner tenant
Balamir (1984)	3674	24,3	35,4	12,2	28,1
The census data of 1990	29443	12,3	42,8	7,4	37,5
1994 Hhs Income and Consumption Survey	657	19,8	34,9	8,5	36,8
Source: Tuna (1999), 129					

#### 3.1.4. Social Stratification on the Basis of Housing Wealth

As a result of increasing importance in housing industry and increasing rate of homeownership, housing wealth has accumulated in the hands of some households. This caused the discussion on whether distribution of housing wealth causes a social differentiation among households or not. SIS Households' Income and Consumption Expenditures Surveys can be a source of data for investigating the accumulation of housing wealth.

The results of the surveys in 1987 and 1994 depicts that the percentage of rental income resulting from ownership of property in urban areas increased from 3% to 14% of total households' income (Figure 3.4).

Figure 3.4: Distribution of income of household members by types of income (1987 and 1994) (%)

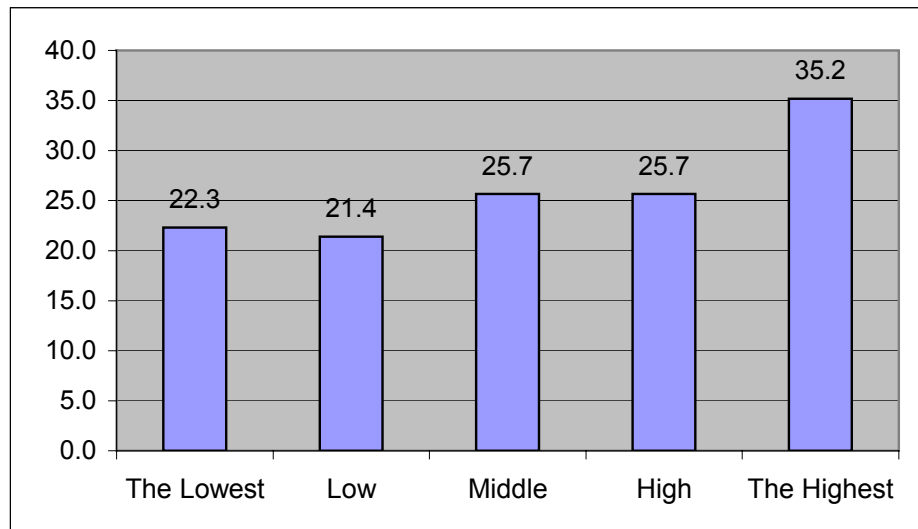


Source: SIS, Household income and consumption expenditures survey, 1987 and 1994

In addition, as seen in Figure 3.5, the distribution of rental income in total income has increased by income groups, and rental income constitutes 35% of the total income of the households in the highest income group. The percentage is also relatively higher in the lowest income group, which may depict retirees surviving mainly from rental income.



Figure 3.5: Distribution of rental income in total income by income groups (%)



Source: SIS, Household income and consumption expenditures survey, 1994

While there are many studies on types of housing development in Turkey, increase in housing supply, urban-rural migration and its implications in housing terms, the effects of increases in the housing wealth of households on social stratification is seldom examined.

A study of social stratification on the basis of housing wealth was done by Balamir (1992), relying on a survey covering 9% of apartment stock in Ankara in 1984-1985. According to Balamir (1992), with the innovation and extensive adoption of flat ownership relations not only has the housing inventory risen drastically, but also a new social stratification emerged on the basis of housing wealth. He argued that flat-ownership not only enabled in an environment of low rates of capital accumulation, expansion and renewal of settlements but also stratified the urban society, and small scale capitals and households participate in the housing production process.

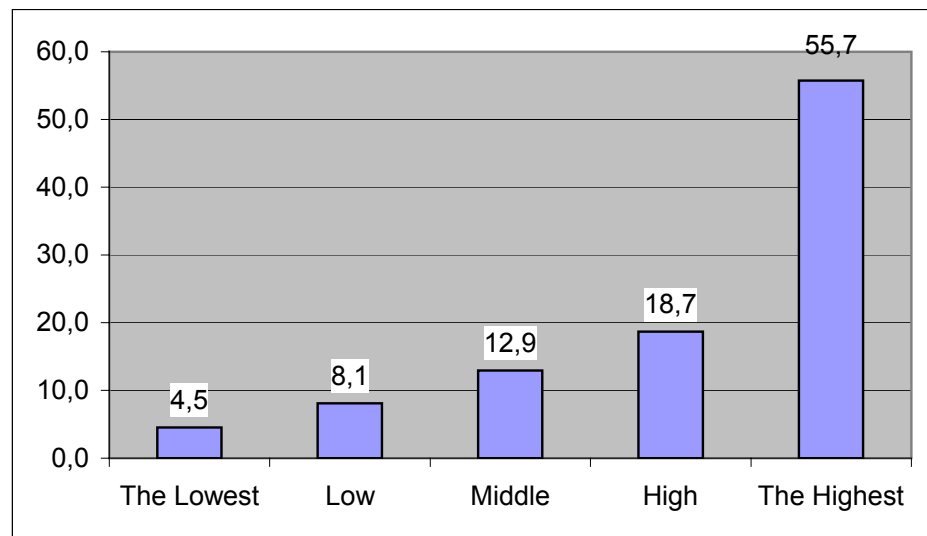
He defines seven distinct housing-based differentiations created by flat ownership. They are: developers, landowners, homeowners who have at least one other house, homeowners who only own their house, tenant households who own at least one house, tenant households who do not own any house and doorkeepers in apartments. In conclusion, Balamir confirmed then that the

proposed four-part tenurial division (multiple owner, single owner, owner tenant, non-owner tenant) is more relevant than the conventional two-part tenurial division of owner occupancy and tenancy.

Subsequently, Tuna (1999) questioned the validity of Balamir's arguments by using the '1990 Census Data' and the '1994 Household Consumption and Expenditure Survey Results'. She concluded that her findings corroborate the findings of Balamir and reveal that housing wealth significantly acts as a factor to differentiate and polarize the urban population.

According to SIS, household income and consumption survey of 1994, assuming that households' total property wealth includes both the value of housing owned and settled and the rental income earned from other property ownership (which represents the total potential wealth to be transferred via inheritance), distribution of households' property wealth by income groups is shown in Figure 3.6. While the highest income group owns more than half of all property wealth, the lowest income group owns only 5%. Since, total wealth is also unevenly distributed between income groups and the highest income group owns most of it, it can be concluded that property wealth is one of the factors causing social inequality.

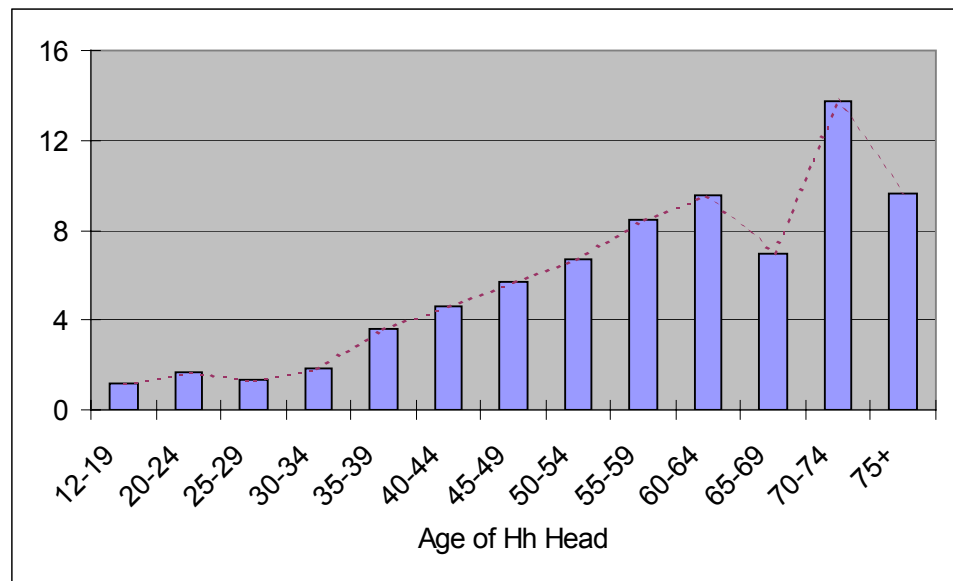
Figure 3.6: Distribution of mean housing income (real and imputed) as an indicator of property wealth by income groups (%)



Source: SIS, Household income and consumption expenditure survey, 1994

It is also relevant to observe housing wealth by age of household in order to understand the implications for inheritance. According to Figure 3.7, property wealth tends to increase with age and, households who are 50 and above hold 73% of all housing wealth. However, it is usually accepted that wealth increases until the age of retirement. After retirement savings are used to maintain a pre-retirement standard of living. A decrease in wealth after the age of 65 may be an indicator of this. The rapid increase after 70 may be due to a transfer of property wealth into the hands of a surviving spouse. This is an indicator of the “inheritance swing”

Figure 3.7: Mean property wealth (monthly) by age of Hh head ('000'000 TL.) in 1994



Source: SIS, Household income and consumption expenditure survey, 1994

In conclusion, since the decade of the 1950's housing inventory has increased drastically. New innovative tenure relationships, both in authorized and unauthorized modes have allowed some groups gain substantial housing wealth. With increases in housing values, the difference between 'haves' and 'have nots' has widened. Today, the accumulation of property wealth in older households would suggest that the impacts of property inheritance would be even greater in future years.

### 3.2. Demographic Trends

As Wedgwood and Atkinson explain, one of the most significant factors affecting the process of intergenerational transmission of wealth is the demographic characteristics of society, since intergenerational transmission of housing wealth means transfers of households' assets from one generation (household) to succeeding generations (households).

According to Hamnett et. al. (1991) in addition to the growth of homeownership and rising house prices, demographic trends are factors affecting the current nature and scale of housing inheritance, and the basic

determinant of the future of housing inheritance. In addition to property inheritance, population, rates of household formation and dissolution, trends in marriage, divorce and remarriage and the number of children are in some interrelated ways affect housing inheritance.

In this connection, trends in demographic factors like population growth household formation and household size in Turkey and their possible impacts on intergenerational property transfers should be investigated.

### 3.2.1. Population Growth

Changes in the size of population and the number of households have significance in terms of overall property demanded, and related to the intergenerational transmission of housing wealth (Hamnett et. al., 1991). The population increases in Turkey are shown in Table 3.3.

Table 3.3: Population by years in Turkey		
Census Year	Total Population	Population growth (%)
1950	20 947 188	-
1955	24 064 763	-
1960	27 754 820	-
1965	31 391 421	-
1970	35 605 176	2,52
1975	40 347 719	2,50
1980	44 736 957	2,06
1985	50 664 458	2,49
1990	56 473 035	2,17
2000	67 803 927	1,56
Source: SIS, Population Census		

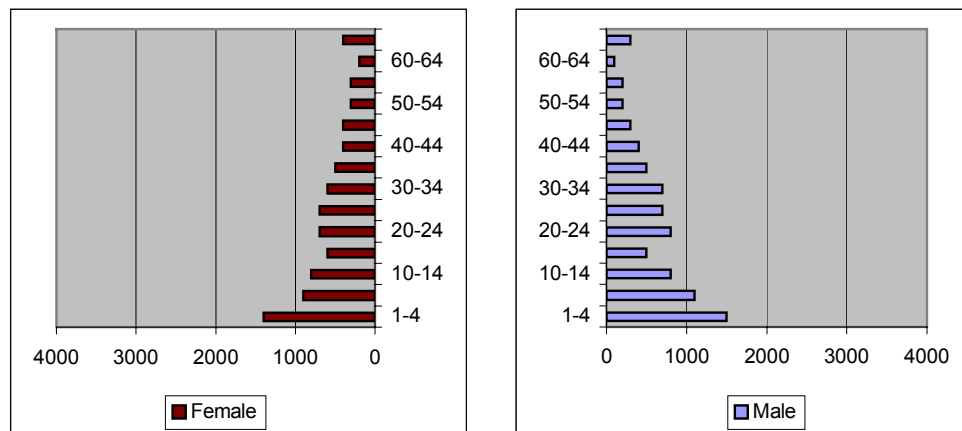
Population increases experienced, since the establishment of the Turkish Republic, seems to have slow down during the last two decades. Today, the population of Turkey is about 63 million and is expected to reach 84,4 million in 2020 (Table 3.4).

Table 3.4: Population projections from 1990 to mid 21 <sup>st</sup> century								
	1990	1995	2000	2010	2020	2030	2050	2070
Population (million)	56,2	61,6	66,8	76,3	84,4	91,1	98,2	99,2
Source: SIS, 1995, The population of Turkey 1923-1994								

Nowadays, Turkey has been witnessing significant changes in its demographic structure. The population of Turkey has entered a relatively stable period, the rate of growth of the population will drop to very low levels in the early 21<sup>st</sup> century, and, in the course of time, may even fall to zero or to negative values (TUSIAD, 1999).

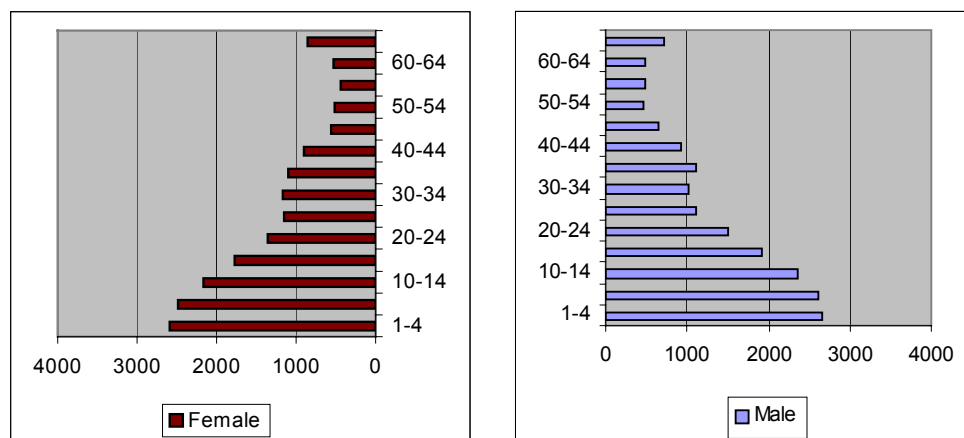
As a result of leveling rate of population, the age structure of the population has been changing (Figure 3.8, 3.9, 3.10). Marital fertility began declining from a high value during late 1940s or early 1950s, and the rate of decline has been accelerating (Shorter, 1982). and the number of middle-aged households is increasing.

Figure 3.8: The age structure of Turkish population in 1930 ('000)



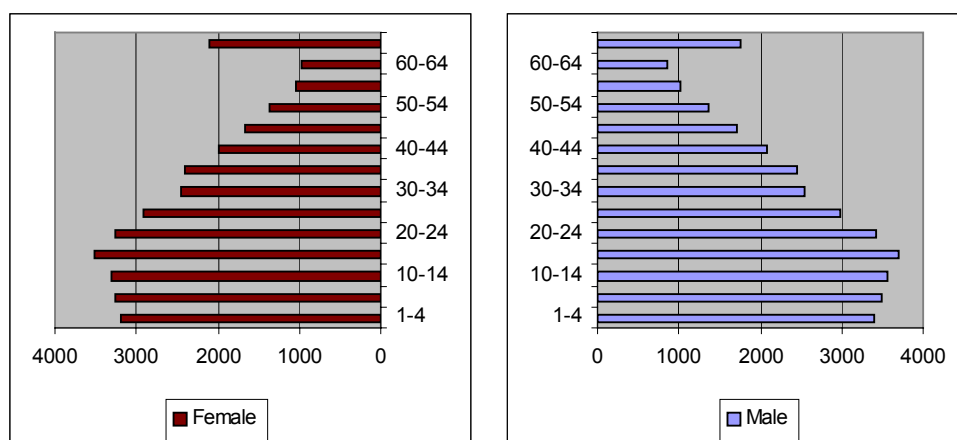
Source: SIS, 1995, The population of Turkey 1923-1994

Figure 3.9: The age structure of Turkish population in 1970 ('000)



Source: SIS (1970) Census of Population

Figure 3.10: The age structure of Turkish population in 2000 ('000)



Source: SIS (2000) Census of Population, Social and Economic Characteristics of Population

Longevity and shifts in the age structure of Turkish population are factors affecting current and future patterns of intergenerational transfers. As shown in Table 3.5, in 1990, the number of people over 65 constituted 4% of total population and in 2025 this ratio is believed to be increase to 9% (SIS, 1994). The ageing of the population shows that the number and share of those over the age of 65 will increase at an extraordinary pace during the next two or three decades.

Table 3.5: Shares of Various Age Groups within Turkey's Population over the Projection Period					
Age Group	1990	2000	2010	2020	2025
0-14	35,5	29,5	26,0	23,6	22,7
15-64	60,5	65	67,9	68,7	68,3
65+	4,0	5,5	6,1	7,7	9
Source: SIS (1994)					

According to the rate of dying people in population (death rates) by years, it is clearly evident that the longevity rate has been increasing (Table 3.6). However, according to Shorter (1982) the part of the decline in the death rate is simply a reflection of declining fertility rather than declining mortality. Also, the fact that male infants have higher infant mortality than females (Shorter, 1982) depicts that, it should be considered that some of the inherited wealth would be transferred to surviving spouses.



Table 3.6: The death rates by age and sex (1970-2000)

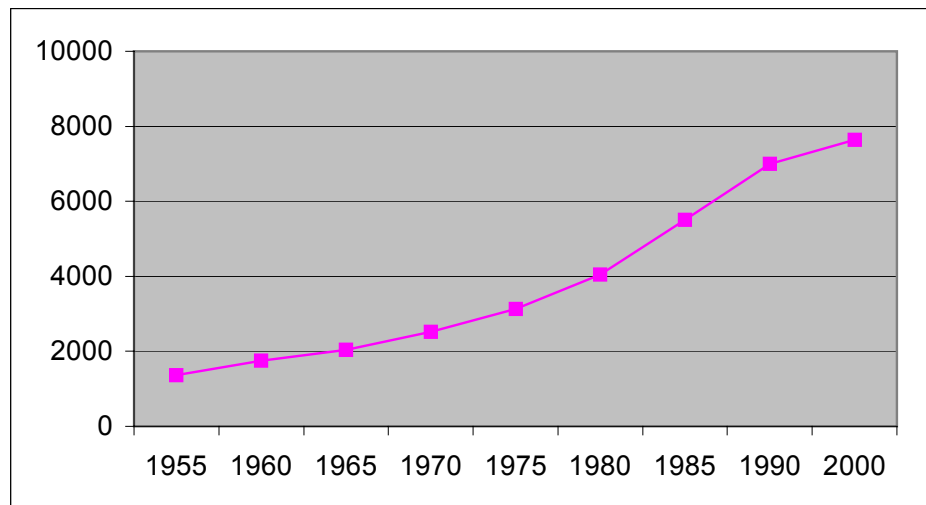
Age Group	1970		1975		1980		1985		1990		2000	
	<i>Male</i>	<i>Female</i>	<i>Male</i>	<i>Female</i>	<i>Male</i>	<i>Female</i>	<i>Male</i>	<i>Female</i>	<i>Male</i>	<i>Female</i>	<i>Male</i>	<i>Female</i>
1-4	0,0006	0,0006	0,0007	0,0007	0,0006	0,0005	0,0004	0,0004	0,0003	0,0003	0,0003	0,0003
5-14	0,0003	0,0002	0,0004	0,0003	0,0003	0,0002	0,0003	0,0002	0,0002	0,0002	0,0003	0,0003
15-24	0,0005	0,0003	0,0005	0,0003	0,0005	0,0003	0,0004	0,0002	0,0003	0,0002	0,0005	0,0004
25-34	0,0006	0,0004	0,0006	0,0003	0,0006	0,0003	0,0005	0,0003	0,0005	0,0003	0,0005	0,0004
35-44	0,0012	0,0007	0,0010	0,0006	0,0009	0,0005	0,0009	0,0005	0,0009	0,0005	0,0010	0,0006
45-54	0,0019	0,0008	0,0020	0,0011	0,0023	0,0010	0,0022	0,0010	0,0019	0,0009	0,0021	0,0010
55-64	0,0040	0,0020	0,0038	0,0020	0,0036	0,0018	0,0043	0,0022	0,0044	0,0024	0,0035	0,0019
65+	0,0078	0,0089	0,0089	0,0096	0,0120	0,0117	0,0110	0,0117	0,0105	0,0113	0,0106	0,0106

While the ratio of older people has changed, increased longevity will have a slowing effect on housing inheritance. However, with increasing population and shifts in the age structure, it is expected that the rate of property inheritance will still continue. While the rate of inheritance may be slowed by certain factors (like increasing longevity rate), the number of death also rises with the ageing of the population. As a result, the numbers of inherited estates will also grow (Hamnett et. al., 1991).

### 3.2.2. Households

Like population, the number of urban households has increased significantly by years in Turkey (Figure 3.11). This has influenced housing demanded and also the patterns of intergenerational transmission of wealth.

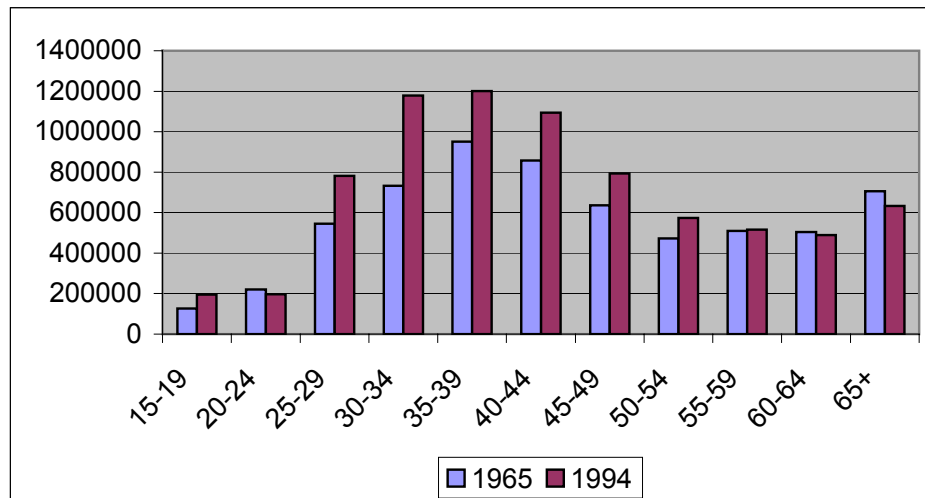
Figure 3.11: Number of urban households by years ('000)



Source: Balamir (2002)

In Figure 3.12 the number of urban households by household heads' ages in 1965 and 1994 is compared. Similar to population, while households headed by people aged 20-24 decrease, household head's aged between 25 and 54 rise. The number of households headed by age 65 and more which are the potential benefactor group, stay stable. Nevertheless, great increases in the 25-54 years old group show that in 10 to 20 years there will be a drastic increase in the potential beneficiaries group.

Figure 3.12: Number of households by household heads' age in urban areas



Source: SIS, Household income and consumption expenditure survey, 1994  
For data see Table B.3 (Appendix B)

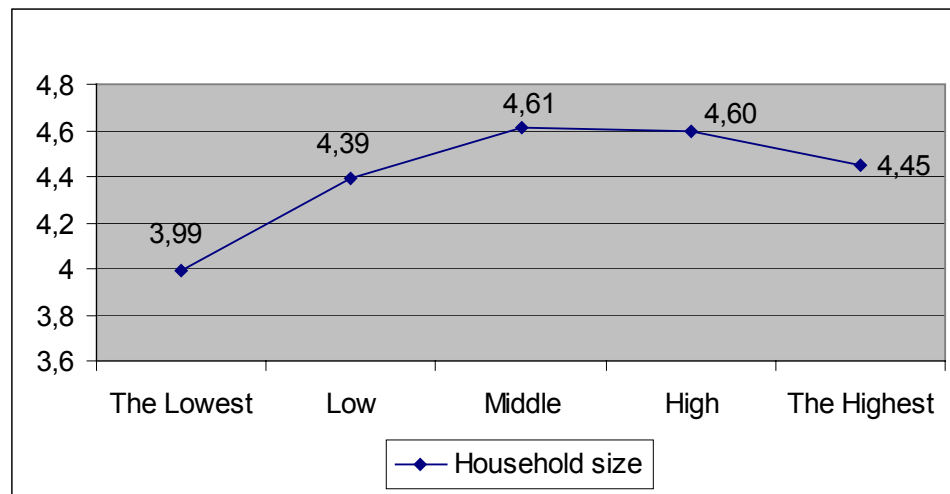
### 3.2.2.1 Household Size

Household size is the other important factor affecting the patterns of intergenerational transmission of housing wealth, conditioning that the amount of wealth the beneficiaries could obtain, depending on the number of household members.

As discussed in the theoretical studies, household size is conversely correlated with the economic condition of the family. Like in Britain, family size is greatest among those living in the poorer quality council housing areas and smallest among those in the good quality owner occupied areas. This fact increases inequalities in wealth, which results from inheritance

In Turkey, household size, like other countries, is known to be conversely related with literacy and economic condition (Figure 3.13). While the low and middle and high-income groups have greater household size, the highest income group has a lower household size with the exception of the lowest income group.

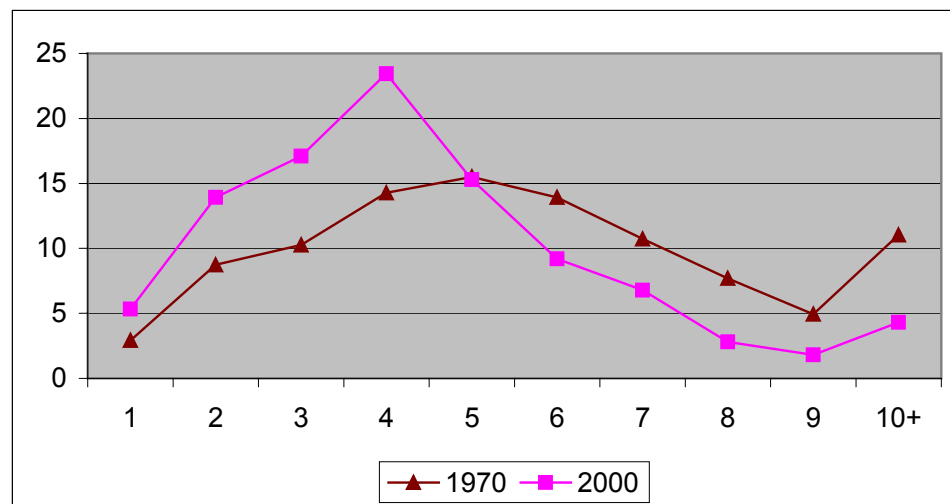
Figure 3.13: Household size according to income groups in urban areas (1994)



Source: SIS, Household Income and Consumption Survey Results, 1994

Furthermore, the trend in household size distribution by years is significant in Turkey because in most of the cases inherited wealth is divided between family members, and the level of concentration of that wealth depends on the household size. According to results of census population in 1970 and 2000, the rate of households with four or less members have been increasing and the numbers of households having six and more members have been decreasing below 1970 levels (Figure 3.14).

Figure 3.14: Household size distribution from 1970 to 2000 (%)



Source: SIS, 1970 and 2000 Census Population

The changes in the household size in Turkey indicate that in the future inherited wealth will be divided among fewer people. Since wealth will be concentrated on the hands of less people, inequalities will be greater

#### **3.2.2.2. Rates of household formation and dissolution**

Another factor influencing the process of housing inheritance is the impact of marriage, remarriage and divorce. Since, 'Inheritance Law' determines the legal beneficiary as descendant and the surviving spouse of the testator, the marital status of the testator gains significance. It can be argued that if the rate of married households is high, the inherited assets will transfer primarily to other surviving family members rather than the surviving spouse as in the case of English Law (Munro, 1988).

Additionally, by changing the housing careers of the individuals involved, shifts in the family structure can also significantly interrupt the inheritance process. For example, children of a separated family may be benefited from both of their parent's property as Hamnett et. al. mentions (1991).

The change in marital status within the Turkish population is shown in Table 3.7. Through the years an increase in single households is realized, and from the 1970's marriage has also increased continuously. The increase in the divorce rate people is significant because of the probability of inherited assets' accumulating in the hands of children. The propensity to increasing in the rate of widowed people may cause a need for new policy options for widowed.

Table 3.7: Population by marital status							
	1965	1970	1975	1980	1985	1990	2000
Single	4.440.172	5.591.906	9.063.165	10.235.904	12.192.110	14.077.258	17.622.459
Married	13.057.047	14.495.342	15.974.610	18.624.720	21.292.360	24.652.751	31.239.631
Widowed	1.274.972	1.319.308	1.286.969	1.491.928	1.635.704	1.757.862	2.276.932
Divorced	148.394	133.160	173.643	187.069	214.200	280.452	566.339
Unknown	22.584	68.465	447.337		4.925	15.108	18.833
Source: SIS, Census of Population, Social and Economic Characteristics of Population, 1990							

Table 3.7.A: Population by marital status (1965=100)							
	1965	1970	1975	1980	1985	1990	2000
Single	100	100,21	100,59	100,71	100,87	101,00	101,20
Married	100	100,10	100,19	100,33	100,46	100,60	100,81
Widowed	100	100,03	100,01	100,15	100,23	100,30	100,53
Divorced	100	99,89	100,12	100,19	100,32	100,55	101,06
Unknown	100	100,67	101,52		-258,56	-260,30	-260,82
Source: SIS, Census of Population, Social and Economic Characteristics of Population, 1990							

In conclusion to this part, it can be said that changes since 1950s inevitably affect the process of intergenerational transmission of housing wealth. The housing stock, authorized and unauthorized, increased drastically. State interventions, the organizations of new tenure relationships have catalyzed this development. During this period, investments in housing sector have increased.

In Turkey, because of inflationist economy and lack of housing policies on tenants, rate of homeownership is high. Like in many other Western countries, homeownership is preferred not only for occupation but also for investment and financial security. In Turkey, entire housing wealth has been shared among 65% of total households. However, some survey results (Balamir, 1992; Tuna, 1999) show that housing wealth is shared unequally and some group of people benefited from this wealth more.

Additionally, distribution of property wealth by age groups depicts that household heads that are 50 and above hold most of the housing wealth (73%). It is argued that a decrease in wealth after the age of 65 may be an indicator of retirement and the rapid increase after 70 may be an indicator of the “inheritance swing”.

Increases in the number of population and household formation are two basic factors causing housing development and the accumulation of property wealth in the hands of some households. Moreover, Turkey has been witnessing a change in his demographic structure during last decades. Lower birth rate and increasing longevity have changed the age structure. As a result, the number of middle-aged households has increased.

The trends in intergenerational transmission of housing wealth show that the accumulated property wealth in the hands of older people will be transferred to further generations in increasing amounts. The shifts in the age structure of Turkey, increase in the number of middle-aged households, cause significant changes in Turkish population. Increases in the number of people, of retirement age, predict that there will be substantial property transfers via inheritance in coming years. Moreover, changes in the household size over

the years depict that inherited property will be concentrated in the hands of fewer people and, this shift of wealth may cause an increase in the social divide based on wealth.



## **CHAPTER 4:**

### **THE INSTITUTIONAL BACKGROUND OF INTERGENERATIONAL TRANSMISSION OF HOUSING WEALTH**

The institutional framework determines the overall pattern of the most significant factors in which intergenerational transmission of wealth take place. These constitute in general laws and customs governing inheritance and the taxation system. The future of wealth transfer, the relations of beneficiaries, priorities of family members of the inherited wealth are covered under civil code and Inheritance Law in Turkey. The inheritance taxation system is defined also by many as a major source of influence in the pattern of transmission of inequalities. Since, inherited wealth is subject to ‘inheritance and gift tax’ first, it is significant in its regulatory role on behavior and changes in the economic and social inequalities.

In this chapter, laws and customs governing inheritance in Turkey are examined first. The regulatory devices available in ‘Inheritance Law’ and their impacts on intergenerational transmission of wealth are discussed. Types of wealth transfers via inheritance are then studied and taxation systems employed in these transfers are defined. Inheritance taxation, its basis and applications are reviewed, and the contribution of inheritance taxation to the Turkish budget is evaluated. Finally, the problems in inheritance taxation system via housing wealth transfers are discussed.

To observe the institutional background of intergenerational transmission of property wealth, “Inheritance Law” and “Inheritance and Gift Taxation Law” are

used as sources of information. Records of title deed transactions are investigated as an indicator of property transfers.

#### **4.1. Laws and Customs Governing Inheritance**

##### **4.1.1. Inheritance law**

Since property is transferred from one generation to the successors upon a person's death, family ties have implications even after death. Inheritance gains importance as it allows for the transfer of the estate, and it may determine the behavior of the testator and of successors even before the moment of death. These relations are defined and regulated under Inheritance Law.

The law of inheritance is a subdivision of the Turkish Civil Law, which determines the future of testator's assets. According to Ayan and Arslan (1998), the aim of the 'Inheritance Law' is to arrange to whom, how and in which proportion the inherited wealth will be transferred, how the testator could dispose of his assets before his death, who could get special privileges from the inherited assets, and define the characteristics of the beneficiaries and the relationships between them.

Şener (1977) defines four types of 'Inheritance Law' systems that exist in the world. The first type is the individualist system. This system states that if an individual has the freedom of disposing his assets in any way during his life, he must have the right of identifying the beneficiaries and donating them whatever his/her will is after death. This system was invoked in Roman Law and, as a result of this, the use of the testament (the will) was frequently applied (Şener, 1977).

The second system argues that since family is the basic unit of society, it should be customary that inherited assets be shared between the family members. An individual's greatest motivation to work and save is his desire and propensity to bequeath to his children. For the individual, this is a way to show his love and devotion to the family.

Şener (1977) describes the collectivist system as a third type of inheritance law system. In this system the inherited asset is bequeathed to the state. However, since ownership is denied in such systems in the first place and the desire for gaining and accumulating wealth is diminished, this system is reduces the significance of inheritance.

The fourth system (conciliatory system) as Şener (1977) describes it, is a combination of the first two types of 'Inheritance Law' systems in which an individual has the freedom to dispose of his assets in any way, by will or by agreement. However, the family members have the right to obtain part of the assets via inheritance. This is known as their 'legal portion'.

Under the English Law, like in other Anglo-Saxon countries, individuals can dispose of their property in any way they choose, but most European countries restrict the rights of the individual in order to protect the interests of the surviving family" (Hamnett et. el., 1991). In Turkey, which was mostly affected by Roman Law, the conciliatory system is used.

In Turkey, the laws and customs governing the future of individual's assets after his death are determined under the 'Inheritance Law', which is a subdivision of the 'Civil Law' which has been effective since 1926. The latest revisions in 'Civil Law' took place on January 01, 2002. In the latter, basic principles and institutions of old 'Civil Law' remains but amendments were made to procedural practice (a comparison between the old and new 'Civil Law' concerning intergenerational transmission of housing wealth is found in Part 4.1.2).

Two types of inheriting practices are identified under the 'Turkish Civil Law': the 'Legal Beneficiary' and the 'Voluntary Beneficiary'. The 'Legal Beneficiaries' have a right to inherit by law. The legal beneficiaries are individuals mostly having kinship relations with the inheritor; descendants, surviving spouse and in the absence of any the State.

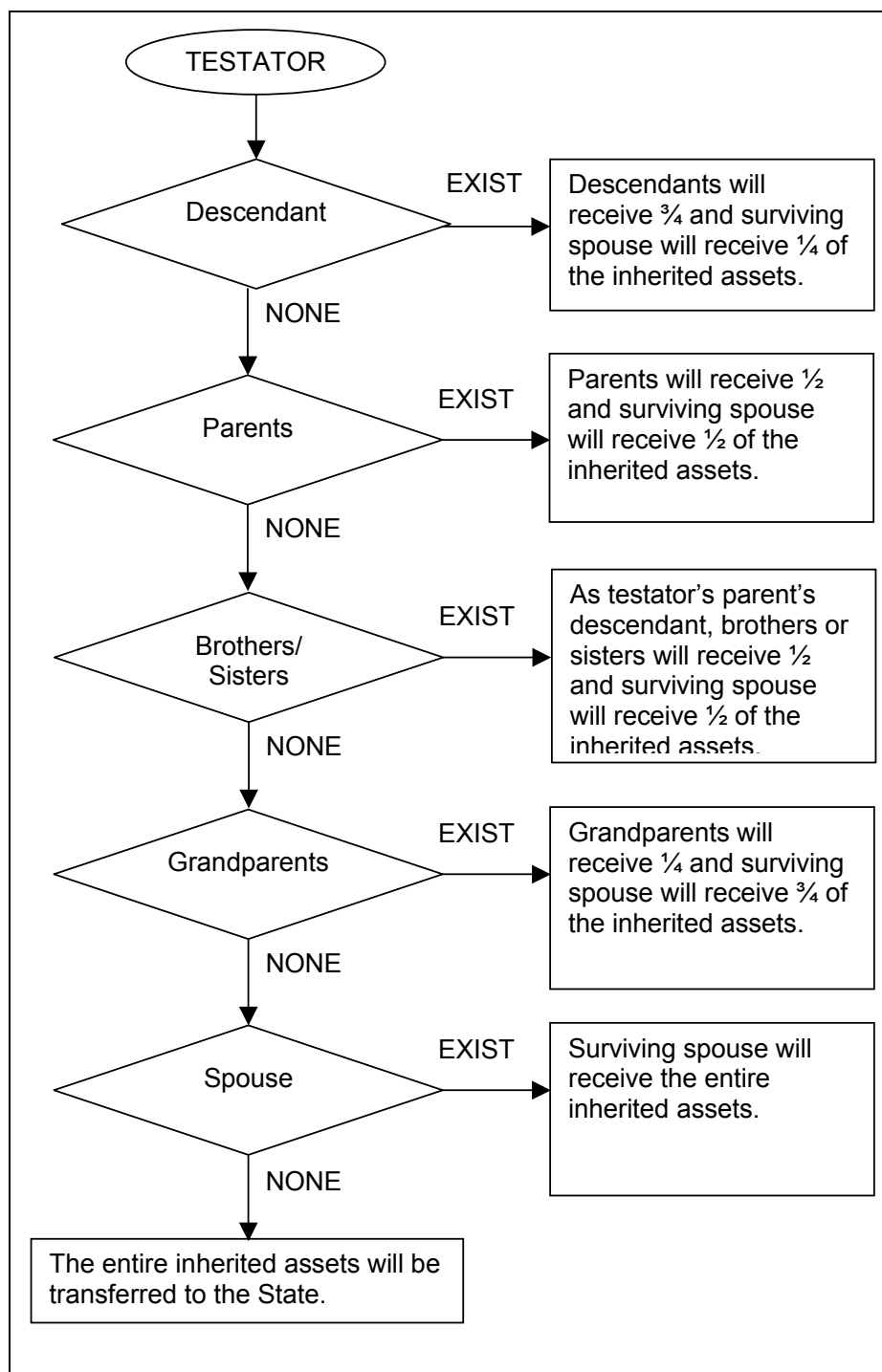
In case the benefactor does not dispose of his wealth by will or other agreement, the entire bequest will be transferred to beneficiaries that are

determined by law (Figure 4.1). According to the 'Inheritance Law', the first-degree legal beneficiary is the descendant (the children) of the benefactor. If there is no descendant, then a second-degree beneficiary such as the benefactor's parent, or in case of lack of them, parent's descendant become entitled. The third degree beneficiaries are the grandparents. The surviving spouse shares the inherited wealth according to the conditions of other beneficiaries listed below:

1. When the descendant receives  $\frac{3}{4}$ ; surviving spouse will get  $\frac{1}{4}$  of the inherited assets.
2. Parents receive  $\frac{1}{2}$ ; surviving spouse will get  $\frac{1}{2}$  of the inherited assets.
3. Grandparents receive  $\frac{1}{4}$ ; surviving spouse will get  $\frac{3}{4}$  of the inherited assets.
4. In case of the absence of other beneficiaries, the surviving spouse will receive the entire inherited assets.

In case of no beneficiaries, the entire inherited assets will be transferred to the State.

Figure 4.1: Priorities in 'Legal Beneficiary'



In case of the benefactors disposing their estate to people except for legal beneficiaries by will or an inheritance agreement, 'Legal Portions' of the legal beneficiaries are protected under the 'Inheritance Law'. According to code 453

of the old 'Inheritance Law', the 'legal portions' according to beneficiaries are ('legal portions' regulated in the new inheritance law are explained in Part 4.1.2):

1. If legal beneficiaries are descendants,  $\frac{3}{4}$  of the estate
2. If legal beneficiaries are the parents,  $\frac{1}{2}$  of the estate
3. If legal beneficiaries are brothers and/or sisters,  $\frac{1}{4}$  of the estate
4. If legal beneficiary is the surviving spouse,  $\frac{1}{2}$  of the estate

However, if the estate is bequeathed to charities, 'legal portions' will be decreased to one-third of the above rates. Only the remaining ratios could be transferred by 'will'.

A second way of inheriting is the individual's right resulted from the dispositions of the benefactors (Voluntary Beneficiary). Under the 'Turkish Inheritance Law', an individual can dispose of his estate in two ways: 1. Wills, 2. Inheritance agreement.

A will is a way of disposing of estate by a benefactor's voluntary declaration. Under 'Turkish Inheritance Law' three kinds of will exist. They are: a formal will, a written will and an oral will.

A formal will is usually written by a judge, an attorney or a notary public. It is signed by the benefactor as well as the formal person and two witnesses. They declare that the testator has capacity, and that he does not suffer from mental illnesses. In written will, the testator writes the entire will with his own words. The will is kept by a judge or a notary public. In the condition that it is impossible to prepare a formal or written will, an oral will is also accepted under the "Civil Law". However, two witnesses have to undertake that the will belongs to the testator and he or she is mentally capable of disposing of the estate.

The second way is an inheritance agreement, which is composed by the benefactor and the beneficiary. With this agreement, the benefactor accepts that his estate will be transferred to the recipient that agreed with it.

#### **4.1.2. The New Inheritance Law**

After the establishment of Turkish Republic, first 'Civil Law' was accepted on April 04, 1926 and kept its origin with a few amendments. However, changes in the world conditions and social relationships caused a need for a new 'Civil Law'. The studies on an extensive revision in 'Civil Law' have continued for 50 years.

Committees established in 1951, 1974, 1976, 1981 and 1994 for revising the 'Civil Law' however they all failed due to some reasons. And, finally on January 01, 2002, the new 'Civil Law' and, as its subdivision, the new 'Inheritance Law' was accepted. Basically, the "Civil Law" has kept its origin with a few amendments. With this revision, the law is brought up to date and it addresses the problems, which the earlier law did not

During the preparation of the new 'Civil Law', which became effective on January 01, 2002, the Swedish, German and French Civil Laws were investigated and used as models (Eren et. al., 2002). From these models, a modern law, which is based on greater equality, was prepared. The modifications in 'Inheritance Law' that have an impact on intergenerational transmission of housing wealth are reviewed below.

The first modification has been that uncles, aunts, nephews and nieces gained beneficiary rights as descendants of the benefactor's grandparents. Specifically, in case of the death of grandparents, their descendants, uncles and aunts obtain beneficiary rights (Figure 4.2.). The right of inheriting had been restricted since November 14, 1990. According to Eren et. al. (2002), uncles and aunts form a significant part of the Turkish family structure, and, as such, deserve the right of being beneficiaries.

Second, the 'legal portions' are adjusted and additional freedom is granted to the benefactor in the disposition of property. The legal portions of beneficiaries, except that of the surviving spouse, are decreased. The new legal portions are:

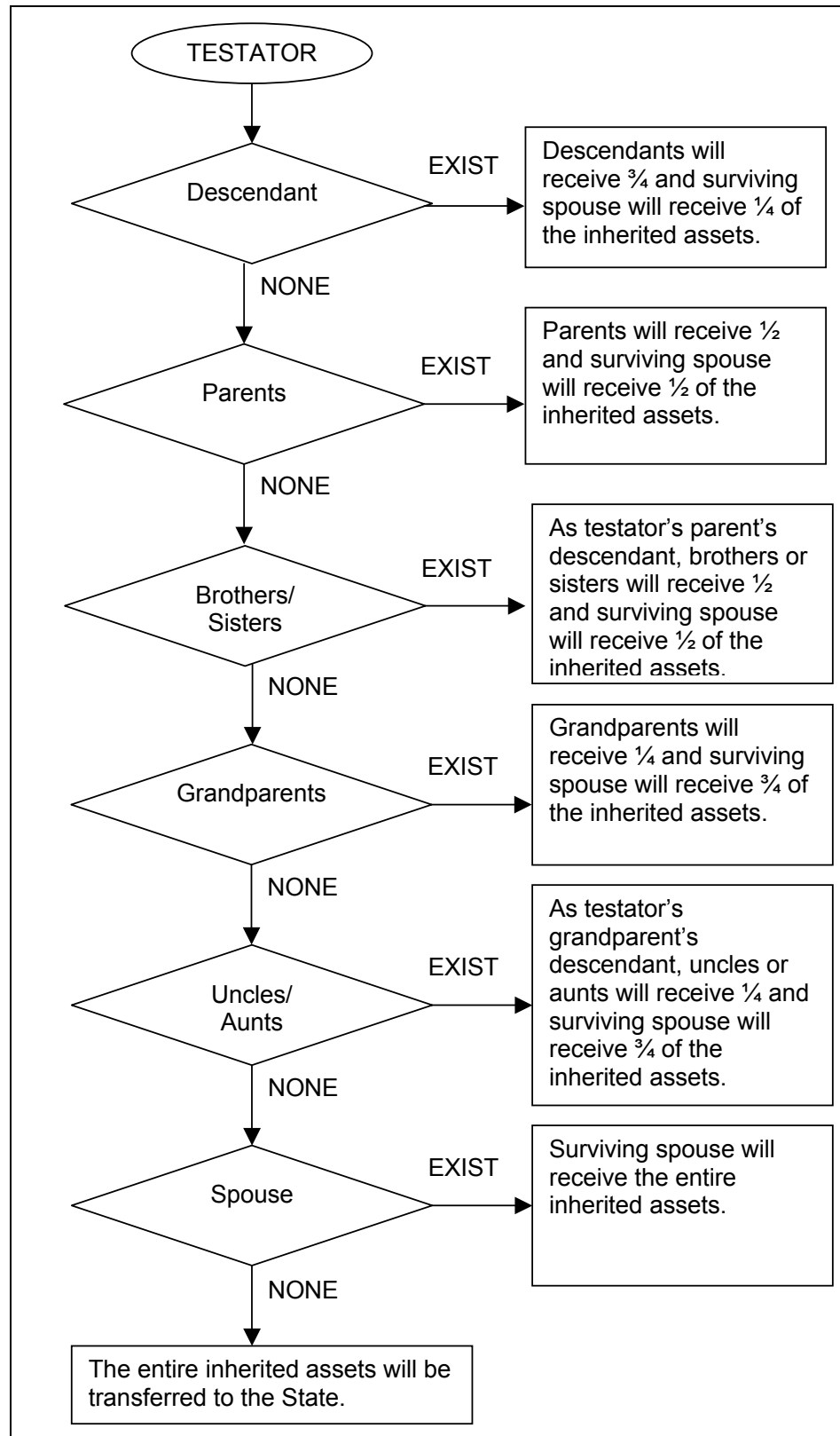
1. If legal beneficiaries are descendants, 1/2 of the estate
2. If legal beneficiaries are the parents, 1/4 of the estate
3. If legal beneficiaries are brothers and/or sisters, 1/8 of the estate
4. If legal beneficiary is the surviving spouse, and there are no other beneficiaries, the entire estate

The third modification extends the rights of surviving spouses. In the 'New Inheritance Law' the surviving spouse obtains the right of using and profiting from the estate and residing in the inherited house until his/her death.

Consequently, with the new 'Inheritance Law' the freedom of the benefactor has widened, and the surviving spouse obtains the right of inheriting a more significant part of the wealth. As a result, like many other Western countries, surviving spouse will inherit a larger amount of the assets. Inevitably, this will cause an upward shift in the age of the descendants inheriting wealth, since the transfers to next generations will be after the death of the surviving spouse.



Figure 4.2: Priorities in 'Legal Beneficiary' according to new Inheritance Law

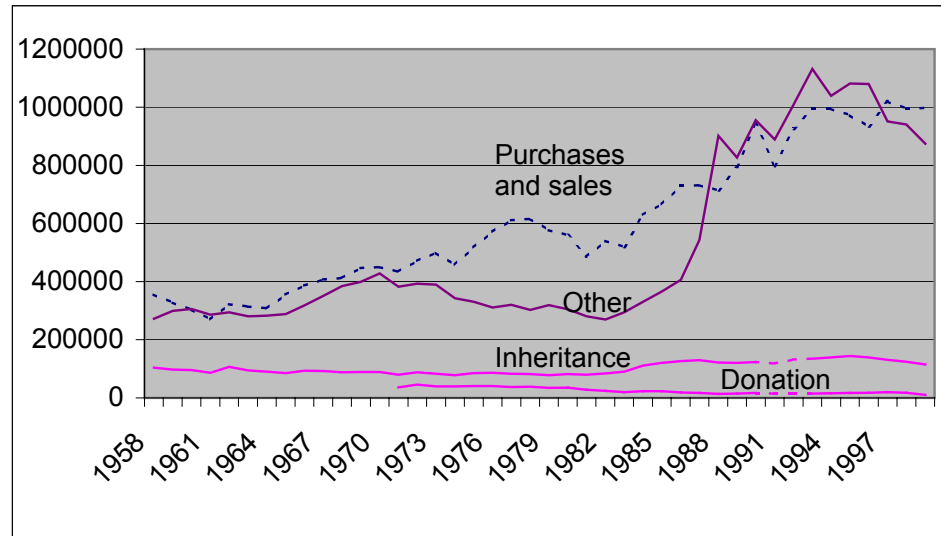


## 4.2. Systems of Taxation

Transferred properties first face taxation, and then other title deed transactions expenses. By increasing or decreasing the rates of taxation and transfer expenses, government plays an important role in the transfer of properties to beneficiaries. Nevertheless, intergenerational property wealth transfers not only result from inheritance but also by other types of transactions.

One of the indicators of the types and scale of wealth transfers is the record of title deed transactions, which cover the purchase and sales, through inheritance, donation, and other transactions. The numbers of title deed transactions in Turkey by years are (Figure 4.3):

Figure 4.3: Number of title deed transactions by years



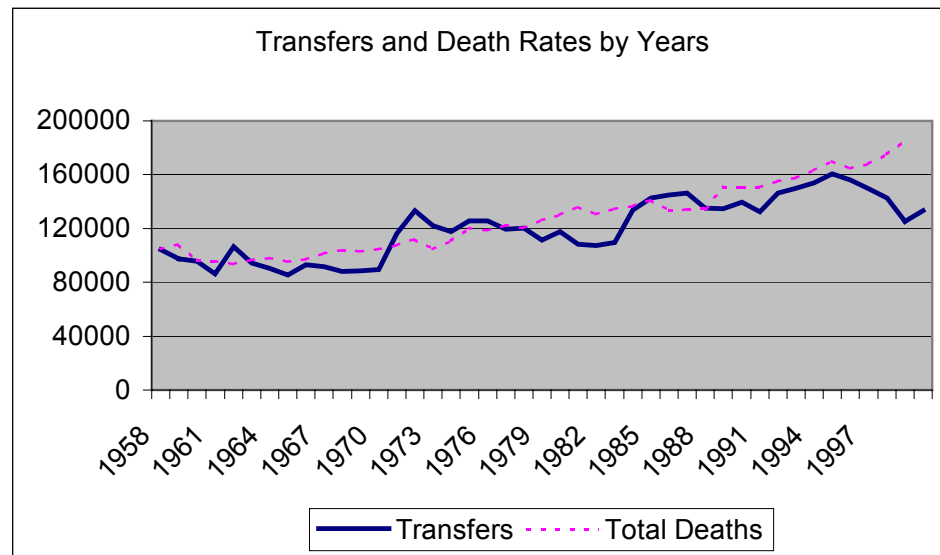
Source: SIS, Annual Statistics of Turkey, 1964/65, 1971, 1979, 1985, 1990, 1997, 2001

For data see Table C1 (Appendix C)

According to records of title deed transactions, purchases and sales and the other transactions group, which includes mortgage, compulsory purchase etc., are a significant portion of total transactions. Transfers through inheritance and donation, which define the intergenerational transfers, vary from 6 to 14% of total transactions. According to records, in values, 556 trillion TL. in 1999 values transacts which comprise 2% of the value of total transactions.

However, comparing the records of title deed transactions with the death rates by years (Figure 4.4), in the last 5-7 years while, the death rates have increased drastically, there is a decrease in recorded number of transfers.

Figure 4.4: Transfers through inheritance and donation and death rates by years



Source: SIS, Annual Statistics of Turkey, 1964/65, 1971, 1979, 1985, 1990, 1997, 2001

For data see Table C.2 (Appendix C)

It can be concluded that there are different kinds of intergenerational wealth transfer types besides inheritance and donation. Moreover, since kinship relations and family assistance are significant at each stage of the life cycle, and some other kinds of transfers are preferred mainly for reducing taxes payable at death, other kinds of transfers may be preferred for intergenerational wealth transfers.

Other kinds of intergenerational wealth transfers have to be defined to explain the process of wealth transfers in general. The most commonly used intergenerational transfers types besides inheritance and donation are purchase and sale (e.g. exchange and agreement of “care until death”).

An individual has the right of selling his/her asset to another individual under Civil Law, however in some cases receives less or even does not receive any of his assets' value. This method is called a 'prearranged purchase' and, as a result, the individual, who receives the asset, will reduce the tax payable at death. He must only pay title deed expenses for the purchase and sale instead of much higher 'inheritance and gift tax'. Both sides pay a defined rate of the value of property for transfers (the expenses in purchases and sales, inheritance and donation will be compared in Part 4.2.1.3). However, since this way of exchange may not be legal, it can through court action be annulled by legal beneficiaries after benefactors' death.

The legal way to transfer through purchases and sales is the transfer based on an agreement to care for the individual until his death in exchange for the property. It is simply called as an "agreement of care until death". This is an agreement between two parties, the beneficiary and the benefactor.

In conclusion, there are several types of intergenerational transmissions practiced in Turkey. Since kinship relations are very strong in Turkey and to reduce tax payable at death, these types of transfers, except for inheritance and donation, could be extensive. So, not all intergenerational transfers are registered and controlled. However, it must be accepted that most of intergenerational transfers occur by inheritance and donation. Most of budgetary income result from intergenerational wealth transfers occurs through inheritance taxation.

#### **4.2.1. Inheritance Taxation**

Since inheritance taxes are generally the first claim on an inherited wealth, the process of intergenerational transmission of property wealth can severely be affected by them. Through the taxation of property transferred at death, the government effectively becomes a beneficiary. By excusing or reducing the tax payable on transfers by the beneficiaries, or by giving privileges to some groups, the government can influence strongly those who receive inherited wealth.

Nevertheless, the most important point is that in many countries inheritance taxation policy is used as a tool to compensate for the intergenerational transmission of housing wealth and social and economic inequalities.

These taxes can also influence the way in which inherited wealth is passed on to beneficiaries, through encouraging the establishment of 'tax-efficient' trusts and the giving of gifts prior to death. The process of taxation policy and its impacts on inequality generated in Turkey is worthy of investigation.

#### **4.2.1.1. The reasons of inheritance taxation**

As it is accepted that having wealth is an indicator of ability to pay taxes and taxes are collected due to ownership of several assets, taxing wealth transfers also became legitimate (Akdoğan, 2001).

According to Tataroğlu (1990), basically there are two reasons for taxing on inheritance. He explains 'financial reasons' as those that after the intergenerational wealth transfers, equality between two individual changes into a one-sided benefit. This condition will increase in the short run solely as wealth and in long run as both income and wealth. As public policy, one of the reasons for inheritance taxation should be to equalize the economic differences between individuals. Inevitably, this taxation is also a financial benefit for the government. In spite of the fact that inheritance and gift taxes comprise very little part of tax revenue, it continues as a constant receipt of the government.

The second cause of estate taxes is summarized under 'social reasons'. The aim of inheritance and gift taxes is to avoid the accumulation of wealth in specific social groups and to decrease the effects of inheritance on the distribution of wealth.

Nevertheless, in the theoretical framework the main goal of inheritance taxation is to equalize the economic and social differences between individuals and to prevent the accumulation of wealth by specific groups.

Throughout history the inheritance tax rate has tended to be increased when a government needs additional public funding (Aguliar and Cabrillo, 2001)<sup>1</sup>.

#### **4.2.1.2. The development of inheritance taxation in Turkey**

The first 'Inheritance Taxation Law' in Turkey, came into force in 1926 in code number 797, it included taxing transfers through inheritance, donation or any other way of gifting. Five years later, inheritance taxation was changed according to the rules of Civil Law. In 1941, to meet the needs of government expenditures; the rate of inheritance taxation was doubled. Since increasing tax rates did not meet the rate of government expenditures, the law was changed, and properties due to inheritance tax, were assessed according to market value. However, taxpayers opposed this proposal. Finally 'Inheritance and Gift Taxation Law' evolved into its present form and became affected in June 15, 1959 under code number 7338 (Maç and Jamali, 2002). To date, the law has retained original form with few changes.

According to the Turkish 'Inheritance Taxation Law' any transmission of assets caused by transfers resulting from inheritance or complimentary transfers will be taxed. Transfers resulted from inheritance including dispositions of estates, and complimentary transfers covers donation and other transfers having no substitution.

The process of inheritance taxation starts with the death of the testator. The property and movable assets' tax returns are informed to the tax office by all successors where the testator resided. The period for tax returns has varied by the residence of the testator and the successor. According to title 10 of the law even they are commercial or non-commercial the properties are valued according to the values designated for 'Real Estate Tax'. Property's location,

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<sup>1</sup> In the United States a federal tax was created in 1864 on inheritances as an exceptional measure to finance the Civil War. This was done again in 1898 for the war against Spain and in 1916 when the US entered the European War. France, Germany and Italy also raised inheritance taxation sharply during the postwar years (Aguliar and Cabrillo, 2001)

usage, size, annual rent and the value determined by Ministry of Public Works and Settlement determine the value of the property. The movable goods are valued according to market value.

The inheritance tax to be paid is calculated simply by finding the inherited wealth per beneficiary and subtracting an exemption amount, which is determined each year according to the inflation rate. The rate of duty is applied to the difference. In Turkish system of inheritance taxation the rate of duty changes by the tax base. The verified tax must be paid in three years in six installments. To gain the right to use the inherited property, the beneficiary must pay the tax.

While exemption and base are arranged according to the reevaluation rate (Table C.3, Appendix C) in each year, the rate of duty stayed about the same with small changes and mostly based on adjustments in government taxation policies (Table 4.1).

Table 4.1: Exemptions by years		
Years	Inheritance (TL) (*)	Donation (TL)
1993	10 000 000	250 000
1994 (until 06.07.1994)	10 000 000	250 000
After 06.07.1994	400 000 000	10 000 000
1995	830 000 000	20 000 000
1996	1 655 000 000	39 000 000
1997	2 859 000 000	67 000 000
1998	5 157 000 000	120 000 000
1999	9 169 000 000	213 000 000
2000	13 946 000 000	323 000 000
2001	21 755 000 000	503 000 000
2002	33 328 000 000	770 000 000
2003	52 991 000 000	1 224 000 000
Source: Department of Inheritance and Gift Tax, General Directorate of Revenues, Ministry of Finance		
(*) In case of the lack of descendant, exemption for the surviving spouse is two times the real exemption.		

During recent decades, inheritance taxation policy witnessed two significant changes. In 1991, the tax base and rate applied are shown below (Table 4.2). The significant point is that tax regulations discriminate in favor of successors who are close family members especially a descendant, spouse and parents. Moreover, the tax rate is the same from transfers by inheritance or donation.



Table 4.2: Tax base and rate applied in 1991			
	Descendant, spouse, parents	Brothers, sisters, grandparents	Others
BASE (TL.)	RATE	RATE	RATE
200 000	3%	7%	10%
600 000	5%	10%	14%
1 400 000	7%	14%	18%
3 000 000	10%	18%	22%
6 000 000	13%	22%	28%
12 000 000	16%	26%	36%
12 000 000 and more	20%	30%	
Source: Department of Inheritance and Gift Tax, General Directorate of Revenues, Ministry of Finance			

In 1994 Turkey encountered an economic crisis, and because of that crisis new policies to overcome the results of this crisis were legislated. Those policies were published under the “April The 5<sup>th</sup> Decisions”. The new regulations increased inheritance taxation rates (Table 4.3).

Table 4.3: Tax base and rate applied in 1994			
	Descendant, spouse, parents	Brothers, sisters, grandparents	Others
BASE (TL.)	RATE	RATE	RATE
50 000 000	4%	7%	10%
150 000 000	7%	10%	13%
300 000 000	10%	13%	16%
500 000 000	13%	16%	20%
750 000 000	16%	20%	25%
750 000 000 and more	20%	25%	30%
Source: Department of Inheritance and Gift Tax, General Directorate of Revenues, Ministry of Finance			

A more significant amendment to the inheritance taxation law was made in 1998 as a part of a general taxation reform. With this reform, unregistered

economical activities were tried to be taken under control by reducing rates of income, real estate and inheritance and gift tax.

After July 29, 1998 with changes in 'Inheritance Taxation Law' the rates are broken down and decomposed by type of transfers; i.e. inheritance or donation. Exemptions and the taxation base are adjusted each year for inflation rate. As a result, transfers through donation may be prevented and discrimination favoring close family members was abolished. However, the rate of donation is still half applied for descendants. The taxation base and rate applied after 1998 are shown below (Table 4.4).

Table 4.4: Tax base and rate applied after 29.07.1998		
	Through Inheritance	Donation
BASE (TL.)	RATE	RATE
10 000 000 000	1%	10%
20 000 000 000	3%	15%
40 000 000 000	5%	20%
80 000 000 000	7%	25%
80 000 000 000 and more	10%	30%
Source: Department of Inheritance and Gift Tax, General Directorate of Revenues, Ministry of Finance		

So, it can be concluded that the taxation policy in Turkey is not yet comprehensive enough to equalize the economic and social differences. Like other Western countries, the tax base and rates are arranged for special need like economic crisis.

#### **4.2.1.3. Comparison Between Transfers Through Purchases and Sales, Inheritance and Donation**

In intergenerational property wealth transfer types (purchase and sale, inheritance and donation) the most significant expenses are the inheritance and gift tax (for inheritance and donation) and the title deed expenses (for purchase and sales, inheritance and donation).

As mentioned before comparing transfers (through inheritance and donation) and death rates by years (Figure 3.6), while death rates are increasing, the recorded transfers by inheritance and donation are decreasing in recent years.

Since the financial differences are the most relevant factor in individuals' decisions, the comparison of expenses may explain the monetary differences of the special transfer types. This comparison may also explain the decrease in the number of recorded transfers by inheritance and donation.

In comparison of the expenses for different transfer types, for each year it is assumed that properties of the same value, and adjusted for inflation, are transferred to first-degree beneficiaries, i.e. to children and the surviving spouse. The expenses per beneficiary for different transfer types are indicated. The years are chosen according to adjustments in taxation policy in comparison to current year.

Table 4.5: Comparison of expenses for different transfer types (1)								
			TRANSFER TYPES					
Years	Inflation Rate (1\$= TL.)	Inherited Wealth Per Beneficiary	Purchase and Sales		F. Inheritance		Donation	
			Taxation	Rate of title deed transfers	Taxation	Rate of title deed transfers	Taxation	Rate of title deed transfers
1995	45 952 TL.	2 000 000 000 (\$43 524)	N/A	0,6%	4%	0,6 %	4%	3,6%
			12 000 000 (\$261) (2)		182 000 000 (\$3 960)		468 000 000 (\$10 184)	
1998	262 304 TL.	11 416 520 000 (\$43 524)	N/A	0,6%	4 %	0,6 %	4%	3,6%
			68 499 120 (\$261) (2)		806 629 120 (\$3 075)		2 246 555 320 (\$8 564)	
1999	422 153 TL.	18 375 000 000 (\$43 524)	N/A	0,75%	1%	0,75 %	5%	4,5%
			137 812 500 (\$326) (2)		229 872 500 (\$544)		1 287 175 000 (\$3 048)	
2003	1 600 000 TL.	71 814 000 000 (\$43 524)	N/A	0,90%	1%	0,90 %	5%	5,4%
			626 745 600 (\$391) (2)		793 219 600 (\$495)		7 181 193 600 (\$4 488)	

(1) These calculations are for transfers to first-degree beneficiaries (children and surviving spouse).

(2) From both sides

For tax rates in 1999 and 2003 see Table C.4 and C.5 (Appendix C)

According to Table 4.3, with the changes in inheritance taxation policies, expenses for transfers by inheritance are decreasing while there is no significant change in the expenses of purchase and sales. However, it is clearly evident that there appears to be a large financial difference against transfers by donation over the years depicted.

It is clear that increasing tax rates after 1994 drastically affected the inheritance and gift tax paid until 1998. Through revisions after 1998 taxes paid decreased greatly because exemptions increased and rates decreased. Today, inheritance and gift taxes paid by successors are only 0,1% of the wealth transferred.

Consequently, to reduce taxes paid there may be a future shift from transfers through donation to transfers through purchase and sales (and agreements of care until death). Since, in Turkey parental relationships are very strong, and parents have tendency to transfer their wealth to their children in exchange for care in their later years, this explains in part for the increase in agreements of care.

#### **4.3. Problems in Regulations Governing Intergenerational Transmission of Housing Wealth**

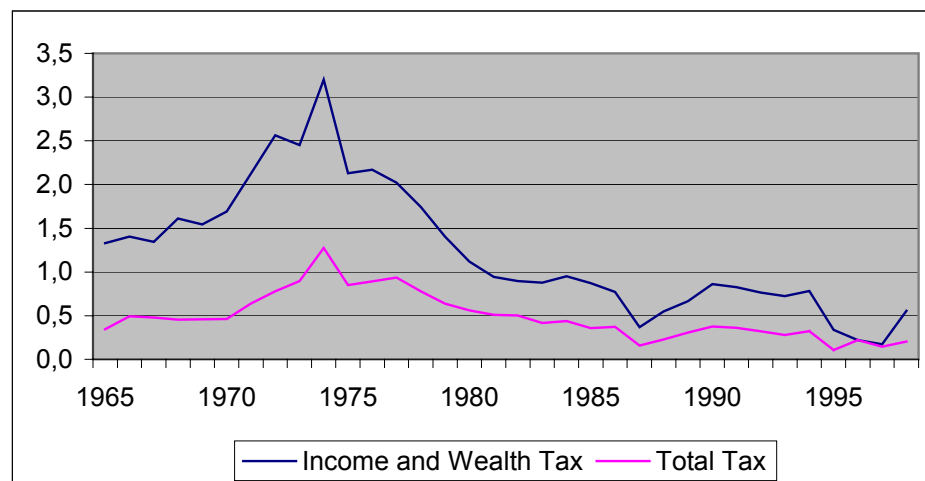
As mentioned previously, taxation policies have significant effects on the decision of individuals on transferring their asset after the death or even in the life time period. Even where inheritance taxation policy is enforced, less equalization takes place, because of some problems in inheritance taxation system.

As in many other countries, in past years, by increasing exemption thresholds the rate of inheritance and gift tax decreased (Table 4.6). In Turkey, the percentage of inheritance and gift tax based on income and wealth tax, as well as the other taxes decreased continuously and now constitutes only 0,5% of tax revenue (Figure 4.5).

Table 4.6: Revenue from inheritance tax (% of total revenue)					
United Kingdom	(1913-14) 16,8	(1933-34) 12	(1943-44) 2,62	(1965) 2,62	(1985) 0,64
United States	(1917-18) 1,2	(1931-32) 5,4	(1940-41) 5,2		0,79
France	(1913) 7	(1938) 3,8	(1941) 4,3	0,56	0,61
Germany		(1929-30) 0,9	(1939-45) 0,5	0,22	0,22
Italy	(1916-17) 1,4	(1929-30) 0,3	(1939-40) 0,7	0,85	0,24
Turkey				0,1	0,1
Source: Adapted from Aguliar and Cabrillo (2001) and SIS					

Especially the changes in 1998 which aimed to control unregistered transfers, did not achieve the purpose of equalizing differences between 'haves' and 'have nots'. Not only exemptions increased but also the rate of duty decreased. With taxation amnesty individuals who did not pay the inheritance and gift taxes were rewarded. The taxes that have to be paid are devaluated in the inflationist economy.

Figure 4.5: Percentage of inheritance taxation according to income and wealth tax and general total (accruals)



Source: SIS, Annual Statistics of Turkey, 1979, 1985, 1990, 1997, 2001

According to Tataroglu (1990), the leveling of increasing tax rates in estates of higher values has caused individuals to pay nearly equal taxes despite gaining different amounts of wealth. Another point is, while the tax rate has been standardized according to the degree of beneficiaries, the rate for donation has increased. However, descendant, surviving spouses and parents benefit more through for donation. So, why inheritance and gift taxation still directed at certain conditions of beneficiaries while the surviving spouse and the descendants are the ones that gain a disproportionate share of inherited wealth? In theory the aim of inheritance and gift tax is to equalize the inequities.

The drastic increase in the tax rates of transfers by donation encourages inter vivos transactions by using different transfer types. Individuals usually choose transfers by purchase and sales for reducing tax rates and expenses for title deed transactions. This causes unregistered intergenerational wealth transfers.

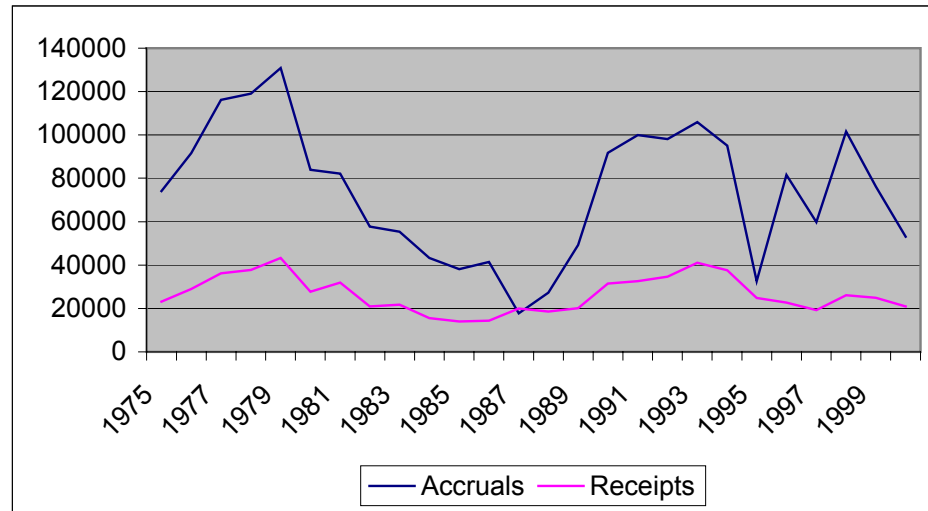
According to Kızılot (2003) with some changes in the income tax, there appear several tax advantages in inheritance, donation and gifts. He explains that high exemptions and low rate of duties are one of the tax advantages. He mentions that particularly in the area of transferred property wealth, the value of property is often less than the exemption allowed so there appears no taxation liabilities.

Further, he notes that there are certain inheritance advantages between in income taxation system. When a property is sold in less than four years after it is purchased, owner has to pay capital gains if there is a profit. After four years, it is free from taxation. However, when the property is obtained by inheritance or donation, it is exempt from income tax.

Furthermore, he mentions that since the value of transferring properties are decided according to values defined for the 'Real Estate Tax', that are lower than their real prices, the inheritance and gift tax to be paid are nil.

Finally but not the least important point is the variation between inheritance and gift tax accruals and receipts. According to Figure 4.6, inheritance and gift tax both calculated and received are continuously apart. This shows that there are deficiencies in the process of inheritance taxation.

Figure 4.6: The real increase in inheritance and gift tax by years ('000 TL.)



Source: Prepared using SIS, Annual Statistics of Turkey, 1979, 1985, 1990, 1997, 2001 and TCMB rate of exchange of dollars

Consequently, regulations governing intergenerational transmissions of wealth have significantly affected the individuals' (both the benefactors' and the beneficiaries') decision on transferring estates and subsequently affect the inequalities in the distribution of wealth. In this chapter the formation of regulations on wealth transfers and their attendant problems via the process of intergenerational transmission of wealth in Turkey was explained. The impact of those regulations is analyzed in the next part through an empirical study.



## **CHAPTER 5:**

### **EMPIRICAL ANALYSIS OF INTERGENERATIONAL TRANSMISSION OF PROPERTY WEALTH IN TURKEY**

In the previous chapters it was explained that during the last decades, Turkey has witnessed a substantial increase in the value and scale of housing inventory, the lack of housing policies on tenancy and the inflationist economy caused households to invest greatly in housing. As a result of these changes some households gained more housing wealth and this accumulation caused a differentiation between ‘haves’ and ‘have nots’.

Like many other Western countries, in Turkey the population structure has been changing for decades. The rate of population increase has been leveling and the age structure has been changing. Households accumulated significant housing wealth are aging and the process of intergenerational transmission of wealth and its impacts gained significance.

However, the process of intergenerational transmissions of housing wealth and its significance has not been extensively investigated. This is mainly due to the lack of data on relations of inheritance. The irregularity and unavailability of official data and long and legal procedures make it difficult to obtain the statistical data.

Additionally, only “Inheritance law” and “Inheritance and Gift Taxation Law” are regulated for intergenerational wealth transfers. The problems in this subject are not investigated in details and no policies are regulated for property inheritance.

## **5.1 The Method of the Analysis of Intergenerational Transmission of Property Wealth in Turkey**

In this study, a model is developed in which the scale of intergenerational property transfers and potential persons that will be affected by this process (the benefactors and the beneficiaries), their relations, and finally the role of inheritance taxation in this process are realized with the available database. Since the variable of 'households' property wealth' is available in the database, in this study the intergenerational transmission of property wealth is investigated.

Grenfell's model (1987) is improved in accordance with the bequeathing patterns in Turkey (For Grenfell's model see Part 2.2.2.1). In the model, first the number of deceased people and their property wealth which is the potential wealth transferred intergenerationally are studied. After that, the possible beneficiaries are examined in view of the regulations on inheritance. And finally, inherited wealth per beneficiaries and its contribution to government income as 'inheritance and gift tax' is examined. The model is practiced in three parts (Figure 5.1; the detailed algorithm of the model is shown in Figure 5.2)

### **1. ANALYSIS OF HOUSEHOLD:**

In the first part of the analysis, assuming that household heads own the property wealth, the prospective benefactors and the beneficiaries are investigated. Accordingly, first the number of deceased owners (benefactors) in one year is calculated by applying age and sex specific death rate (the rate of dying people in the population in one year) to the number of household heads having wealth. After that, possible number of beneficiaries is examined in accordance with Turkish Inheritance Law. In this study, it is assumed that the whole wealth will be transferred to first-degree beneficiaries (children and the surviving spouse). The number of beneficiaries is observed by benefactor's marital status. For married households it is assumed that the successors are the surviving spouse

and the children, and for widowed and divorced household heads only the children are considered as the beneficiaries.

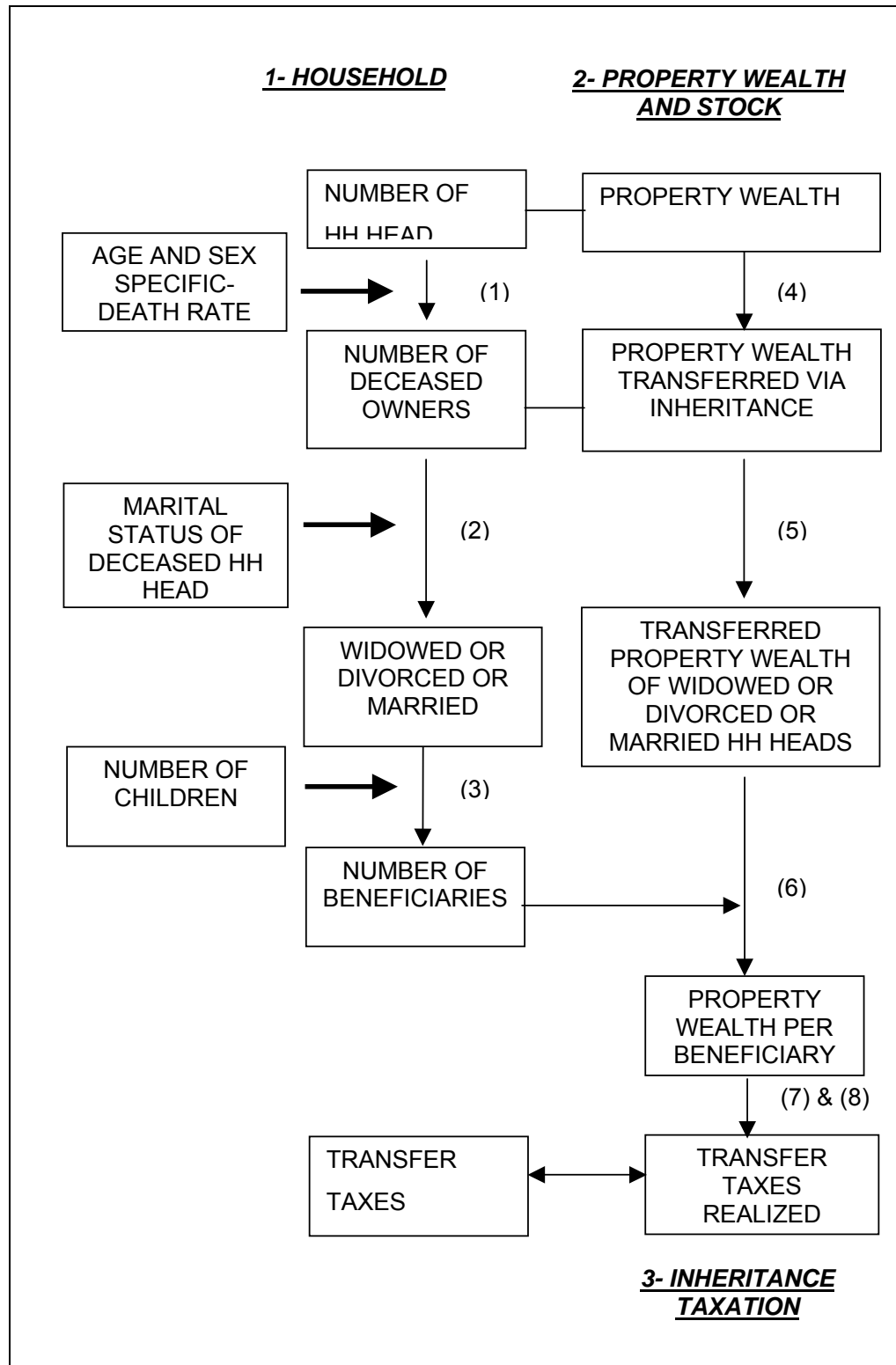
## **2. ANALYSIS OF INTERGENERATIONAL TRANSMISSION OF PROPERTY WEALTH AND STOCK:**

In the second part, the property wealth that is accumulated through lifetime and then transferred to next generations is investigated. The property wealth covers the market price of assets that rental income is earned and the market price of the house living in. Possible property wealth to be transferred via inheritance in one year is achieved by applying death rates to households' (benefactors') wealth.

## **3. ANALYSIS OF INHERITANCE TAXATION:**

As a result of the previous analysis, the property wealth per beneficiary is computed. Since, according to Turkish Inheritance Law, surviving spouse receives 1/4 of the inherited wealth, first 1/4 of the wealth is left for surviving spouse. After that, remaining wealth is divided among the children. The results will allow calculating the amount of inheritance taxes realized. Finally, these figures are compared with the transfer taxes obtained in the same year by Ministry of Finance.

Figure 5.1: The algorithm of the model



### **Mathematical Operations of The Model**

(1) (Number of Hh Head) x (Age and Sex Specific Death Rate in 1994) = (Number of Dying Owners in one year)

(2) (Number of Deceased Owners in one year) x (Marital Status of Dying Hh Heads) = (Number of Deceased Owners in one year by marital status)

(3) [For married hh heads – (Spouses) + (Number of Deceased Owners) x (Children Distribution)] +

[For widowed and divorced hh heads – (Number of Deceased Owners) x (Children Distribution)] = Number of Beneficiaries

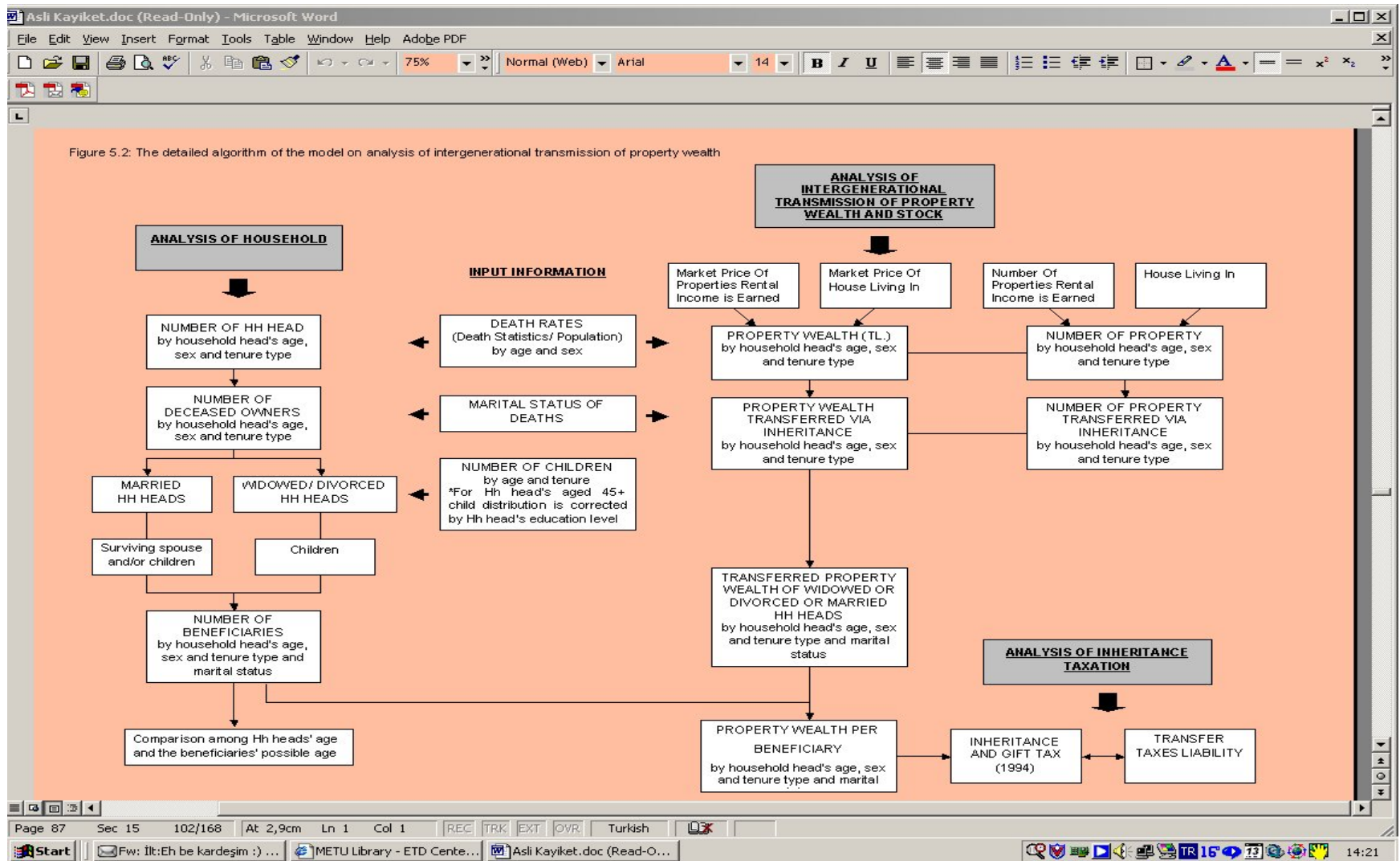
(4) (Total Property Wealth) x (Age and Sex Specific Death Rate in 1994) = (Property Wealth Transferred via Inheritance in one year)

(5) (Property Wealth Transferred via Inheritance) X (Marital Status Of Deceased Hh Heads) = (Transferred Property Wealth of Widowed or Divorced or Married Hh Heads)

(6) (Property Wealth Transferred via Inheritance) / (Number Of Beneficiaries) = (Property Wealth Per Beneficiary)

(7) [(Property Wealth Per Beneficiary) – (Exemption)] x (Tax Rate)= (The Amount Of Tax To Be Paid Per Beneficiary)

(8) (The Amount Of Tax To Be Paid Per Beneficiary) x (Number Of Beneficiaries) = (Total Transfer Taxes)



The model is based on some assumptions;

1. Transferring property wealth is composed of properties from which rental income is gained and the house that the household is living in.
2. Property wealth is owned by the household head.
3. Wealth is transferred only to first-degree beneficiaries.
4. There are only widowed, divorced and married households (The rate of never married households are ignored).

This study seeks answers of the following questions:

1. How many household head having property wealth die in one year?
2. How many successors are benefited from the transferred wealth?
3. What is the relation between the benefactor and their successors?
4. How much property wealth is transferred to next generations via inheritance in one year?
5. Approximately how much property wealth is accumulated per beneficiary?
6. How much money should be transferred to government income as 'inheritance and gift tax'?
7. Comparing transfer taxes realized and liability, what are the results?

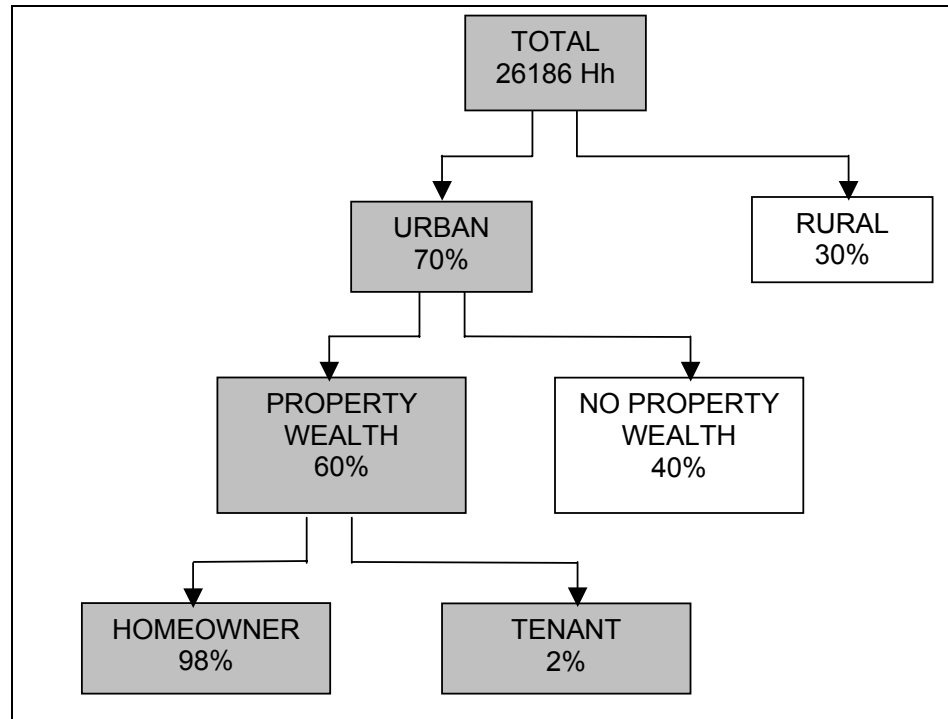
## **5.2 Available Databases**

The study on intergenerational transmission of property wealth is undertaken by using different databases, which are 1994 Households Income and Consumption Expenditures Survey, Population Projection in 1994 and the Death Statistics.

### **5.2.1 1994 Households Income and Consumption Expenditures Survey**

The main part of the research is carried out by using data from State Institute of Statistics (SIS) 1994 Households Income and Consumption Expenditures Survey. This survey was held between 1<sup>st</sup> January- 31<sup>st</sup> December 1994 and comprised 26186 households. For this study households living in urban areas (18219 households), and households having property wealth are studied (Figure 5.3).

Figure 5.3: The explanation of the available database (1994 Households Income and Consumption Expenditures Survey)



#### 5.2.1.1 Determination of Variables

For the study, the number of households having property wealth are the main concern. Property wealth in general, covers rental income earned from property ownership and the value of house owned and residing in (for stock analysis the number of property owned is used). The rental income data is in TL. as monthly paid rent form, and is turned to value by using average rate of value of housing to imputed rent which is assumed as 20. In this study, for analysis of possible number of beneficiaries, the distribution of number of children by households' age and sex is examined.

Since age and sex are proportional with the probability of dying, the death rates are prepared as age and sex specific, and to be more precise households are examined, as homeowners and tenants and all data is prepared as age, sex and tenancy specific. And, to compare the results with general statistics of Turkey, factor is used to extend the analysis to general population.



### **5.2.2 The Census and Death Statistics of 1994**

One of the input information to the analysis is the age and sex specific death rates. Death rate simply means the number of dying people from total population in one year.

Since in Turkey population census was held in 1990 and 2000, for the year 1994, population projections by age and sex of SIS are applied. For death statistics of the same year, SIS 1994 number of deaths by age and sex are used.

### **5.3. Death Rates**

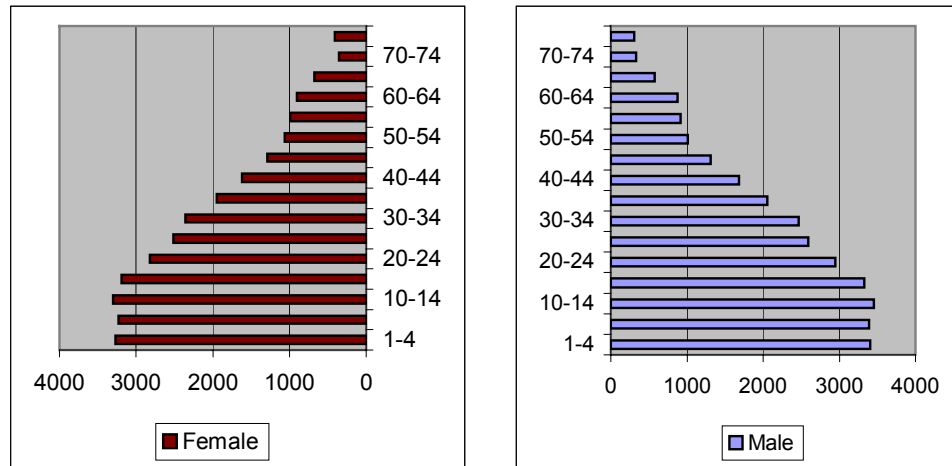
Intergenerational property wealth transfers are realized as a result of individuals' death. The number of deceased people having property wealth and the amount of transferred wealth are investigated by the death rate of the same year. Since death rate means the rate of dying people in total population in the same year, in this part first the population census in 1994 and the death statistics are examined to find out the death rate in 1994. Since death is sex and age specific issue, the analysis of death rates will be executed under individuals' sex and age.

#### **5.3.1. Population census**

In Turkey, population census is held mostly in ten years period. The recent census was done in 1990 and after that in 2000. However, given that the study examines the data of 1994, the population projection in 1994 is used (Figure 5.4). The projection was done by SIS for the years between 1994-2000 and based on 'apportionment technique' (SIS, 1995, 69).

After the census in 2000, these projections are rearranged and because of that it can be said that the population projection for 1994 is very close to its real values.

Figure 5.4: Population projection by sex and age in 1994 ('000)

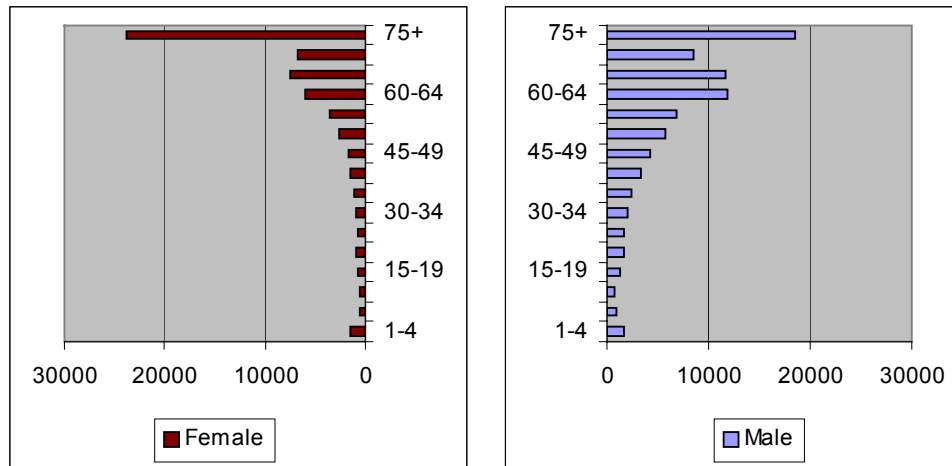


Source: SIS, 1995, The population of Turkey 1923-1994

### 5.3.2. Death statistics

The death statistics of SIS in 1994 is used to find out the number of dying people in Turkey (Figure 5.5.).

Figure 5.5: Deaths by sex and age in 1994

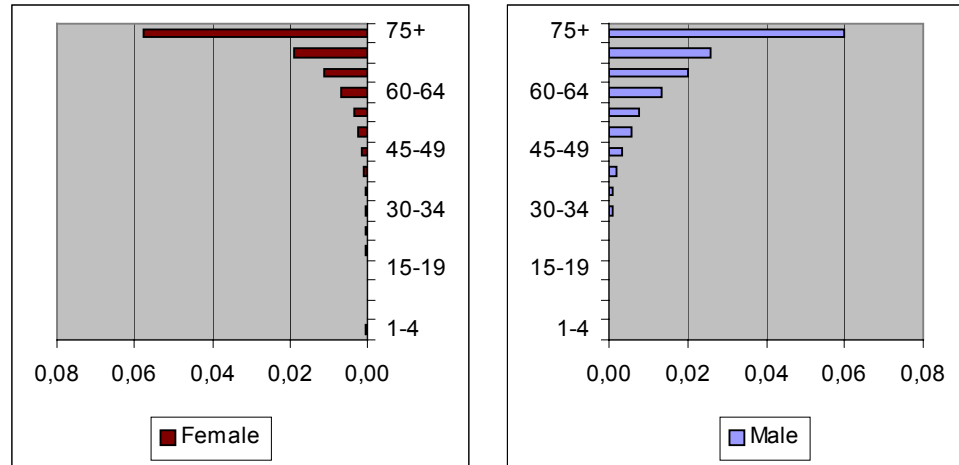


Source: SIS, 1994, Death statistics

### 5.3.3. Death Rates

The results of pupation projection and death statistics for 1994 are compared and the rate of dying people in population in 1994 by sex and age is examined (Figure 5.6).

Figure 5.6: Death rates by sex and age in 1994



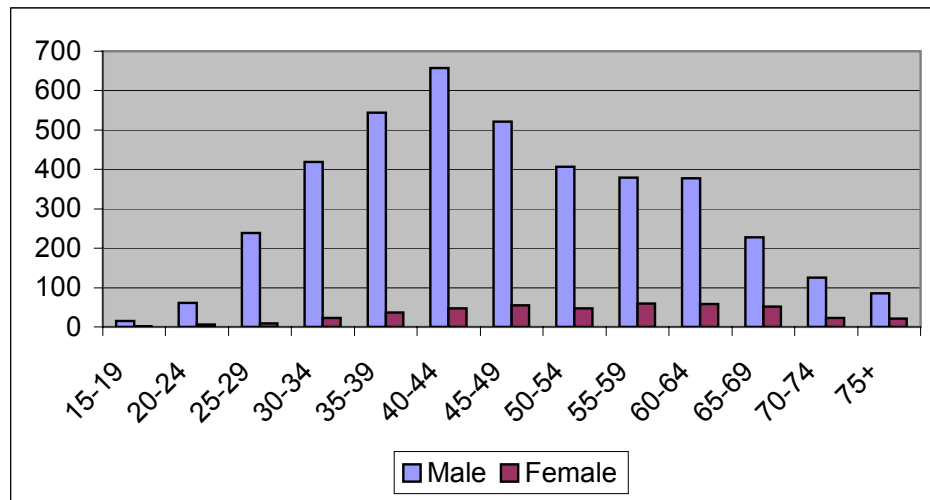
### 5.4. Analysis of Households

#### 5.4.1. Scale of deceased Hh heads in one year according to Hh head's age and sex

The process of intergenerational property wealth transfers initiates with death of the individual. The number of deceased household heads having property wealth in one year is reached by applying sex and age specific death rates to the number of household heads.

As it is clearly evident in Figure 5.8 that, in Turkey approximately among 30 477 household heads (Figure 5.7), 26 199 (0,6% of the total household heads having property wealth) people who are mostly aged 50 and more, died in one year and their wealth is transferred to next generations.

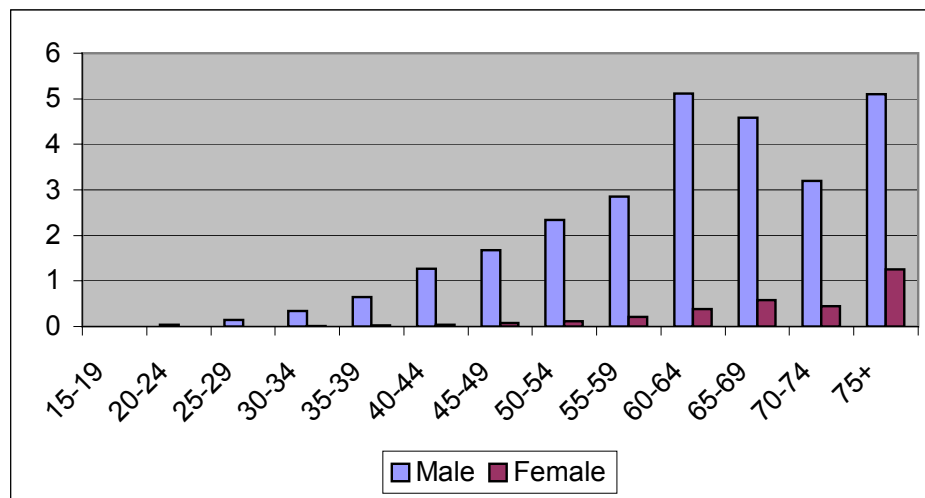
Figure 5.7: The number of household heads having property wealth by their age and sex in 1994 ('000)



Source: SIS, Household income and consumption expenditures survey, 1994  
For Data See Table D1.1 (Appendix D)

Additionally, according to Figure 5.7, the number of deceased female household heads is increasing in number after the age of 65 and more, as the life expectancy age of females are higher than males. Since the number of male household heads is more in the database, this increase in female household heads is recognized less than the males.

Figure 5.8: The number of deceased household heads having property wealth in one year by their age and sex in 1994 ('000)



Source: SIS, Household income and consumption expenditures survey, 1994  
For Data See Table D1.2 (Appendix D)

#### 5.4.2. Scale of beneficiaries in one year according to Hh head's age and sex

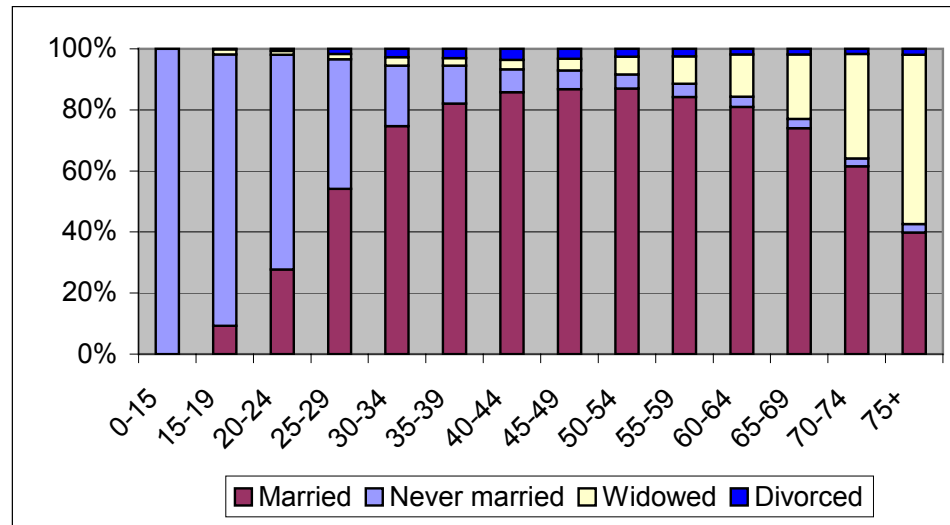
According to Turkish Inheritance Law, the beneficiaries are designated according to parental relation to the benefactor. The first-degree successors are the children. In case of the existence of the surviving spouse, he/she shares the estate. When the descendant receives 3/4; surviving spouse gets 1/4 of the estate.

Accordingly, in most of the studies (Horsman, 1978; Munro, 1988; Hamnett et. al., 1991), it is argued that most of the inherited wealth is directly transferred to surviving spouse and the children.

In this study first, the beneficiaries are determined according to marital status of the benefactor (Figure 5.9). It is assumed that for the benefactors who are married the successors are the surviving spouse and the children; and for widowed and divorced it is assumed that only the children are the beneficiaries. Since beneficiaries of the never-married households are

uncertain (parents or brother/sister etc.), never married benefactors, who cover only 3% of the households aging 50 and more, are ignored.

Figure 5.9: Deaths by marital status



Source: SIS, 1994 Death statistics

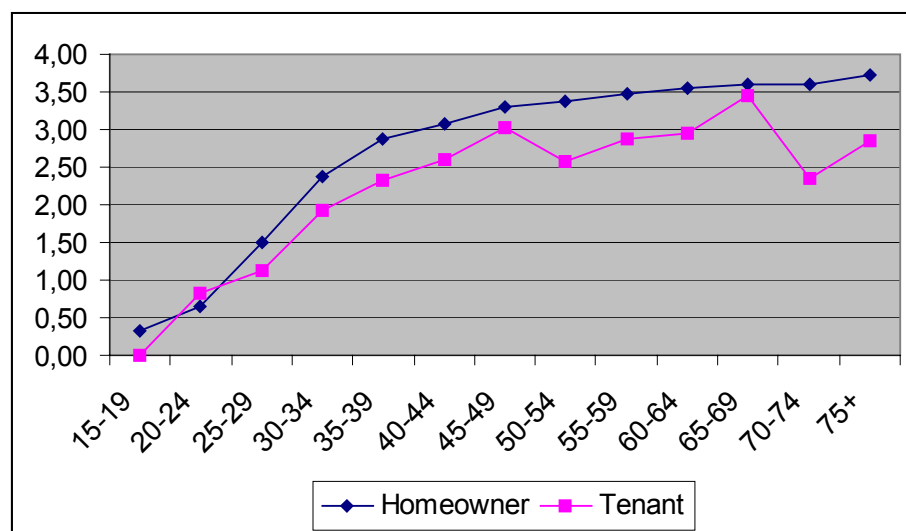
For data see Table D1.3 (Appendix D)

The distribution of benefactors according to marital status is depicted in Table 5.1. It is clearly shown that most of the households, 30 and more years old, are married, while the number of widowed households, aged 60 and more, are increasing in number.

Table 5.1: The number of deceased household heads by age and marital status					
	MARRIED		WIDOWED OR DIVORCED		TOTAL
	N	%	N	%	
15-19	0	0	0	0	0
20-24	3	83	1	17	4
25-29	41	93	3	7	44
30-34	188	94	12	6	200
35-39	498	93	37	7	535
40-44	1 082	94	72	6	1 154
45-49	1 505	93	117	7	1 622
50-54	2 128	92	174	8	2 302
55-59	2 661	91	257	9	2 918
60-64	4 636	88	628	12	5 264
65-69	4 188	84	810	16	4 998
70-74	2 698	76	836	24	3 534
75+	3 918	63	2 284	37	6 201
Total	12 157	41	17 478	59	29 635

After defining the marital status of deceased household heads, the distribution of children gains significance as the beneficiaries who inherit a big amount. According to SIS, Household income and consumption expenditures survey results, it is seen that the number of children is decreasing after the age of 45 (Appendix D1, Figure D1.1). The children, who got married and leave the house, may cause this result. However, this does not mean that they won't be beneficiaries. For that reason, the data is corrected by using the relation between the education level and tenure type of the households aged between 40 and 45 whose distribution of children is at the peak (Figure D1.2, D1.3 and Table D1.4). The result of the corrected data is shown in Figure 5.10.

Figure 5.10: Distributions of number of children by household heads' age and tenure



Source: SIS, Household income and consumption expenditures survey, 1994

Accordingly, the potential beneficiaries are calculated and defined by household heads age and marital status (Table 5.2).



Table 5.2: The number of beneficiaries (surviving spouse and children) according to household heads age and marital status in 1994			
	MARRIED		WIDOWED OR DIVORCED
	Surviving Spouse	Children	Children
15-19	0	0	0
20-24	3	2	0
25-29	41	62	4
30-34	188	445	29
35-39	498	1 416	106
40-44	1 082	3 311	222
45-49	1 505	4 941	384
50-54	2 128	7 163	586
55-59	2 661	9 221	892
60-64	4 636	16 453	2 230
65-69	4 188	15 059	2 913
70-74	2 698	9 646	2 990
75+	3 918	14 617	8 522
Total	12 157	36 828	52 949

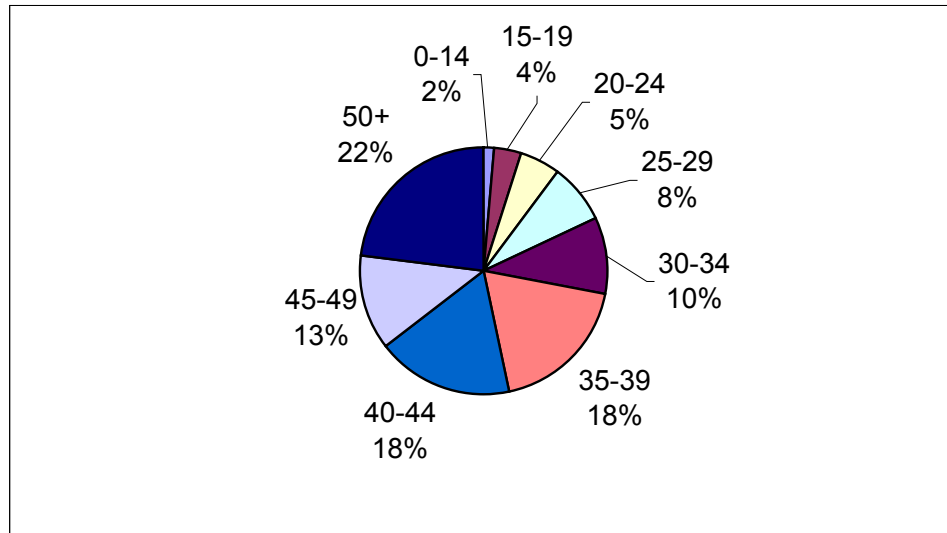
It can be concluded that, in one year approximately 102 000 people in which 88% are the children of the benefactors, are affected by the process of intergenerational transfers of property wealth. Approximately 12 000 surviving spouse inherit an amount of property in one year. However, as explained in Part 4.1.2 with the new 'Inheritance Law', the surviving spouse obtains the right of using and profiting from the estate and residing in the inherited house until his/her death. This may cause accumulation of more property wealth in the hands of surviving spouse.

#### 5.4.3. Possible features of beneficiaries

In most of the empirical studies (Munro, 1988, Hamnett et. al., 1991; O'Dwyer, 2001) it was argued that housing inheritance is passing directly to people who already have an established housing career instead of young first time buyers. This is one of the reasons of social divisions resulted by wealth transfers in the long term.

According to the analysis of scale of beneficiaries, it is concluded that most of the beneficiaries are the children of household heads (92% of total) aging 55 and more. Assuming that the difference between the benefactors' age and the children's age is 25 years (it is shown in Figure 5.12), it is clearly evident that most of the beneficiaries are aged 30 and more (Figure 5.11).

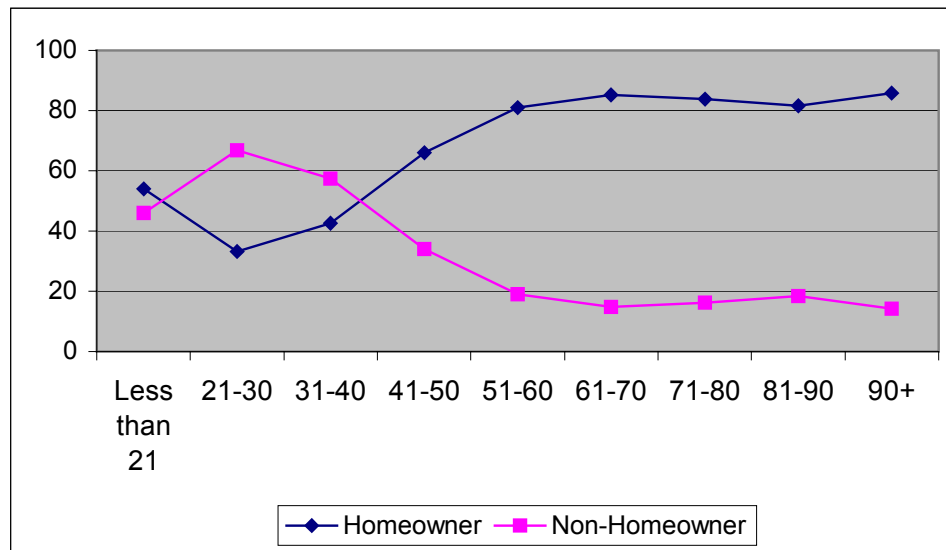
Figure 5.11: The distribution of beneficiaries by their age assuming that the difference between the benefactors' and the children's age is 25 years



Source: SIS, Household income and consumption expenditures survey, 1994

According to Sarioglu (2001) in Turkey the decision of homeownership increases substantially with the age of 30s until 60s. After that the rate of ownership has stabilized. She explains that in contrast to first time buyers, aged between 20 and 30, households aging 40 and more has more stabilized life and an established housing career.

Figure 5.12: The rate of homeownership by age (%)



Source: Sarioglu (2001)

In conclusion, it is clearly evident that in one year nearly 1% of the households having property wealth are dying and their wealth passes to the successors. 102 000 people (to 12 157 surviving spouse and/or 89 777 children) are affected by this process. The results depict that most of the beneficiaries has an established housing career, assuming that the difference between the benefactors' and the children's age is 25 years. So, it can be supposed that most of the beneficiaries inheriting housing wealth are homeowners anyway. This will have impacts of intergenerational transmission of housing wealth on wealth distribution.

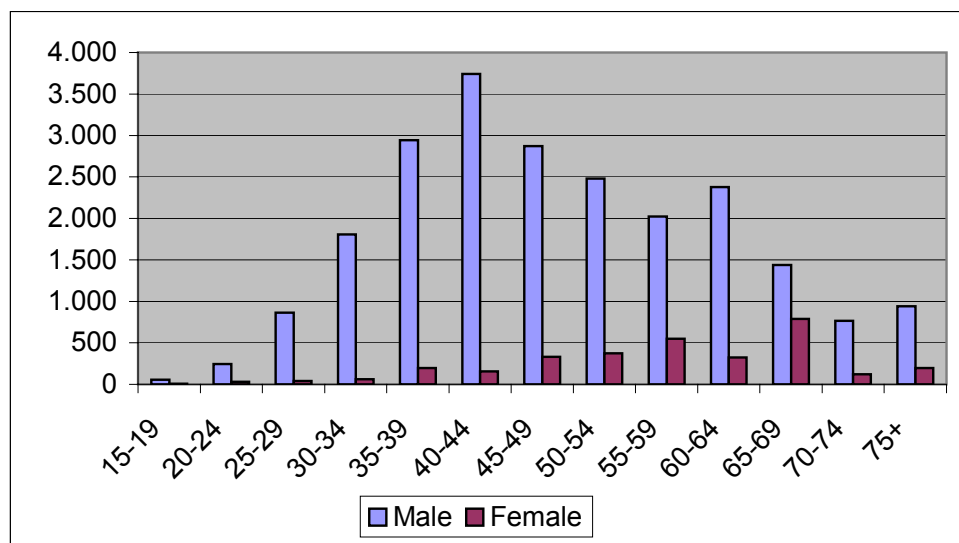
### 5.5. Analysis of Intergenerational Transmission Of Property Wealth and Stock

As explained before in details, changes in the growth of home ownership, rising house prices since 1950's caused households to accumulate substantial property wealth. As these households are aging, the amount of property wealth transferring in one year becomes important. After defining the number of benefactors and the beneficiaries, the accumulated property wealth and the amount transferring in one year is examined in this part.

### 5.5.1. Household's total property wealth and stock according to Hh head's age and sex

Potential property wealth that will be transferred to the next generations covers the individual's all property, which is both the house living in and the other properties owned. In this study, it is assumed that total property wealth of a household is composed of the market price of house residing in (for homeowners) and the market price of other properties that rental income is earned.

Figure 5.13: Total property wealth by Hh heads' age and sex ('000'000'000 TL.)



Source: SIS, Household income and consumption expenditures survey, 1994  
For Data See Table D2.1 (Appendix D)

According to Figure 5.13, total property wealth is increasing by household heads' age and total equals to 25,7 quadrillions in 1994. The fact that household heads aged 40 and more owns 76% of the total property depicts that in 10 to 20 year substantial wealth will be transferred as a result of death.

Since the number of male household heads is more, in the whole analysis the property wealth is seen to be accumulated in male individuals. However, the accumulation of property wealth in the hands of female household heads aged

between 65 and 69 is considerable. When this group is examined separately, it is seen that 65% of the total has no children. While 99% of them are homeowners, 78% of the individuals gain their property wealth only by the houses living in.

This increase in the number of female household heads in that age group shows the surviving spouse getting property wealth after her husband's death. The fact that the death rate of female is slower than males supports this argument.

To analyze the property wealth in numbers, the inventory owned is grouped in 3 parts; housing, land and other. It is concluded that the property wealth is earned as approximately 6,5 million housing (house and apartment blocks) (Table D2.2), 3,2 m<sup>2</sup> land (building land, arable field and garden) (Table D2.3), and 19,7 million property from other group (summer house, shop, warehouse, pension) (Table D2.4).

In his study, Wedgwood (1920) stated that most of the inherited properties are land. (Hamnett et. al., 1991). Since land is an important fact in Turkish society and to transfer land means transmission of cultures, it is expected that Wedgwood's arguments may be valid for Turkey case.

According to number of land by household heads' age and sex (Table D2.4), it is clearly seen that individuals aged between 45 and 69 have substantial land. It may be said that the amount is inherited from previous generations.

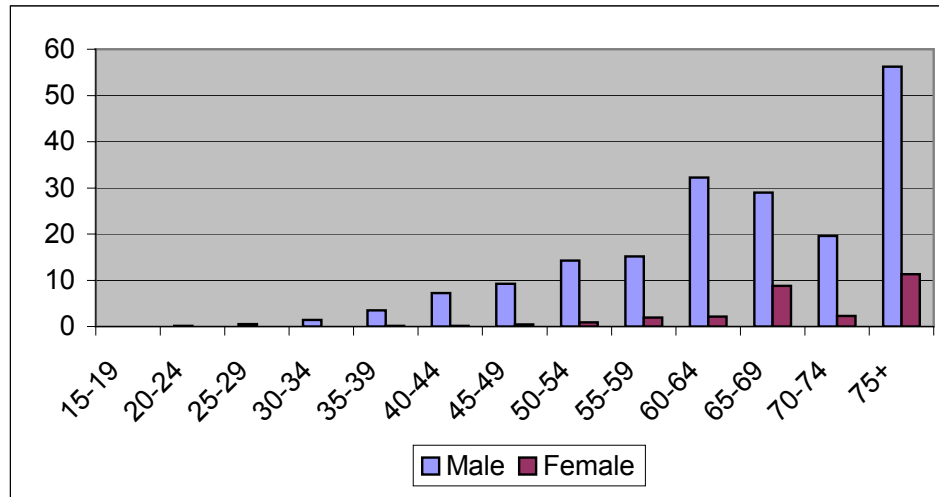
#### **5.5.2. Household's total property wealth and stock transferred as a result of inheritance in one year according to Hh head's age and sex**

Households' property wealth transferred as a result of inheritance in one year is executed by applying death rates to total property wealth households accumulated. In this study, it is assumed that the entire property wealth is accumulated in the hands of household heads. The fact that according to SIS,

Household income and consumption expenditures survey results, 99,9% of household heads owns the rental income, supports this statement.

Accordingly, the potential property wealth transferred as a result of inheritance in one year by household heads' age and sex (Figure 5.14) depicts that 89 trillion TL. In 1994 values property wealth is transferred in one year as result of inheritance . This value constitutes 0,3% of the total property wealth in households' hands

Figure 5.14: The potential property wealth transferred as a result of inheritance in one year by Hh heads' age and sex ('000'000'000 TL.)



Source: SIS, Household income and consumption expenditures survey, 1994  
For Data See Table D2.5 (Appendix D)

In stock analysis, it is concluded that 27 767 housing (0,4% of the total) (Table D2.6), 22 871 m<sup>2</sup> land (0,7% of the total) (Table D2.7), 138 272 properties from other group (0,7% of the total) (Table D2.8) are inherited in one year as a result of inheritance. It is inevitable that inherited properties affect general housing markets. The uses of the inherited property and their impacts on property markets will be the significant points to be studied (see Part 2.2.2.4 and 2.2.2.5)

## **5.6. Analysis of Inheritance Taxation**

In this part, the inheritance tax as contribution to government income is examined which was resulted by the distribution of property wealth per beneficiary in 1994. After that, the inheritance tax, realized as a conclusion of this study, is compared with the amount of taxes received by Inheritance Taxation offices in the same year.

### **5.6.1. Scale of property wealth per beneficiary in one year according to Hh head's age and sex**

For reaching out the amount of inheritance and gift tax that have to be paid as a result of property transfers in one year, first, the inherited property wealth per beneficiaries is examined in the study.

As it is explained in Part 5.4.2, it is assumed that the estate is distributed among the first-degree beneficiaries by the benefactors' marital status (children and the surviving spouse). Accordingly, the transferred wealth is computed by marital status of the benefactor, and is distributed by surviving spouse and the children.

The scale of property wealth by beneficiaries according to household heads' age and sex is shown in Appendix D3.1, 2, 3 and 4.

### **5.6.2. Inheritance taxation liability**

After defining the scale of property wealth per beneficiaries, the approximate amount of inheritance and gift tax per beneficiary (Appendix D.3.3 and D.3.4) is calculated by first subtracting exemptions (Table 4.1) and applying the tax rate (Table 4.3).

It is seen that two different exemptions are applied in 1994. Because of that, the periods that the survey is carried are described as an indicator, and the analysis is divided into two periods as between January-July and August-December (Appendix D, Table D.3.5- Table D.3.10).

### 5.6.3. Comparison between Inheritance tax realized and inheritance tax liability

After calculating the amount of inheritance taxation per beneficiary, it is computed that 36,7 quadrillion (Appendix D.3.11, D.3.12)) inheritance and gift tax had to be paid as a result of property wealth transfers in 1994. However, comparing the results with the actual results (Table 5.3), it is clearly evident that the liable taxation is too much than the realized. In 1994, The Department of Inheritance and Gift Tax, General Directorate of Revenues, Ministry of Finance declared that 2,8 quadrillion TL. is realized and 1,1 quadrillion TL. is received as inheritance and gift tax.

Table 5.3: The amount of inheritance and gift tax accrued and receipted in 1994 values ('000'000 TL.)		
	Accruals	Receipts
1994	2 838 449	1 123 651
Source: SIS, Annual Statistics of Turkey, 1997		

Since, this study covers only the transfers of property wealth while in real case, covers transfers of both property and stocks and bonds, it can be concluded that the difference between the transfer tax liability and realized tax is much more bigger.

The main reason of this difference may be the fact that in real calculations properties are valued according to the values designated for 'Real Estate Tax' while in this study the real market prices are used.



## **CHAPTER 6:**

### **CONCLUSION**

#### **6.1. An Evaluation of The Findings and Theoretical Implications**

For decades, Turkish cities and housing stock have grown drastically. After the end of World War II housing supply by small entrepreneurs increased besides unauthorized housing stock. Flat ownership relations became an important factor inflaming this growth. In addition, market price of housing has increased and became greater than other goods.

Owing to absence of housing policies on tenancy, and the high inflation rates of the economy in Turkey, housing became a significant asset to be invested in. As a result of new tenure relations, homeownership rate increased during this period, and today approximately 60% of the entire population are homeowners.

As a result of these changes, housing wealth comprised the major part of household's total wealth. It is seen that the percentage of rental income resulting from ownership of property in urban areas increased from 3% to 14% from 1987 to 1994 respectively (SIS Households Income and Consumption Expenditures Survey, 1994). Nevertheless, housing wealth is unevenly accumulated in the households' hands. According to SIS Household income and consumption expenditures survey in 1994, 55,7% of the property wealth is accumulated in households from the highest income group.

During recent years, Turkey is witnessing changes in its demographic structure. The rates of population increase has leveled and the age structure of the population changed. As it was indicated in Chapter 3 that the ratio of

older people increased and greater wealth is accumulated in their hands. The fact that 73% of the property wealth is accumulated in household heads aged 50 and more, depicts that in the following years a substantial volumes of property will be transferred to the following generations. Additionally, changes in the household size shows that greater wealth will be accumulated in the hands of a narrower slice of households.

Regulations on intergenerational transmission of property wealth which are the basic constraints affecting the decisions of benefactors and of the beneficiaries are compiled under the inheritance law and, the inheritance and gift taxation system. The method how inherited wealth is disposed of and the privileges of the beneficiaries on inherited estate are regulated under Inheritance law.

In this thesis, the process of intergenerational property wealth transfers is examined in terms of activity by finding out the scale of intergenerational property transfers and potential people that will be affected by this process (the benefactors and the beneficiaries), and the role of inheritance taxation on this process is investigated.

It is concluded that in one year 30 000 million people having property wealth die and approximately 102 000 individuals benefit from this wealth transfers successors. Assuming that the difference between the benefactors' age and the children's age is 25 years, it is concluded that excluding the surviving spouse, 82% of the beneficiaries are aged 30 and more. Since the housing careers of households are developed after the age of 25 and more, it can be concluded that most of the beneficiaries are already homeowners. This means that the inherited properties may find itself into the market and have impacts on property markets.

In conclusion to the analysis, it is found out that the amount to be transferred to the Treasury, as inheritance tax should be approximately 36 trillion TL. in 1994 values. Nevertheless, it is seen that in actual values, 2,8 trillion TL is accrued and 1,1 trillion TL. is received.

In general, it is concluded that the process of intergenerational transmission of property wealth should be taken into consideration in Turkey and in the future the volume and functions of this process will be much more significant. The general assertion that taxation of wealth at death is a mean to event out the differences is not valid. There is no regulation to solve the problems of uneven accumulation through intergenerational property wealth transfers. Rather, the tax is only considered as a source of income for the Treasury.

## **6.2. Problems Related To Inheritance Process**

Based on the theoretical framework and the results of the analysis on the process of intergenerational property wealth transfers in Turkey, the problems related to inheritance process can be summarized in topics below.

### **Effects on Property Wealth Polarization**

There is evidence that during increasing investments in housing in Turkey, some households benefited to great extend and accumulated a substantial property wealth, while others did not. Since inheritance process is unequal in its incidence, the effects of it on property wealth polarization is unavoidable. While this problem is a combination of problems from different factors (housing, inheritance, household etc.), nevertheless, inheritance taxation is the only regulatory policy instrument to maintain social equality.

### **Effects on Contributions to the Ownership-Age**

In the study, it is concluded that most of the beneficiaries are 30 and more aged who already are homeowners. Besides the inter-vivos property transfers during the family members life-cycle, after the death of the household head, the impacts on the contributions to the ownership-age are unavoidable. It also seems that the third generation successors (mostly grandchildren) may benefit from the inherited property more than their parents (second generation successors), since the age level of inheriting is high.

### **Assessment and Management of Inheritance Tax**

During recent decades, as in many Western countries, the inheritance taxation in Turkey has lost its significance. While the rate of deceased people increased, conversely the portion of inheritance and gift tax in total wealth tax decreased with the recent changes in taxation law.

The leveling of tax rates in estates of higher values, favoring of the first-degree beneficiaries in applying lower tax rates, using the values determined by the 'Real Estate Tax Law', which is often lower than its actual market price are some of the basic problems of inheritance taxation system in Turkey. In addition, causing inter-vivos transfers by using different ways of transactions and the differences and variations among the inheritance taxes accrued and received depict that the process of inheritance taxation system is not working properly in Turkey.

### **Impact on Property Markets**

The fact that most of the beneficiaries are homeowners themselves because of the timing of property transfers, the use and possible impacts on both the demand and supply sides of property markets are problems to be studied. There are competing arguments on this topic. While some experts believe that the inherited properties are invested in financial markets instead of property markets, on the contrary others explain that after the inherited property is sold, it is invested with a building society and mention that inherited property will increase the supply in the housing market and as a result, the market prices will decrease. However, in Turkey there is not any research on this topic and it is open to all arguments.

### **Likely Spatial Effects**

According to the history of growth of Turkish cities, while the younger generation (prospective beneficiaries) has the propensity of moving outside suburbs of the city, the older people prefer to live in their own houses mostly in the inner suburbs. So, it can be concluded that inherited houses are often in

the middle ring and inner suburbs of the city. Since most of inherited houses have the propensity to be sold, they will be the probable declining area.

### **6.3. An Evaluation of The Policy Options**

In conclusion, it is evident that there is a need for analysis of inherited properties in Turkey. Policy options for problems related to inheritance process may be as follows:

#### **Effects on Property Wealth Polarization**

The intergenerational transmission of property wealth is a multidimensional phenomenon. It contains problems in which many institutions may be affected. So, inheritance taxation should not be the only political solution for the problems of wealth transfers via inheritance. New housing policy options should be proposed.

#### **Effects on Contributions to the Ownership-Age**

New policies may be developed for households before their death. Since housing options for the elderly are limited in Turkey individuals have no other choice to leave their houses to their children. With the housing policy options for the elderly like the growth of housing for the elderly or reverse mortgage system are likely to turn into realistic prepositions as interest rates decline.

‘Reverse Mortgage’ may be an appropriate solution for the problem of inheritance processes. As a result of her study, Karaca (1999) shows that the potential market for ‘Reverse Mortgage’ in Turkey could be improved in near future. The result of the current study, that a substantial amount of housing wealth is accumulated in the hands of household heads aging 50 and more, also supports Karaca’s arguments.

### **Assessment and Management of Inheritance Tax**

In Western countries, generally the taxation system has been used in implementing social justice strategies for the impacts of property inheritance on inequalities based on accumulation of property wealth. However, this study shows that there are several problems in inheritance taxation system in Turkey. The following policy options may be listed as solutions for the problems in inheritance taxation system in Turkey:

By changes in the 4<sup>th</sup> and 16<sup>th</sup> articles of Inheritance and Gift Taxation Law, which define the exemptions and the tax rates, equal application of inheritance tax rates for each beneficiary may be achieved.

For equalizing the value of transferring properties decided for inheritance and gift tax with their market prices, an 'auditing committee' which is supervised by Ministry of Finance and General Directorate of Revenues may be established. As a result, this committee may check the declaration of taxpayer and the real condition of the real estate.

The problem in the collecting of inheritance and gift tax efficiently is mostly due to insufficient members of officers. Efficient observation of taxes may be achieved by preparing a technology based data management system. Additionally, coordination among inheritance tax offices, Directorate of Population and the Ministry of Finance may solve the problem of collecting inheritance and gift tax. However, this problem should not be solved with tax amnesties.

### **Impact on Property Markets**

Policy options for the problems of efficient usage of inherited property are listed as followings:

"Housing Information System" should be established for controlling the inherited properties.

Reverse Mortgage may also be a solution for the efficient use of inherited property, as much housing wealth as possible will be extracted prior to death. By promotions to beneficiaries for their use of inherited properties, the decision on the inherited properties may be encouraged according to the need in the property markets. For that reason, the “Housing Information System” may be coordinated with tax offices. Reach of the municipal governments, construction companies and Undersecretary of Housing to this data system should be provided. As a result, the intergenerational transmissions of property wealth can be controlled more easily.

According to the results of studies on the use of inherited properties (Hamnett et. al., 1991; O'Dwyer, 1999) mostly beneficiaries show a tendency to sell rent the property. For that reason, tax exemptions (for example Real Estate Tax) may be applied to beneficiaries who prefer to sell his/her property.

#### **Likely Spatial Effects**

Because of their location and their low values inherited properties may be attractive to investments. Those areas may be pilot projects for new “reinvestment and rehabilitation projects” for declining neighborhoods.

#### **6.4. Avenues for Further Research**

The process of intergenerational transmission of property wealth is never studied. This thesis summarizes the process of intergenerational transmission of property wealth only with the available information. Because of the lack of detailed and systematic data for inheritance, many questions still remain to be examined.

Generally, there are two ways of approaching more detailed and systematic data. Firstly, a sample data may be chosen from records of inheritance tax offices but reaching those records are restricted by law since it contains personal information. The second way may be a pilot study survey on properties transferred upon owners at death.

While in this study only the scale of wealth transfers and the impacts of inheritance taxation in this process is examined, in case of a detailed survey, the following topics may be investigated (An example to the questions to be added to a sample household survey is shown in Appendix E):

- whether housing inheritance provides significant wealth to the beneficiaries
- how intergenerational transfer affects the distribution of wealth
- the impact of inheritance on social inequalities based on accumulation of housing wealth
- The uneven distribution of inheritance by housing tenure, class and region
- the relations between the benefactors and the beneficiaries, and the impact of inheritance on beneficiaries, the characteristics of the beneficiaries
- The kind of inherited property, the use and the impacts of inherited property and its relation with beneficiaries' age, class and tenure type



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  - Özlem SARICA, Department Head, Department of Household Income and Consumption Expenditures Survey, SIS
  - Hasan Kayıket (Lawyer)
  - M. Celil Kayıket (Lawyer)

## APPENDIX A

### GLOSSARY

**Inherit** (*Miras kalmak*): Obtain property via inheritance

**Testator** (Benefactor - *Muris*): , someone who has made testament to regulate the rights of persons who will bequeath.

**Successor** (Beneficiary - *Mirasçı*): someone who acquired money or property through the will of a deceased person

**Inherited Wealth** (Estate - *Tereke*): total assets left by a deceased person

**Will** (Testament - *Vasiyet*): a document in which testator declares what he wants to happen to his money and property after his death

**Inheritance agreement** (*Miras sözleşmesi*):

**Legal Portion** (*Mahfuz hisse, Saklı pay*): The fixed legal share beneficiaries receive.

**Inheritance and gift tax** (*Veraset ve intikal vergisi*): a tax that has to be paid on the money and property transfers to successors.

**Tax rate** (*Nispet*): Rate applied in calculation of inheritance tax

**Tax exemption** (*Vergi istisnası*): amount of money exempt from taxation.

**Tax base** (*Vergi matrahı*): Vergi matrahı, vergi borcunun hesaplanmasında vergi oranının uygulanabileceği iktisadi veya teknik unsurlardır

**Reevaluation rate** (*Yeniden değerlendirme oranı*): Inflation rate

## APPENDIX B

### DETAILED CROSS TABULATIONS OF FIGURES SHOWN IN CHAPTER 3

Table B1: Housing development by years according to building permits (m <sup>2</sup> )			
Years	Total Housing Area	Total Apartment Blocks	Total Building Area
1955	3871433	1446123	6898029
1956	3578069	1151100	6478936
1957	3519501	1540346	6940309
1958	3742935	2143046	7669676
1959	3236836	1591265	6545684
1960	3176099	1861227	6602118
1961	2882921	2322762	6681065
1962	2924682	3255757	7848488
1963	2922579	2980094	7718609
1964	3104675	2975783	8499935
1965	3690470	4306553	10906701
1966	3971744	5043209	12559450
1967	4115738	5518073	12728297
1968	4312175	6245186	14380593
1969	4427834	8503968	17158679
1970	4390513	10866833	19741753
1971	4738799	9355743	16909510
1972	4954254	10964373	19230934
1973	5426939	13875176	24494968
1974	4641426	11231056	20347550
1975	5170527	13025446	23337452
1976	5389162	17005545	29618659
1977	5079547	17232598	28972560
1978	6697786	18457461	32237307
1979	7264153	20116331	34080006

1980	5851578	16529380	28422401
1981	5013285	10444279	19884344
1982	4372454	12961726	21728271
1983	4617952	14353155	25554984
1984	5063203	17083513	28887793
1985	5154080	24640404	37251360
1986	7717488	38285050	55624440
1987	10803227	46732046	70912137
1988	10860010	42654291	67861304
1989	11120685	36114155	62923939
1990	10025730	33892831	60083035
1991	10010916	36352673	61447817
1992	11551822	45578620	73062016
1993	12052826	55573449	85080806
1994	11937944	53445634	81715801
1995	11768717	54756033	83956863
1996	10665874	47731364	78477686
1997	11291064	49490340	83388824
1998	10665507	45711326	78568789
1999	8478610	37038472	62761914
	7860323	37491801	61694941
2000	8238381	32094321	57449494
Source: SIS, Annual Statistics of Turkey, 1964/65, 1971, 1979, 1985, 1990, 1997, 2001.			

Table B:2: Share of Construction in GNP (at current prices, % share) and share of housing in total gross fixed investments and Income gained by homeownership in GNP by years (at current prices, % share)

	Housing/ Total Investment	Construction/ GNP	Ownership/ GNP
1965	23,48	6,57	
1966	22,45	6,72	
1967	20,71	6,60	
1968	19,21	6,86	6,2
1969	19,49	6,71	6,5
1970	21,25	6,93	6,5
1971	21,74	5,51	6,6
1972	21,11	5,44	6,9
1973	21,59	5,17	6,7
1974	17,35	4,76	6,0
1975	16,5	4,90	5,9
1976	27,44	4,89	5,9
1977	17,65	5,04	6,4
1978	21,67	5,40	6,5
1979	24,02	5,53	6,2
1980	21,55	5,66	8,2
1981	13,29	5,20	7,5
1982	12,82	4,64	7,5
1983	12,97	5,47	7,7
1984	14,4	5,38	7,1
1985	14,34	5,85	7,2
1986	16,1	6,94	6,7
1987	21,11	7,30	5,9
1988	26,26	7,74	4,5
1989	28,26	7,00	3,7
1990	23,78	6,30	3,4
1991	21,2	7,00	3,7
1992	21,25	6,81	3,8
1993	32,8	7,36	3,4



1994	39	6,82	3,3
1995	36,1	5,49	3,2
1996	31,6	5,81	3,0
1997	28,5	6,05	2,9
1998	27	5,98	3,4
1999	26	5,63	4,5
2000	16,7	5,20	4,6
2001		5,07	4,7
Source: SPO			

Table B.3: Number of households by household heads' age in urban areas		
	1965	1994
15-19	126 137	194 094
20-24	219 775	195 729
25-29	544 807	781 537
30-34	732 932	1 178 671
35-39	950 794	1 200 473
40-44	857 987	1 094 067
45-49	635 599	793 504
50-54	472 324	573 104
55-59	509 762	515 588
60-64	504 148	488 306
65+	706 095	633 581
Total	6 260 360	7 485 494
Source: SIS, Household income and consumption expenditure survey, 1994		

## APPENDIX C

### DETAILED CROSS TABULATIONS OF FIGURES SHOWN IN CHAPTER 4

Table C.1: The number of title deed transactions by years				
	Purchases and sales	Through Inheritance	Donation	Other transactions
1958	355 488	104 074	-	272 763
1959	327 727	97 424	-	299 542
1960	303 402	95 737	-	306 083
1961	270 961	86 272	-	286 057
1962	322 340	106 600	-	294 649
1963	314 152	94 260	-	281 214
1964	308 065	90 528	-	282 769
1965	355 507	85 335	-	288 447
1966	386 030	92 965	-	317 913
1967	406 750	91 740	-	351 448
1968	412 365	88 072	-	384 642
1969	446 265	88 713	-	399 107
1970	449 864	89 617	-	427 648
1971	433 818	80 200	36 300	382 038
1972	471 410	87 939	45 450	392 581
1973	499 145	82 527	39 556	389 221
1974	457 693	78 224	39 239	342 940
1975	517 955	85 363	40 441	331 014
1976	571 673	85 772	39 929	310 789
1977	611 713	82 435	36 849	320 361
1978	615 116	81 539	38 611	302 995
1979	577 305	77 257	34 042	318 794
1980	559 552	82 244	35 408	304 411
1981	485 704	79 686	28 376	281 018
1982	539 894	83 740	23 851	269 417

1983	519 473	90 425	19 192	294 229
1984	630 245	110 612	23 005	330 618
1985	665 941	120 251	22 588	365 586
1986	729 022	126 824	18 312	405 743
1987	731 558	129 438	16 795	542 714
1988	713 701	121 295	13 781	901 505
1989	793 538	120 611	14 105	827 124
1990	946 533	16 450	123 009	955 153
1991	796 756	14 499	118 025	888 727
1992	925 051	14 954	131 445	1 007 213
1993	994 580	135 107	14 734	1 131 990
1994	995 247	138 523	15 593	1 039 205
1995	973 539	143 667	16 740	1 081 875
1996	934 136	139 040	17 205	1 079 603
1997	1 019 656	130 204	19 326	951 125
1998	996 360	124 756	17 784	940 880
1999	997 632	115 155	10 230	875 043
2000	1 014 153	123 909	9 621	956 578

Source: SIS, Annual Statistics of Turkey, 1964/65, 1971, 1979, 1985, 1990, 1997, 2001

Table C.2: Transfers (through inheritance and donation) and death rates by years

	Transfers	Total Deaths
1958	104 074	104 665
1959	97 424	108 264
1960	95 737	96 403
1961	86 272	95 745
1962	106 600	93 632
1963	94 260	96 838
1964	90 528	97 771
1965	85 335	95 427
1966	92 965	96 975
1967	91 740	101 631
1968	88 072	103 872
1969	88 713	102 708
1970	89 617	104 556
1971	116 500	107 228
1972	133 389	112 419
1973	122 083	104 843
1974	117 463	111 004
1975	125 804	120 302
1976	125 701	118 547
1977	119 284	122 688
1978	120 150	120 543
1979	111 299	126 269
1980	117 652	130 062
1981	108 062	136 089
1982	107 591	130 681
1983	109 617	134 742
1984	133 617	136 274
1985	142 839	141 324
1986	145 136	133 139
1987	146 233	134 025
1988	135 076	134 627

1989	134 716	150 475
1990	139 459	150 292
1991	132 524	150 925
1992	146 399	155 106
1993	149 841	157 323
1994	154 116	163 232
1995	160 407	169 856
1996	156 245	164 534
1997	149 530	168 060
1998	142 540	175 429
1999	125 385	
2000	133 530	
Source: SIS, Annual Statistics of Turkey, 1964/65, 1971, 1979, 1985, 1990, 1997, 2001		

Table C.3: Reevaluation rate by years	
Years	
1994	107,6%
1995	99,5%
1996	72,8%
1997	80,4%
1998	77,8%
1999	52,1%
2000	56,0%
2001	53,2%
2002	59,0%
Source: <a href="http://www.angelfire.com/dc/ahmetkizil/guncelbilgi.htm">http://www.angelfire.com/dc/ahmetkizil/guncelbilgi.htm</a>	

Table C.4: Tax base and rate applied in 1999		
	Through Inheritance	Donation
BASE (TL.)	RATE	RATE
17 000 000 000	1%	10%
35 000 000 000	3%	15%
71 000 000 000	5%	20%
142 000 000 000	7%	25%
265 000 000 000 and more	10%	30%
Source: Department of Inheritance and Gift Tax, General Directorate of Revenues, Ministry of Finance		

Table C.5: Tax base and rate applied in 2003		
	Through Inheritance	Donation
BASE (TL.)	RATE	RATE
90 000 000 000	1%	10%
190 000 000 000	3%	15%
400 000 000 000	5%	20%
800 000 000 000	7%	25%
1 480 000 000 000 and more	10%	30%
Source: Department of Inheritance and Gift Tax, General Directorate of Revenues, Ministry of Finance		

## APPENDIX D

### DETAILED CROSS TABULATIONS OF FIGURES SHOWN IN CHAPTER 5

#### APPENDIX D.1: ANALYSIS OF HOUSEHOLDS

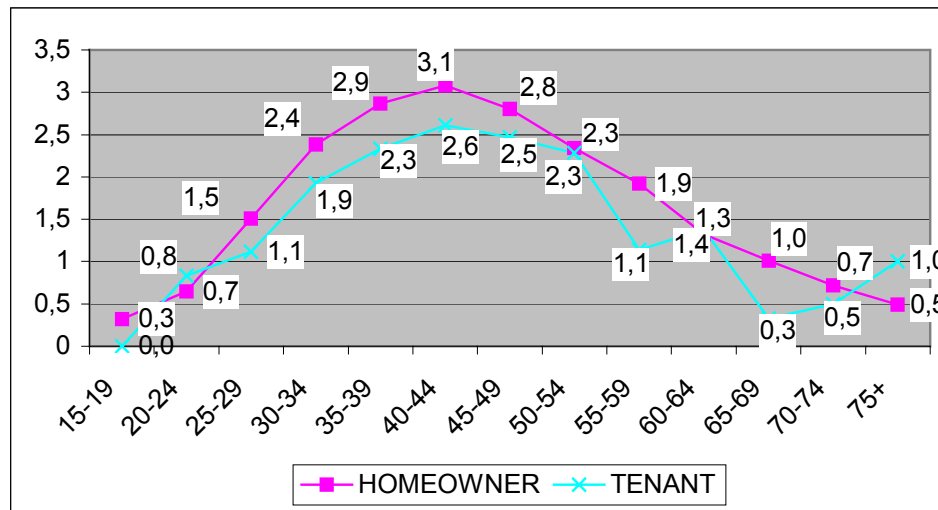
Table D1.1: The number of household heads having property wealth by their age, sex and tenure (1994)				
	HOMEOWNER		TENANT	
	MALE	FEMALE	MALE	FEMALE
15-19	15 780	1 527	75	0
20-24	57 863	6 054	3 626	199
25-29	227 076	9 840	11 495	0
30-34	406 420	20 635	12 763	2 454
35-39	518 609	33 557	24 902	2 821
40-44	631 995	41 177	24 520	5 833
45-49	500 268	51 804	20 355	3 183
50-54	396 795	48 017	9 086	0
55-59	369 799	58 888	8 967	353
60-64	369 980	5 7673	7 424	437
65-69	226 159	52 024	1 422	42
70-74	123 614	22 726	1 124	659
75+	85 503	21 836	68	0
Total	3 929 860	425 757	125 827	15 981
Source: SIS, Household income and consumption expenditures survey, 1994				

Table D1.2: The number of deceased household heads having property wealth in one year by their age, sex and tenure (1994)				
	HOMEOWNER		TENANT	
	MALE	FEMALE	Male	Female
15-19	6	0	0	0
20-24	31	2	2	0
25-29	139	3	7	0
30-34	327	9	10	1
35-39	617	19	30	2
40-44	1 226	39	48	6
45-49	1 614	71	66	4
50-54	2 282	117	52	0
55-59	2 782	207	67	1
60-64	5 018	382	101	3
65-69	4 562	580	29	0
70-74	3 172	432	29	13
75+	5 104	1 261	4	0
Total	10 660	860	341	32
Source: SIS, Household income and consumption expenditures survey, 1994				



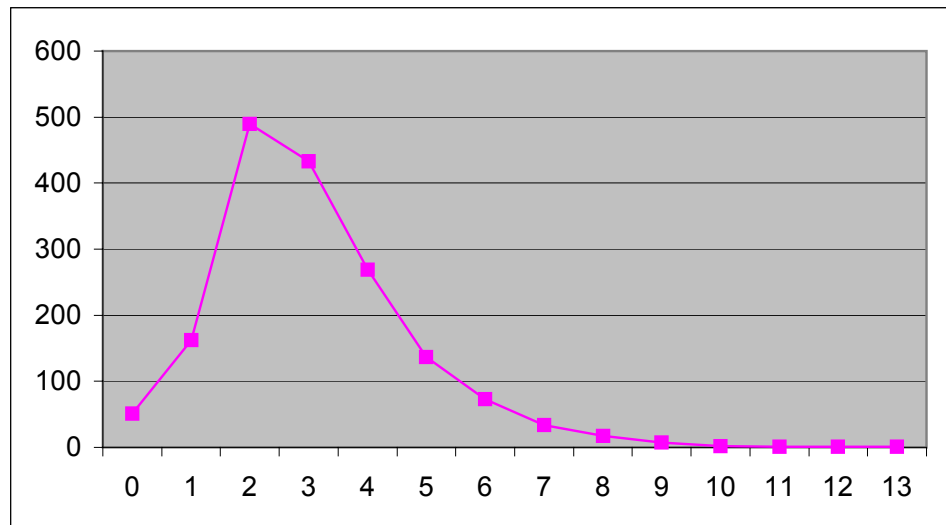
Table D1.3: Deaths by marital status					
	NEVER MARRIED	MARRIED	WIDOWED	DIVORCED	TOTAL
0-15	25 290	0	0	0	25 290
15-19	1 725	179	32	4	1 940
20-24	1 747	688	31	18	2 484
25-29	1 022	1 306	43	41	2 412
30-34	591	2 225	85	81	2 982
35-39	442	2 915	86	109	3 552
40-44	362	4 114	147	173	4 796
45-49	365	5 204	230	196	5 995
50-54	384	7 302	491	215	8 392
55-59	452	8 727	931	252	10 362
60-64	595	14 443	2 452	342	17 832
65-69	588	14 259	4 050	370	19 267
70-74	404	9 465	5 259	259	15 387
75+	1 166	16 848	23 399	824	42 237
TOTAL	35 203	87 782	37 362	2 885	
Source: Death Statistics, 1994					

Figure D1.1: Distributions of number of children by household heads' age and tenure



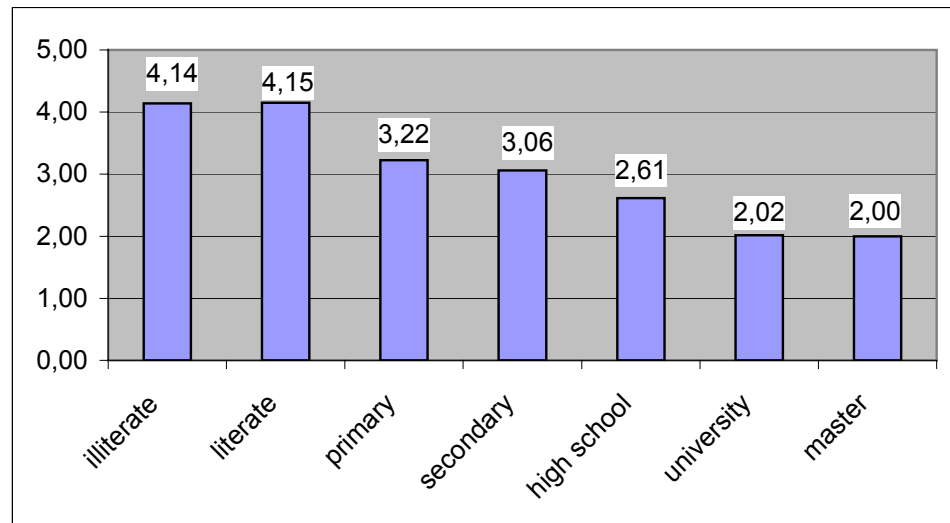
Source: SIS, Household income and consumption expenditures survey, 1994

Figure D1.2: The distribution of children of households' aged between 40-44



Source: SIS, Household income and consumption expenditures survey, 1994

Figure D1.3: The distribution of children by household heads' education level aged between 40-44



Source: SIS, Household income and consumption expenditures survey, 1994

Table D1.4: The distribution of children by household heads' education level and tenure type aged between 40-44

	Homeowner	Tenant	Total
Illiterate	4,10	8,00	4,14
Literate	4,17	3,50	4,15
Primary	3,23	2,86	3,22
Secondary	3,06	3,00	3,06
High School	2,63	2,33	2,61
University	2,03	1,87	2,02
Master	2,00	-	2,00
Total	3,08	2,61	3,06

Source: SIS, Household income and consumption expenditures survey, 1994

**APPENDIX D.2:**  
**ANALYSIS OF INTERGENERATIONAL TRANSMISSION OF HOUSING**  
**WEALTH AND STOCK**

Table D2.1: The total value of property wealth by Hh heads' age, sex and tenure (1994) ('000'000 TL.)				
	HOMEOWNER		TENANT	
	Male	Female	Male	Female
15-19	54 968 479	7 555 100	7 160	0
20-24	241 143 049	29 523 420	383 460	11 940
25-29	862 565 732	41 105 462	2 279 178	0
30-34	1 803 614 061	61 074 971	2 560 633	54 528
35-39	2 936 531 243	193 009 987	6 202 013	4 206 185
40-44	3 737 476 375	155 057 846	6 462 861	2 320 128
45-49	2 867 313 191	328 307 722	4 088 805	315 749
50-54	2 477 458 282	375 650 513	1 191 782	0
55-59	2 016 379 762	547 545 029	4 703 874	169 480
60-64	2 370 318 481	322 423 590	6 818 228	102 359
65-69	1 437 566 741	787 999 373	409 969	3 743
70-74	764 698 650	117 936 788	205 101	455 500
75+	941 482 679	195 836 839	5 291	0
Total	22 511 516 724	3 163 026 638	35 318 356	7 639 613

Table D2.2: The total number of property by Hh heads' age, sex and tenure				
<i>HOUSING</i>				
	HOMEOWNER		TENANT	
	Male	Female	Male	Female
15-19	12 116	1 527	0	0
20-24	56 858	2 256	3 529	0
25-29	145 562	11 653	7 764	0
30-34	253 244	15 947	7 931	0
35-39	337 441	31 004	10 832	106
40-44	428 074	36 513	10 269	1 341
45-49	441 915	45 105	11 798	2 808
50-54	343 489	35 031	3 743	0
55-59	318 319	38 536	7 764	0
60-64	325 944	43 921	2 266	0
65-69	200 635	34 101	418	42
70-74	123 171	27 983	668	0
75+	97 074	20 925	68	0
Total	3 083 840	344 502	67 049	4 296

Table D2.3: The total number of property by Hh heads' age, sex and tenure				
LAND (m2)				
	HOMEOWNER		TENANT	
	Male	Female	Male	Female
15-19	225	0	583	0
20-24	175 874	2 083	2 583	1
25-29	52 610	35 085	10 848	0
30-34	54 251	1 318	2 874	167
35-39	119 213	24 707	12 899	0
40-44	295 985	11 167	23 200	283
45-49	753 693	10 519	6 682	0
50-54	256 139	18 147	15 543	0
55-59	255 461	21 190	340 588	0
60-64	374 726	23 343	15 500	4 167
65-69	237 422	9 513	2 250	0
70-74	12 096	23 982	5 417	0
75+	29 422	2 875	0	0
Total	2 617 116	183 928	438 966	4 618

Table D2.4: The total number of property by Hh heads' age, sex and tenure (1994)				
OTHER				
	HOMEOWNER		TENANT	
	Male	Female	Male	Female
15-19	321	0	0	0
20-24	300 481	896	68	0
25-29	3 931 756	0	1 535	0
30-34	3 338 005	391	1 758	78
35-39	6 266 442	2 964	5 748	0
40-44	2 329 670	3 891	7 468	0
45-49	678 619	2 572	1 445	0
50-54	622 709	7 282	1 818	0
55-59	78 541	7 352	156 536	0
60-64	98 589	3 440	569	0
65-69	38 324	7 729	0	0
70-74	38 823	4 993	0	659
75+	1 840 992	3 386	0	0
Total	19 563 270	44 894	176 944	737

Table D2.5: The potential property wealth transferred in one year by household heads' age, sex and tenure (1994) ('000'000)				
	HOMEOWNER		TENANT	
	Male	Female	Male	Female
15-19	21 063	1 573	3	0
20-24	129 985	9 367	207	4
25-29	527 844	13 487	1 395	0
30-34	1 451 814	25 867	2 061	23
35-39	3 491 511	110 192	7 374	2 401
40-44	7 250 793	146 529	12 538	2 193
45-49	9 248 126	451 232	13 188	434
50-54	14 249 065	917 113	6 855	0
55-59	15 169 176	1 926 077	35 387	596
60-64	32 151 174	2 136 503	92 483	678
65-69	28 996 290	8 785 553	8 269	42
70-74	19 621 939	2 243 442	5 263	8 665
75+	56 197 405	11 308 505	316	0
Total	61 063 563	28 075 437	185 338	15 036



Table D2.6: The total number of property wealth transferred in one year by Hh heads' age, sex and tenure (1994)				
<i>HOUSING</i>				
	HOMEOWNER		TENANT	
	Male	Female	Male	Female
15-19	5	0	0	0
20-24	31	1	2	0
25-29	89	4	5	0
30-34	204	7	6	0
35-39	401	18	13	0
40-44	830	35	20	1
45-49	1 425	62	38	4
50-54	1 976	86	22	0
55-59	2 395	136	58	0
60-64	4 421	291	31	0
65-69	4 047	380	8	0
70-74	3 161	532	17	0
75+	5 794	1 208	4	0
Total	24 778	2 759	224	6

Table D2.7: The total number of property wealth transferred in one year by Hh heads' age, sex and tenure (1994)				
<i>LAND</i>				
	HOMEOWNER		TENANT	
	Male	Female	Male	Female
15-19	0	0	0	0
20-24	95	1	1	0
25-29	32	12	7	0
30-34	44	1	2	0
35-39	142	14	15	0
40-44	574	11	45	0
45-49	2 431	14	22	0
50-54	1 473	44	89	0
55-59	1 922	75	2 562	0
60-64	5 083	155	210	28
65-69	4 789	106	45	0
70-74	310	456	139	0
75+	1 756	166	0	0
Total	18 651	1 054	3 139	28

Table D2.8: The total number of property wealth transferred in one year by Hh heads' age, sex and tenure (1994)				
<i>OTHER</i>				
	HOMEOWNER		TENANT	
	Male	Female	Male	Female
15-19	0	0	0	0
20-24	162	0	0	0
25-29	2 406	0	1	0
30-34	2 687	0	1	0
35-39	7 451	2	7	0
40-44	4 520	4	14	0
45-49	2 189	4	5	0
50-54	3 581	18	10	0
55-59	591	26	1 178	0
60-64	1 337	23	8	0
65-69	773	86	0	0
70-74	996	95	0	13
75+	109 889	195	0	0
Total	136 582	452	1 224	13

**APPENDIX D.3:**  
**ANALYSIS OF INHERITANCE TAXATION**

Table D3.1: The total property wealth transferred to the surviving spouse (‘000’000) in 1994				
	HOMEOWNER		TENANT	
	Male	Female	Male	Female
15-19	0	0	0	0
20-24	2 998	216	5	0,8
25-29	36 550	940	97	0
30-34	196 525	3 502	279	3
35-39	651 292	20 555	1 376	448
40-44	1 487 617	30 063	2 572	450
45-49	1 983 256	96 767	2 828	93
50-54	3 092 249	199 027	1 488	0
55-59	3 299 730	418 977	7 698	130
60-64	6 769 526	449 847	19 473	143
65-69	5 871 375	1 778 961	1 674	9
70-74	3 630 420	415 078	974	1 603
75+	8 642 173	1 739 049	49	0
Total	6 089 441	2 799 767	18 483	1 499

Table D3.2: The total property wealth transferred to the children ('000'000) in 1994

	HOMEOWNER		TENANT	
	Male	Female	Male	Female
15-19	21 063	1 573	3	0
20-24	126 986	9 151	202	4
25-29	491 294	12 550	1 298	0
30-34	1 255 290	22 366	1 782	20
35-39	2 840 219	89 637	5 999	1 953
40-44	5 763 176	116 467	9 966	1 7423
45-49	7 264 869	354 466	10 360	341
50-54	11 156 816	718 086	5 367	0
55-59	11 869 447	1 507 100	27 689	467
60-64	25 381 648	1 686 656	73 010	536
65-69	23 124 916	7 006 592	6 595	33
70-74	15 991 519	1 828 364	4 289	7 062
75+	47 555 232	9 569 456	267	0
Total	54 974 122	25 275 670	166 856	13 536

Table D3.3: The property wealth transferred per surviving spouse ('000'000)				
	HOMEOWNER		TENANT	
	Male	Female	Male	Female
15-19	0	0	0	0
20-24	1 042	1 219	26	15
25-29	950	1 044	50	0
30-34	1 110	740	50	6
35-39	1 416	1 438	62	373
40-44	1 479	941	66	99
45-49	1 433	1 584	50	25
50-54	1 561	1 956	33	0
55-59	1 363	2 325	131	120
60-64	1 602	1 398	230	58
65-69	1 589	3 787	72	23
70-74	1 547	1 297	46	173
75+	2 753	2 242	20	0
Total	568	2 247	104	126

Table D3.4: The property wealth transferred per children ('000'000)				
	HOMEOWNER		TENANT	
	Male	Female	Male	Female
15-19	0	0	0	0
20-24	56 518	66 132	1 123	637
25-29	7 892	8 679	555	0
30-34	2 798	1 866	156	17
35-39	2 002	2 033	108	649
40-44	1 743	1 110	92	138
45-49	1 479	1 635	56	28
50-54	1 539	1 928	42	0
55-59	1 285	2 192	149	137
60-64	1 485	1 296	256	65
65-69	1 458	3 475	69	22
70-74	1 449	1 215	66	248
75+	2 564	2 089	24	0
Total	692	2 738	161	195

Table D.3.5: The inheritance and gift tax to be paid by per surviving spouse  
('000'000 TL.) January-July

	HOMEOWNER		TENANT	
	Male	Female	Male	Female
15-19	0,0	0,0	0,0	0,0
20-24	167,0	0,0	0,0	0,0
25-29	168,0	186,8	1,7	0,0
30-34	164,0	57,6	1,1	0,0
35-39	204,0	217,6	2,4	0,0
40-44	245,8	172,0	6,4	1,3
45-49	250,2	201,2	1,8	0,4
50-54	224,6	237,6	0,9	0,0
55-59	222,8	185,6	5,1	0,0
60-64	267,6	201,2	11,2	1,4
65-69	219,0	936,8	0,6	0,0
70-74	238,8	212,6	1,4	9,5
75+	815,6	244,4	0,4	0,0



Table D.3.6: The inheritance and gift tax to be paid by children ('000'000 TL.)  
January-July

	HOMEOWNER		TENANT	
	Male	Female	Male	Female
15-19	0,0	0,0	0,0	0,0
20-24	822,4	0,0	0,0	0,0
25-29	343,4	381,2	5,4	0,0
30-34	211,6	175,2	2,0	0,0
35-39	218,6	232,8	3,2	0,0
40-44	244,4	171,0	0,0	1,6
45-49	233,4	187,6	1,8	0,4
50-54	204,0	215,8	1,2	0,0
55-59	197,6	164,6	5,9	0,0
60-64	234,0	176,0	8,6	1,5
65-69	192,4	823,4	0,5	0,4
70-74	215,2	191,6	2,1	12,2
75+	736,0	220,4	0,5	0,0

Table D.3.7: The inheritance and gift tax to be paid by per surviving spouse  
('000'000 TL.) August-December

	HOMEOWNER		TENANT	
	Male	Female	Male	Female
15-19	0,0	0,0	0,0	0,0
20-24	209,0	0,0	0,0	0,0
25-29	60,3	0,0	0,0	0,0
30-34	222,0	28,0	0,0	0,0
35-39	303,2	301,6	0,0	0,0
40-44	277,6	88,0	0,0	0,0
45-49	260,4	446,0	0,0	0,0
50-54	344,0	435,2	0,0	0,0
55-59	252,8	655,2	0,0	0,0
60-64	306,8	298,2	0,0	0,0
65-69	363,4	457,0	0,0	0,0
70-74	343,6	211,0	0,0	0,0
75+	215,0	682,0	0,0	0,0

Table D.3.8: The inheritance and gift tax to be paid by children ('000'000 TL.) August-December				
	HOMEOWNER		TENANT	
	Male	Female	Male	Female
15-19	0,0	0,0	0,0	0,0
20-24	1328,8	0,0	0,0	0,0
25-29	359,6	0,0	0,0	0,0
30-34	308,4	55,4	0,0	0,0
35-39	329,8	328,0	0,0	4,0
40-44	275,6	62,0	0,0	0,0
45-49	237,6	410,8	0,0	0,0
50-54	305,4	388,4	0,0	0,0
55-59	215,4	572,6	0,0	0,0
60-64	258,8	251,4	0,0	0,0
65-69	309,8	392,2	0,0	0,0
70-74	302,0	182,4	0,0	0,0
75+	186,2	607,8	0,0	0,0

Table D.3.9: Total inheritance and gift tax to be paid by the surviving spouse ('000'000) January-July				
	HOMEOWNER		TENANT	
	Male	Female	Male	Female
15-19	0	0	0	0
20-24	323	0	0	0
25-29	3 701	144	2	0
30-34	17 137	152	3	0
35-39	53 066	1 805	30	0
40-44	139 393	3 986	111	1
45-49	211 289	7 961	58	1
50-54	251 889	10 880	24	0
55-59	300 705	16 517	218	0
60-64	640 708	36 519	263	3
65-69	457 029	241 340	5	0
70-74	350 552	28 067	31	88
75+	1 252 435	115 300	1	0
Total	3 678 229	462 670	746	94

Table D.3.10: Total inheritance and gift tax to be paid by the children ('000'000) January-July				
	HOMEOWNER		TENANT	
	Male	Female	Male	Female
15-19	0	0	0	0
20-24	1 244	0	0	0
25-29	12 237	476	10	0
30-34	56 009	1 171	13	0
35-39	175 376	5 955	102	0
40-44	455 443	13 022	0	4
45-49	699 513	26 344	189	4
50-54	837 302	36 166	89	0
55-59	1 017 547	55 887	799	0
60-64	2 265 223	129 158	683	11
65-69	1 723 397	910 489	17	1
70-74	1 485 415	118 935	139	346
75+	6 676 383	614 220	6	0
Total	15 405 088	1 911 823	2 045	366

Table D.3.11: Total inheritance and gift tax to be paid by the surviving spouse  
('000'000) August-December

	HOMEOWNER		TENANT	
	Male	Female	Male	Female
15-19	0	0	0	0
20-24	197	0	0	0
25-29	992	0	0	0
30-34	16 127	59	0	0
35-39	60 628	1 810	0	0
40-44	121 895	771	0	0
45-49	140 453	9 592	0	0
50-54	295 682	24 358	0	0
55-59	270 745	59 789	0	0
60-64	562 152	41 854	0	0
65-69	584 298	96 960	0	0
70-74	302 181	39 651	0	0
75+	344 825	207 228	0	0
Total	2 700 175	482 071	0	0

Table D.3.12: Total inheritance and gift tax to be paid by the children ('000'000) August-December				
	HOMEOWNER		TENANT	
	Male	Female	Male	Female
15-19	0	0	0	0
20-24	976	0	0	0
25-29	9 573	0	0	0
30-34	56 748	294	0	0
35-39	203 388	6 070	0	12
40-44	397 666	1 785	0	0
45-49	454 823	31 355	0	0
50-54	960 700	79 558	0	0
55-59	880 179	199 361	0	0
60-64	1 917 270	142 665	0	0
65-69	2 138 017	357 160	0	0
70-74	1 248 844	161 169	0	0
75+	1 764 111	1 090 962	0	0
Total	10 032 297	2 070 379	0	12

## APPENDIX E

### SURVEY QUESTIONS

- Have you ever inherit? If yes, please state what and when?

		1 Year	1-5 Years	5-10 Years	10+ Years	Benefactor
<b>G. MONEY</b>	Money					
<b>H. PROPERTY</b>	Housing					
	Land					
	Other					
<b>I. OTHER</b>	Car					
	Valuable assets (jewelry, antique etc.)					

- How many beneficiaries were there? .....
- How you use the inherited estate?
  - ☐ Rent
  - ☐ Sell
  - ☐ Living
  - ☐ Other
- How was the estate used before transferred to you?
  - ☐ Rent
  - ☐ Benefactor used
  - ☐ Planted
  - ☐ Vacant
  - ☐ Other
- What was the age of benefactor? .....