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The Wealth of Families: The Intergenerational Transmission of Wealth in Britain in Comparative Perspective

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Contents

Executive Summary

Comparing Intergenerational Wealth Transfers Across Countries with Survey Data

The distribution of wealth is of major concern for its potential economic, social and political impacts. Wealth transfers between generations give rise to a variety of normative and practical issues with respect to taxation in particular as equity between and within generations looms large in current British debates.

This report contributes to those debates by investigating patterns of wealth transmission across generations and the role this plays in wealth accumulation and the generation of wealth inequality in Britain compared with other rich countries. It is the first study to investigate this in depth in a comparative framework bringing together data from the Wealth and Assets Survey with survey data for France, Germany, Ireland, Italy, Spain and the US. It is based on retrospective data from surveys carried out before the current health and economic crisis due to COVID-19. That crisis will have deep-seated and long-lasting effects on wealth that are extremely difficult to assess at this point, including on inheritances to be received in the future, but that does not diminish the importance of understanding past patterns of intergenerational wealth transmission.

The Wealth and Assets Survey (WAS) is a longitudinal survey covering Great Britain carried out by the Office for National Statistics since 2006, whereas the surveys we employ for other countries are cross-sectional. To cover inheritances received at any time we concentrate on those households in Wave 3 (2010-2012) who were also in Waves 1 and 2, aggregating reported receipts of transfers across these waves. For gifts this covers only receipts in the previous six years.

Many missing values for amounts received as inheritances before Wave 1 had to be imputed, and in order to align with the comparator country surveys before-tax values were estimated from reported after-tax amounts, small transfers were excluded from the British data, the household was used as unit of analysis and marketable not pension wealth was used as the wealth concept.

Key Features of Wealth Transfers in Britain and Other Rich Countries

About 35% of British households reported receiving an intergenerational wealth transfer at some point, similar to most of our comparator countries but much higher than the US. For British households receiving some inheritances or gifts the average aggregate amount received was about £115,000 (in 2010 £ terms), while the median receipt was much lower at about £35,000, with very large receipts boosting the average. Expressed in common currency terms, the median or typical amount received for Britain was similar to the corresponding figures for France and the US and lower than the other countries covered.

For Britain 30% of households had received an inheritance compared with 22% in France and Germany and 17% in the US. About 8% of British households were seen to have received a substantial intergenerational gift, biased downwards compared with other countries by the short observation window provided by WAS, but still much more than in the US. Having adjusted for the likely level of gifts 'missed', about 90% of the total value of transferred wealth for Britain went via inheritances rather than gifts. This is similar to the US where gifts are rarer but much larger on average, whereas for France and Germany about one-third of total transfers went via gifts.

Expressed as a percentage of the stock of (net) wealth, the total intergenerational transfers receipts captured in the household surveys ranged from 12% for the US, 18% for Britain, 22/23% for Ireland and Spain, about 32% for France and Germany and over 40% for Italy. The factors underlying this variation merit further investigation in depth.

Some transfer receipt was quite common across the entire age (when surveyed) distribution, with a relatively high proportion of younger respondents reporting receipt in Britain. Younger respondents received much lower amounts on average than older ones, though, so only about 5% of the total transferred went to those under 35, compared with 40% those aged 65 or older.

About half the households in the top quarter of the income distribution in Britain reported having received some transfer, compared with 21% for the bottom quarter. The average amount received rose consistently with income, but the really marked divergence was for the top 1% by income which received more than 6 times the overall average transfer amount.

Ranked by position in the wealth distribution, 56% of those in the top quarter received an inheritance or gift in Britain compared with 15% in the bottom quarter. The top quarter received about two-thirds of the total amount transferred, while the bottom one-quarter received less than 5% which was was still higher than in the other countries. More than one-third of those in the top decile or top 1% of the wealth distribution in Britain had not received any inheritance or gift.

Who Receives Intergenerational Transfers?

The characteristics of those who had versus had not received intergenerational transfers were probed via statistical analysis. Age was a major factor, though the steepness of the age gradient was less pronounced for Britain than elsewhere. Level of education was also generally a strong predictor everywhere, with the relative advantage of those with tertiary education being most marked in Britain. Age and education level were also generally powerful predictors of amounts received as transfers among those who got some, especially for Britain, France and the US. For Britain, someone with a third-level qualification was 28% more likely to have received some intergenerational transfer than someone with only lower secondary education, controlling for age and gender, and among recipients would be expected to have received 68% more on average.

Intergenerational Transfers and Household Wealth

The influence of having received intergenerational transfers on the household's current level of wealth is of central importance but very difficult to assess reliably. Here we apply several different analytical approaches that exploit the comparative data we assembled to shed light on that relationship.

The first compares levels of wealth for those who did versus did not receive some transfer. For Britain, transfer recipients had average wealth of £500,000 compared with £220,000 for non-recipients, that gap was similar in the other European countries but much larger in the US. Transfer recipients differ from non-recipients in a variety of other ways that would be expected to influence their wealth; when we controlled statistically for differences in age and education the wealth gap between recipients and non-recipients narrowed but for Britain was still £200,000 on average. The relationship between transfer receipt and owning one's

own house accounted for a substantial proportion of the difference, but financial and business wealth also played a major role for Britain and even more so the US.

We then sought to capture the relationship between transfer receipt and where households rank in the wealth distribution among those aged 50 or over. Transfer receipt is associated with being about 20 percentiles higher across much of the wealth distribution, controlling for age and education. That gap is less approaching the top of the distribution as the scope to move up is more limited there. Incorporating the size of the transfer into this analysis revealed that while receipt of a transfer of any size is associated with a higher rank, the gap is considerably greater for the largest transfers.

Intergenerational Transfers and Household Wealth Inequality

Assessing the impact of intergenerational transfers on overall wealth inequality is also extremely complex, so once again here we implement a number of different analytical approaches to exploit the potential of the data assembled from different angles. One is a decomposition exercise distinguishing 'transfer wealth' from 'non-transfer wealth'. Transfers indexed to consumer prices represented about 12% of the current household wealth stock for Britain, lower than the other European countries but higher than the US. Transfer wealth was a good deal more unequally distributed than non-transfer wealth as measured by the Gini coefficient, but accounted for only about 12% of overall inequality for Britain. This was less than in the other European countries though more than the US, reflecting primarily the varying importance of transfer wealth in total wealth. With an alternative measure of transfer wealth applying a capitalisation factor of 3% real return per annum to all receipts, both the share of transfer wealth and its contribution to overall inequality in Britain increased to about 15%.

The fact that the Gini coefficient for total wealth was below that for non-transfer wealth could be taken to mean that transfers were inequality-reducing, and our results for Britain from WAS for the entire age range are consistent in that sense with Crawford and Hood's findings from ELSA for the age range 65-79 only. However, the 'no transfers' counterfactual this involves is arguably not the most relevant in assessing the role of transfers. Instead, it may be more relevant to ask what the wealth distribution would look like if there were more or fewer transfer recipients than we observe.

The results in that regard suggested that in Britain and most of the other countries, having more transfer recipients and correspondingly fewer non-recipients would for the most part be expected to reduce wealth inequality. This reflects the fact that transfer recipients are, on the whole, more frequently positioned around the middle of the overall wealth distribution than non-recipients. When only large transfers were included in the analysis, however, increasing the proportion of those transfers generally increased overall wealth inequality.

We also adapt the analytical framework developed in recent research on 'inequality of opportunity' taking wealth as the outcome of interest, and treating intergenerational transfer receipt as a background 'circumstance' beyond someone's control. Sorting non-recipients and recipients by differing transfer amounts and controlling for age and gender, those in receipt of large transfers were predicted to have higher wealth than others across the wealth distribution, while the impact of non-receipt was clearest towards the bottom. Estimating what the wealth distribution would look like if transfers had no such impact led to the conclusion that inequality (adjusted for age and gender) would then be about one-third lower in the case of Britain. Incorporating parental occupation or education into the analysis reduced the estimated contribution of transfers but that remained substantial.

The findings from the various approaches we have employed to probe the relationship between intergenerational transfers and wealth inequality sometimes point in different directions, in essence because they are asking rather different questions, so the underlying counterfactual varies between them.

Taxing Intergenerational Wealth Transfers

Taxation of wealth transfers gives rise to considerable debate and contention, despite the fact that estate, inheritance and gift taxes account for less than 1% of tax revenue in the UK and most other OECD countries. Taxes on wealth transfers have been declining in importance over time in many rich countries and have been abolished entirely in some. In the 1960s wealth transfer taxes accounted for 2.5% of total UK tax revenue, declining precipitously in the 1970s and fluctuating around their current level since then.

The wealth transfer tax systems in operation in the countries included in this study were seen to vary widely, including with respect to whether they are levied on the estate of the deceased or the beneficiaries and how bequests versus gifts are treated. The way thresholds,

allowances and exemptions differ across countries and change over time is less transparent than the headline marginal rates of tax but in many respects as important. It is difficult to detect clear impacts of differences in tax systems on the varying patterns of intergenerational transfers across countries given all the other differences between them. However, some studies have linked changes in behaviour to changes in tax treatment, notably an increase in transfers via gifts in France in the 1990s.

Current official policy with respect to transfer taxes in the UK is primarily focused on considering specific aspects of the current structure, including how the 'family home' is treated when parents die; how businesses being passed on from one generation to the next should be treated; how gifts made within seven years of the donor's death should be treated; and whether allowances with respect to gifts should be simplified. In the broader debate, some have proposed the major structural reform of moving to a lifetime capital acquisitions tax. Ireland made that switch in the 1970s, and its experience suggests that equity considerations may provide a more compelling rationale than improved revenue-raising capacity. The case for moving towards a lifetime capital acquisitions tax for gifts and inheritances can be convincingly made purely in terms of fairness and efficiency.

While reforming how intergenerational transfers are taxed has the potential in itself to reduce the role they play in generating wealth inequality, this could be considerably enhanced if combined with direct wealth 'endowments' to all young people along the lines proposed by Atkinson (2015), the Resolution Foundation, and on a more ambitious scale by Piketty (2019).

Future Research and Data Priorities

As well as underpinning the analysis and findings presented in this report, the complex strategy and set of 'data treatments' developed to produce a suitable dataset from WAS will be of significant value to future comparative researchers. The need for the most significant of these could be avoided by adding a limited number of questions to WAS in future, on inheritances and gifts received at any time in the past. This would both address problems with the data for respondents in Wave 1 and allow respondents joining the survey after that wave to be included in such comparative analyses. This has been fruitfully discussed with ONS in the context of reviewing the questionnaire content.

The intergenerational transfers captured in household surveys represent a proportion of the current stock of (net) wealth that varies substantially across countries. In-depth investigation of the many factors underpinning that variation, and other approaches to validating the survey data on transfers, should be a priority for future research to underpin their use in comparative analysis.

1. Introduction

Inequalities in the distribution of wealth as well as income have come centre-stage as matters of widespread concern, for their economic, social and political impacts as well as from an equity perspective. Wealth derived primarily from inheritance or gifts between generations is distinctive in many respects, not least in the normative and practical issues that arise with respect to taxation. This report investigates the direct transmission of wealth across generations and the role this plays in wealth accumulation over the life-cycle and the generation of wealth inequality in Britain compared with other rich countries. It is based on retrospective data from surveys carried out before the current health and economic crisis due to COVID-19. That crisis will have deep-seated and long-lasting effects on wealth that are extremely difficult to assess at this point, including on inheritances to be received in the future, but that does not diminish the importance of understanding past patterns of intergenerational wealth transmission that are the focus of this report.[1]

Intergenerational transfers via inheritances and gifts disproportionately benefit the children of wealthier parents, and impact directly on life-chances and intergenerational mobility. They can also influence the behaviour of both the donor and recipient generations in a variety of ways. Labour market, consumption and saving decisions by parents may be affected by the desire to make a gift or leave a bequest to their children, while the actual or expected receipt of such a transfer may affect how the recipients behave in those domains, as well as potentially influencing intergenerational relationships and interactions. In the current context where wealth levels of older age cohorts have generally risen relative to average incomes in recent decades, giving rise to concerns about widening intragenerational inequalities, the role of intergenerational transfers looms particularly large in current British debates. (For that context see for example the Final Report of the Resolution Foundation's Intergenerational Commission, 2018).

[1] A prospective analysis of the inheritances that are likely to be received by those living in England who were born in the 1960s, 1970s and 1980s is provided in Bourquin, Joyce and Sturrock (2020), from a related research project at the Institute for Fiscal Studies (IFS) also supported by the Nuffield Foundation.

This report is the first to investigate the intergenerational transmission of wealth via inheritance and gifts *inter vivos* in Britain[2] in a comparative framework in some depth. It exploits the recent availability of data for Britain and for other rich countries with whom comparison is illuminating. Countries differ in the extent of wealth (relative to e.g. average income), in its composition (in terms of residential property, other real estate, businesses wealth, financial assets), and in its distribution, and in the way wealth, wealth transfers and income from wealth are taxed. A comparative picture of wealth transfers thus offers scope for structural and institutional drivers of differences in patterns to be probed. The research employs data from household surveys to examine the extent and nature of intergenerational transmission of household wealth via inheritance and gifts across the entire distribution. (Information from the administration of taxes, by contrast, sheds light only on the upper tail of the distribution, though it may more reliably capture the very top). On this basis it re-assesses the role such transfers play in the accumulation of wealth and wealth inequality across the distribution as a whole.

While analysis of transfer receipt and wealth at the level of the individual adult is possible with British data, here the household is employed as the unit of analysis since that is what the survey data for comparator countries allow. (For those countries, neither current wealth holdings nor transfer receipts are assigned to individuals in the data collected.) This restricts the scope of our analysis somewhat, particularly with respect to for example gender differences, but the household is the most relevant unit for many purposes and most often used in studying wealth inequality.

The report is structured as follows. The background in terms of the research literature and current debates about the role of intergenerational transfers is sketched out in Section 2. Section 3 describes key features of the survey data for the USA and a number of EU countries which are to be employed for comparative purposes, with which the information for Britain must be aligned. Section 4 describes the data on wealth transfers and wealth from the Wealth and Assets Survey for Great Britain, the significant challenges faced in employing the data it includes on transfers for comparative purposes, and how these have been addressed. A descriptive picture of inheritances and gifts *inter vivos* for Great Britain and six comparator

[2] The data on which we rely covers Great Britain – here 'Britain' for short – not the UK, which as well as England, Scotland and Wales also includes Northern Ireland.

countries is presented in Section 5. Section 6 presents statistical models of which households are more versus less likely to have received transfers, and to have received larger versus smaller amounts. Section 7 probes the impact that receiving transfers via inheritances and gifts has on wealth accumulation of the households affected. Section 8 investigates the role of intergenerational transfers in wealth inequality, applying a number of different analytical approaches that provide complementary perspectives. Section 9 discusses the role of institutional differences, in particular the ways in which intergenerational transfers are taxed. Finally, Section 9 brings together the key findings and highlights their implications, for understanding the complex processes at work, for thinking about policy, and for improving the information base on which research and policy rely.

2. The Role of Intergenerational Wealth Transfers in Rich Countries

Rising income inequality and its consequences for economic growth, societal cohesion and democratic processes have become a remarkably widespread concern (on which see for example Nolan, Richiardi and Valenzuela, 2019), but Piketty (2011, 2014) also highlighted the centrality of wealth inequality and the increasing role of inheritance in that respect. Piketty (2011) shows that in France, the annual wealth transmitted via inheritance and gifts (and adjusted for under-reporting) fell from 20-25% of national income between 1820 and 1910 to around 2.5 per cent in 1950, but had risen to around 15% by 2010. In Italy, the recent work by Acciari, Alvaredo, and Morelli (2020) shows a similar strong rise in the inheritance and gifts flow, growing from 7% to 13% of national income between 1995 and 2016. Similarly, Atkinson (2018) finds that the aggregate annual transfer via inheritance and gifts in the UK rose significantly from 1977 to 2008 as a proportion of national income, in line with the increase in aggregate wealth. Having updated these figures, we estimate that the total value of estates and gifts in the UK was worth approximately 6 to 7% of total national income in 2016, quite similar to Atkinson's last available observation for 2008.[3]

This report builds on a substantial literature exploring the role of intergenerational transfers in determining the level and distribution of wealth, which we can only briefly review here to set the scene for this study. The overall importance of inherited wealth versus life-cycle saving for wealth inequality has been hotly debated for many years, with the conflicting estimates produced by Kotlikoff and Summers (1981 and 1988) and Modigliani, (1988) being a common point of reference (see also the overview by Davies and Shorrocks, 2000).

More recently, studies based on microdata have generally arrived at the, to many surprising, conclusion that inheritances are wealth-equalising. Wolff (2002) and Wolff and Gittleman (2014) used data from the US Survey of Consumer Finances (to be discussed in detail in Section 3) and Panel Study of Income Dynamics and found that inheritances and other wealth

[3] The updated figure makes use of the available estimates of inheritances and gifts fiscal flows (adjusted to allow for the estates of the population missing from the tax records) from Alvaredo, Atkinson, and Morelli (2018) until 2013 as well as the tabulations of estates left at death estimated by the ONS until 2016, allowing for the total estimated value of gifts. Unlike France and Italy, this figure may well represent a lower bound as it relies almost exclusively on information reported on the tax records.

transfers were equalising with respect to the distribution of current wealth. Klevmarken (2004) used data from the Swedish Household Panel Survey and also found an equalising effect of inheritances and gifts on the distribution of current wealth. Using tax records in Sweden, Elinder *et al* (2018) inheritances find that inheritances reduce relative wealth inequality, as measured by the Gini coefficient or top wealth shares, but that they increase absolute dispersion. This reflects the fact that even though richer heirs inherit larger absolute amounts, the relative importance of the inheritance is greater for less wealthy heirs, who inherit more relative to their pre-inheritance wealth. In the same vein, using Danish tax records, Boserup *et al* (2016) find that inheritances increase absolute wealth inequality but reduce relative inequality measures such as the top 1% share. However, Nekoei and Seim (2019) find that this inequality-reducing effect does not last a decade as fewer wealthy heirs deplete their inherited wealth in contrast to more affluent heirs.

Turning to UK-focused studies, Karagiannaki and Hills (2013) and Karagiannaki (2017) analyse the annual flow of inheritances and gifts reported in the British Household Panel Survey from 1996–2005, and conclude that these had only a limited impact on wealth inequality.[4] Crawford and Hood (2016), by contrast, analyse data on lifetime receipt of inheritances and gifts of older persons, from English Longitudinal Study of Ageing. They focus on persons aged between 65 and 79 when interviewed in 2012–13, who they argue are likely to have already received any inheritance that they will get during their lifetime, but are less likely than older individuals to suffer from recall problems when reporting their lifetime receipt of inheritances and gifts. Crawford and Hood compare inequality in transfers and in wealth minus transfers and conclude that inheritances and gifts are equalising in terms of conventional measures of marketable wealth: the Gini coefficient for wealth excluding transfers is 0.57, compared with 0.52 for observed wealth. However, when wealth in the form of the estimated value of future entitlements to public and private pensions is also included in household wealth, the equalising impact of transfers is negligible.

Like Elinder et al (2018), Crawford and Hood usefully set out what underlies the equalising impact they find with respect to transfers and marketable wealth. Those higher up the wealth distribution are more likely to have received a transfer, and on average to have enjoyed a

[4] Karagiannaki (2011) also looked at gifts as well as inheritances in the 2004 Attitudes to Inheritance Survey, while Karagiannaki (2015) also included summary information from the early waves of the Wealth and Assets Survey, the British source on which we rely here.

greater cash contribution to their wealth as a result. However, those transfers are relatively more important on average as a proportion of non-transfer wealth for those lower down the wealth distribution. Including inheritances therefore leads to a greater proportionate increase in wealth for lower-wealth individuals, and so makes the distribution of wealth less unequal.

Such comparisons between 'inherited' and 'non-inherited' wealth based on comparing lifetime transfer receipts with current wealth levels necessarily build in a variety of simplifying assumptions, in particular about whether recipients saved (all) these transfers and the return these savings generated. They also (implicitly or explicitly) build in assumptions about the most appropriate 'counterfactual', in other words the point of reference to be adopted. The counterfactual underpinning exercises such as those described, where inherited wealth is simply subtracted from total wealth, is in effect a world where the previous generation's wealth 'goes up in smoke' when they die; it is not at all clear that this is the most relevant or helpful point of comparison. These are points of fundamental importance to which we return.

The studies we have been discussing also relate to individual countries, with very few comparative studies of patterns of inheritance/intergenerational transfer. Fessler, Mooslechner and Schürz (2008) employed data in the Luxembourg Wealth Study, described in the next section, to compare the characteristics of those receiving versus not receiving transfers, while highlighting differences across surveys in the way transfer receipt was measured. Fessler and Schürz (2015) analyse data on receipt of inheritances for thirteen European countries from the Eurozone Household Finances and Consumption Survey, also described in the next section. They compare the percentage of households having received an inheritance across these countries, and the net wealth of these households versus those which did not inherit. They also employ regression analysis finding that, on average, having received an inheritance is associated with a household being about 14 percentiles higher in the net wealth distribution in their own country, with this being rather consistent across countries. This is the type of comparative analysis of transfers and their impact which this report develops and extends, with Britain fully integrated into the picture.

3. Wealth Transfer Data for Other Rich Countries

3.1 Measuring Household Wealth Transfers

Alternative sources of data on intergenerational wealth transfers have their strengths and weakness. In this section we outline the rationale for concentrating in this study on exploiting the potential of data from household surveys, and then describe the data available for other rich countries that we will be using as comparators, before focusing in the following section on a detailed discussion of the survey data to be employed for Britain.

Data from the administration of taxes on inheritances and gifts provide one major source of information about intergenerational wealth transfers; in the case of the UK this has been used by researchers to estimate how the extent of such transfers has changed over time (see for example Atkinson, 2018). However, these data capture only those wealth transfers that come within the purview of the tax system, that have to be reported for assessment purposes. This exceeds the number on which tax is actually payable but still represents only a sub-set of all wealth transfers, since many will fall below exemption thresholds or not require tax returns for other reasons. Depending on the nature of the tax system, such tax-based statistics may allow large transfers to be seen, though their comprehensiveness and reliability in doing so are subject to the intricacies of what actually has be reported under the tax code and to the effects of evasion. Finally, the (anonymized) information at the level of the individual or household required to probe patterns of receipt at micro-level may not be available to researchers

Household surveys, on the other hand, provide data at individual and/or household level. They may struggle to capture the top of the distribution and large, rare transfers, although effective over-sampling of high wealth individuals/households may significantly improve their capacity to do so (as Bricker et al, 2016, argue is the case with the US Survey of Consumer Finances). Unlike tax-based statistics, though, surveys can provide a picture of the frequency and scale of the receipt of wealth transfers across the distribution (of income or wealth) as a whole. Furthermore, although there can be many difficulties in properly aligning survey data from one country to the next to enable meaningful comparisons, as we shall see, this is still more straightforward than is the case with tax-based statistics deriving from very different underlying tax structures.

Data from household surveys specifically designed to capture wealth levels, and including information on receipt of wealth transfers, are now available for a much wider range of rich countries than heretofore. The USA led the way with the Survey of Consumer Finances, which has been in place since 1983. More recently, wealth surveys have been implemented in other rich countries such as Australia, Canada, Japan and Sweden. Finally, the Household Finances and Consumption Survey (HFCS) is now in place across European countries that are members of the Eurozone, with central coordination by the European Central Bank. This opens up the potential to analyse wealth and wealth transfers through a comparative lens, which this report exploits.

Facilitating such comparative analysis is the core aim of the Luxembourg Wealth Survey (LWS) database which now brings together household survey micro-data on wealth from a range of countries, harmonises variables to the extent that the underlying sources allow and makes these accessible (remotely) to researchers. Parallel to the long-standing Luxembourg Income Study (LIS), the LWS currently has data for 14 countries including the UK, for which data is drawn from the Wealth and Assets Survey (which we describe in detail in Section 4). The LWS includes variables for whether transfers in the form of inheritance or gifts were received, together with year received, amount and type of receipt, and source. Analysis of the UK data currently in LWS shows a relatively low percentage of households receiving inheritance (see Cowell et al, 2017); this is however attributable to the fact that the British figures relate only to recent not lifetime receipts, for reasons to do with the underlying survey that we tease out in the next section.[5]

LWS also has some limitations with respect to coverage and data availability for other major countries we want to include in our comparative analysis. The data for Germany is drawn from the Socio-Economic Panel and does not include receipts of inheritances and gifts, whereas the HFCS for Germany does include that information, while France and Spain are not currently included in LWS but are also in the HFCS, for which microdata is made available to researchers. Rather than relying on the LWS database, then, in this report results for the countries with which Britain is compared are based on direct analysis of the relevant

[5] Fessler *et al* (2008) analysed the data on inheritances then available in LWS and highlighted, among other differences across the countries included then, the extent of variation in the time window over which transfer receipt is measured.

micro-datasets. As well as the USA based on the SCF, we make use of the HFCS to cover France, Germany, Ireland, Italy and Spain, giving a spread of rich countries in terms of features such as wealth levels and composition and taxation regimes. These surveys and the data on wealth transfers they provide are now described in some detail, since it is with these that the information available for Britain has to be aligned to the greatest extent possible.

3.2 The US Survey of Consumer Finances

The Survey of Consumer Finances (SFC) has been carried out in the USA by the Federal Reserve every third year since 1983. The SCF is generally a cross-section survey with a new sample drawn each wave (though there have been occasional longitudinal elements). Crucially from a wealth perspective, the SCF oversamples towards the top of the distribution to improve its capacity to capture high-wealth cases and measure top wealth shares (see for example Bricker et al, 2016). The SCF employs a dual-frame sample design, whereby a nationally representative set of families selected from an address-based sampling frame is supplemented with an oversample of wealthy families drawn from a list provided by the Internal Revenue Service from individual income tax returns. The information on those returns on income from different types of asset is used to predict wealth and allow the survey to disproportionately select the relatively wealthy (see Bricker et al, 2017). The complex set of weights provided take into account *inter alia* this sampling design in order to produce a representative sample of the population as a whole.

While researchers and publications by SCF staff often refer to 'households' or 'families', the unit employed is in fact the Primary Economic Unit (PEU), comprising an individual or couple and others in the household who are financially interdependent; another adult living with them but financially independent would be taken as a separate PEU.[6] The individual responding to the survey is whoever is nominated as the more financially knowledgeable person (which may not be the 'household head'). This individual provides the information sought about wealth and wealth transfers relating to the family/PEU as a whole: this means that individual-level analysis, such as of differences in wealth or transfer receipt by gender in a couple, is not possible.

[6] In the 2016 dataset, 13% of the PEUs were in a household that also contained one or more members not in the PEU.

As well as seeking information about wealth held in a variety of forms as well as debts, income and a range of characteristics, SCF respondents are asked whether they or their partner have ever received an inheritance, or been given substantial assets in a trust or some other form, and if so how many. Starting with the largest, they are then asked if it was an inheritance, trust, or transfer/gift, the approximate value when it was received, the year of receipt, and from whom it was received. The same information is sought for the second and third-largest receipt, where relevant. For any others, the total market value taken together is sought. The SCF has separate questions on whether the house in which the respondent is living was inherited, and similarly for a business, but these are specifically to be included again in responding to the inheritance questions; apart from that the type of asset received as inheritance or gift is not sought nor are the types to be included specified. Respondents are instructed not to include inheritances from a deceased spouse.

Some imputation of missing values has been implemented by the Federal Reserve in the publicly released data we employ; no additional imputations have been made here. The latest available data at time of writing is for 2016, but since for reasons explained in Section 4 the British data we are using is for around 2010-11, we employ the 2010 Wave of SCF. We update the reported inheritance/gifts amounts to 2010 US$ values, based on the year of receipt and consumer price inflation data from then to 2010.[7]

While the SCF obtains detailed information about pension entitlements, allowing for the construction of alternative measures of wealth including the value of accumulated pension entitlements, in this report we concentrate on the more standard concept of marketable wealth, as discussed further below.

3.3 The Euro Area Household Finance and Consumption Survey

The Household Finance and Consumption Network (HFCN) was established by the European Central Bank (ECB) in 2006 to develop and conduct the Household Finance and Consumption Survey (HFCS) in member countries of the Eurozone. The collection of data

[7] In the small number of cases where more than three inheritances/gifts are reported, the year of receipt for the fourth and any others is not sought; in those cases we use the median year of receipt for the first inheritance as proxy for uprating purposes.

on wealth and related topics for a representative sample of the population is the core aim of the HFCS. National central banks or statistical offices are responsible for conducting the survey, and the ECB in conjunction with the HFCN coordinates the whole project, ensuring the application of a common methodology, pooling and quality-controlling the country datasets and disseminating the survey results and microdata.

The HFCS is conducted every three years in most countries, with fieldwork for the first wave generally carried out in 2010 and 2011, with a second wave generally around 2014 and a third wave around 2017. Fifteen of the seventeen Eurozone countries took part in the first wave, with Ireland and Estonia then implementing the survey from 2013. (For details on the survey and its implementation see Eurosystem Household Finance and Consumption Network, 2013). Unlike the LWS, which attempts to harmonise the relevant variables from different surveys across countries after the event, the core feature of the HFCS is that it aims to harmonise ex ante, via common definitions of variables, a common blueprint questionnaire, and a variety of other centralised procedures with respect to sampling, checking, imputation and weighting. The HFCS is primarily a cross-sectional survey, although there are longitudinal elements in some countries.

While the HFCS seeks to collect data in a harmonised way to allow consistent comparisons across countries, with the common Eurosystem blueprint questionnaire as starting point (ECB, 2012), there are some differences across the questionnaires employed nationally for a variety of reasons. Further, while efforts are made where possible to over-sample wealthy households, what can be done in that respect depends on the nature of the information available for sampling purposes, which varies across countries. Nine of the fifteen countries participating in Wave 1 had some oversampling of the wealthy, most often based on geographical location but in some cases employing information on wealth or income. The effective oversampling rates in the first wave of the survey can be seen to vary widely across countries, with France, Germany and Spain having particularly high rates but Italy not oversampling at all.[8] There is also some variation in fieldwork methods and in the extent to which data from sources other than the survey responses, such as population registers and tax and social security records is incorporated. The implications of these differences for the robustness of comparisons, especially at the top of the wealth distribution, are not clear.

[8] See Eurosystem Household Finance and Consumption Network (2013), Table 4.6, p. 38.

The HFCS is based on the household as unit, with results being published at that level.[9] A main household respondent, considered the most financially knowledgeable member, provides financial information for the entire household, including real assets and their financing, other debts, private businesses and financial assets, consumption and saving behaviour, and income from financial assets. Information is also sought from or for each adult on demographics, employment, other types of income and pensions.

In addition to in-depth information on these topics, the HFCS seeks to obtain details on inheritances and gifts received over the lifetime by household members. The blueprint questionnaire asks the main household respondent if their current main residence was acquired by inheritance or received as a gift. In a separate section on inheritances and gifts it then asks whether, in addition to the household main residence, they or any member of the household has ever received an inheritance or a substantial gift, including money or any other assets, from someone who is not a part of the current household. If so, the respondent is asked how many were received. Starting with the most important, she or he is asked what year it was received, what kinds of assets were involved, how much was it worth at the time, whether it was that a gift or an inheritance, and from whom it was received. Where relevant, the same information is also sought for the second and third most-important inheritance or gift.[10] The types of assets distinguished are money, a dwelling, land, a business, securities or shares, jewellery furniture or artwork, life insurance and 'other assets'.

Some imputation of missing values has been implemented in the data released for public use by national statistics offices carrying out the survey and at ECB level, a multiple stochastic imputation strategy. In addition to a common methodology on imputations, software tools have been developed for imputation in order to maximise the degree of methodological commonality. The proportion of cases affected by imputation of at least some component of key wealth totals is in some instances quite high: for France and Spain, for example, about

[9] A household is defined for HFCS purposes as a person living alone or a group of people who live together in the same private dwelling and share expenditures, including the joint provision of the essentials of living; a similar definition is widely employed by national statistical offices.
[10] See ECB (2012), Section 8, pp. 58-9.

17-19% in Wave 1 had some imputation with respect to the components of wealth in the form of property.[11]

We aggregate these, but where the original or the current value of the main residence reported by the respondent is equal to the value of any of the other inheritances reported we only include this once to avoid the risk of double-counting. In using the HFCS, contact with the data producers in each country, facilitated by the ECB, has been helpful in identifying some important differences in the way the common template has been adapted for national use and relevant variables produced.[12]

To align the year to which the data refers insofar as possible across countries we use data from HFCS Wave 1, except for Ireland and Italy where data for 2013 and 2014 respectively has to be used (because Ireland only took part in the HFCS from that point and Italy only included the questionnaire section on intergenerational transfers and gifts in its second wave). As in the case of the US, we update nominal amounts reported to values in the years in which the survey took place, using consumer price indices taken from the OECD statistical database. The net wealth construct we employ from HFCS again excludes the value of pension entitlements.

[11] See Eurosystem Household Finance and Consumption Network (2013), Table 6.7, p. 57.
[12] For example, for Spain if the main residence was inherited one needs to add its value to the inheritance amount reported in the direct question about inheritance, whereas for Italy the main residence is included in that inheritance question.

4. Measuring Wealth Transfers in Great Britain

4.1 The Wealth and Assets Survey

Our core aim in this study is to place patterns of intergenerational transfers for Britain in comparative perspective by bringing together survey data for other rich countries described in the previous section with the most suitable data for Britain. In this section we describe the source from which these data are taken, namely the Wealth and Assets Survey, and set out the nature of the data, the strategy we employ in using them for current purposes, and the significant issues that we identified and addressed in doing so. We conclude this section by noting what is and is not included in the core measures of wealth transfers and wealth employed in our subsequent analysis. We also highlight that the strategy and set of 'data treatments' we have developed to produce a suitable dataset will in itself be of significant value to future researchers aiming to use the WAS for comparative analysis of wealth transfers, but that the need for these could be avoided by adding a limited number of questions to WAS going forward.

While intergenerational wealth transfers in the UK have been studied using several other surveys, as described in Section 2, the Wealth and Assets Survey (WAS) is now the main source of micro-level data on wealth for British households. WAS is a longitudinal survey carried out by the Office for National Statistics (ONS) which began in mid-2006. It covers Great Britain but not Northern Ireland. ONS documentation makes clear that it is has more complete population coverage than HMRC's Personal Wealth series and is the most suitable source of data to use for analysis of wealth and wealth inequality for the period it covers. The survey seeks in-depth information from respondents about wealth held in various forms and debts, as well as income and a range of demographic and other characteristics. Information is sought at the level of the individual, and the published reports from ONS often focus on patterns at the individual level.

In order to increase the likelihood of including households towards the top of the wealth distribution, the WAS applies an oversampling strategy based on geographical areas. On the basis of the distribution of households by National Statistics Socio-economic classification (NS-SEC) group and the proportion without a car in the area, those more likely to be wealthy were flagged, and in W1 addresses from wealthier postcodes were 2.5 or 3 times more likely

to be sampled. For sample weighting purposes both cross-sectional and longitudinal weights are provided by the ONS at the personal (individual adult) level.

The longitudinal nature of WAS is central to its design, to allow change over time in wealth to be tracked at household level. This distinguishes it from the (mostly) cross-sectional wealth surveys available for other countries discussed in the previous section. In this report we are not seeking to exploit the potential that the longitudinal nature of WAS offers to study change over time, being focused instead on what can be learned from the comparative perspective. The WAS remains the most appropriate British source for cross-sectional analysis of wealth-related topics, given that its' central purpose is to obtain high-quality data on wealth for a large representative sample. However, the longitudinal nature of the survey does have to be taken fully into account in using it and leads to some significant complications for our purposes here.

The first wave of WAS interviews (W1) was carried out over two years, from mid-2006 to mid-2008, and interviewed 30,587 households (71,182 individual adults), with a response rate of 55%. Households who responded in Wave 1 (and a small number of non-contacts and 'soft' refusals) were approached again for a Wave 2 interview between July 2008 and June 2010 (W2), with interviews achieved for 20,165 households (46,293 individuals). Wave 3 covered mid-2010-mid-2012, but to mitigate the effect of the substantial attrition observed in Wave 2 a new supplemented or 'refreshed' set of 12,000 additional addresses was also included. Interviews were then achieved with 21,446 households (49,398 individuals), of whom about two-thirds were from the continuing sample and one-third from the additional sample. Wave 4 covered mid-2012-mid-2014, following up Wave 3 households with a further cohort of 8,000 new addresses introduced; it achieved interviews with 20,240 households (46,388 individuals). Wave 5 covered mid-2014-mid-2016, with 6,000 new addresses, and interviewed 18,808 households (42,832 individuals). Fieldwork for Wave 6 was carried out 2016-2018, and results are to be produced in early 2020.

As far as inheritances and gifts are concerned, Wave 1 of the WAS asked individual respondents whether they had received any inheritances in the previous five years, and those who said they had were asked to give the amount of the three most important inheritances received and the year of receipt. In addition, respondents were asked about inheritances received previously, i.e. longer ago than 5 years, with similar information on the three most

important inheritances received prior to that being sought. For gifts, W1 respondents were only asked whether they had received a gift in the previous two years, with a follow-up question on the amount of the most important gift received. No questions about receipt of gifts from more than 2 years ago was included in W1. Subsequent WAS waves asked only about inheritances and gifts received in the previous two years, corresponding to the period between waves. Separate questions asked individuals to report details of the three most important inheritances and three most important gifts received in that period.

The WAS questions about inheritances specify that the assets to be included cover a broad range: a house or flat, money or savings, a car, jewellery or ornaments, stocks, shares, trusts or other investments, a business and 'other'. On gifts, the question refers to 'either goods or any cash gifts worth £500 or more to help with expenses'; respondents are prompted with examples of such expenses including to buy a property or a car or cover university fees.

4.2 Using WAS Data for This Study

The WAS Waves/Years Employed

Since each wave of WAS after the first only obtains information about inheritances (and gifts) in the two years since the previous wave, later waves cannot provide a picture of lifetime receipts to place alongside the corresponding figures for other rich countries from the surveys described in Section 3. One could employ the initial Wave 1 WAS sample for this purpose. However, the timing of that wave from mid-2006 to mid-2008 means that it was mostly collected before the onset of the financial crisis, whereas as we saw data for most of the comparator countries we wish to employ is available only from 2009/10 onwards, after the crisis struck, (the exception being the USA). Since the crisis had a major impact on asset values, this would significantly complicate the cross-country comparisons of the relationships between wealth transfers received by households and their current wealth levels that are at the heart of our research. By merging data from Waves 1, 2 and 3 and adding the inheritances reported in Waves 2 and 3 to those reported in Wave 1, we can arrive at a picture of total (reported) receipts received at any point up to the W3 interview for the households who responded in all three of those waves. (This can be done using the publicly-released data files for W1-W3). It is this 'continuing' W3 longitudinal sample of 13,394 households which we use here for our comparative analysis of intergenerational wealth transfers for Britain.

This longitudinal W3 sample is considerably smaller than the original W1 sample due to the scale of attrition between those waves – the 'new' households added to the sample in W3 cannot be included here as the information sought about inheritances for them only covers the previous two years. However, the continuing sample is seen to be similar to the full W3 sample, and the initial W1 sample, in terms of key demographic and other characteristics. As far as wealth is concerned, it displays a lower degree of concentration of wealth than the full cross-sectional W3 sample including 'new' households, with 41% versus 44% of net wealth held by the top 10% of wealth holders and 12% versus 15% held by the top 1% (on which see also Alvaredo, Atkinson and Morelli, 2016). However, most of this divergence is attributable to one case with very high wealth in the 'new' sample.

Another factor influencing our data/wave selection strategy is that there are major issues with respect to missing values on inheritance amounts received in Wave 1; these still have to be addressed in using the continuing W3 longitudinal sample but do also argue against reliance on Wave 1 alone. We now outline the extent and nature of these missing values and how we deal with them, and then turn to a number of other issues that have to be addressed in aligning data from the WAS with comparator countries.

Missing Data and Imputation

The extent of 'missingness' for key inheritance variables, the proportion of missing values for amounts received by those who have reported a receipt, is very high in the first wave of the WAS. For fully 75% of respondents in Wave 1 who said they had received an inheritance in the past 5 years, there is no value for the amount received, even in terms of the bracketed amount responses allowed. (Of the 2301 households reporting a first receipt, 1758 are missing the value; the corresponding figure for a second inheritance received is 86 out of 112.) This reflects the issues that invariably arise with such survey questions in terms of recall, reluctance to respond, etc., but also a problem in the administration of that first wave of the survey in terms of questionnaire design/routing that was corrected in subsequent waves. For the Wave 1 question about inheritances received more than 5 years ago, about 20% of those who reported such a receipt (696 out of 3,401) are missing its value, and that is also the case for 25% percent of those reporting receipt of a second such inheritance (102

out of 443). By contrast, there are very few missing values for amounts received as gifts in the previous two years in Wave 1 (11 out of the 1,268 who reported having received a gift).

The Office for National Statistics carried out some modest imputation of missing values for inheritances for Wave 3, involving only a handful of observations, but did no imputation of these variables in Waves 1 or 2. Rather than losing all these respondents who have provided the critical information that an inheritance or gift was received but for which no value is present in the dataset, we have applied an imputation procedure for these missing values. This employs the predictive mean imputation method, implemented using the MICE package in R. For Wave 1, missing values have been imputed for

- The first inheritance reported to have been received in the 5 years before the survey;
- The first inheritance received more than 5 years before the survey by those who reported such a receipt;
- The second inheritance received more than 5 years before the survey by those who reported having received such an inheritance.

The imputation method relies on the values provided by those who did respond to the relevant question – thus, for example, the missing values for the value of the second inheritance received longer than 5 years ago are imputed using responses from those who reported receiving such an inheritance and provided a value. Alternative models have been tested, the first using age, number of past inheritances received, number of recent inheritances received, and expectation of future inheritance, and the second adding total household wealth and household income to the model. The PMM method allows the number of discrete imputations run to be selected; here we have taken 5 runs for each individual and check to see whether the use of one iteration versus another affects the results. The imputations have also been flagged in our constructed dataset so that they can be taken into account in the project's statistical modelling to probe the nature and impact of intergenerational transfers.

Other Issues Addressed

Net to Gross Inheritance values

Inheritance questions in the WAS ask for the value of inheritances received "after tax and other deductions", while the surveys for other countries ask for the gross market value of

inheritances. While the net receipt may in fact be the more relevant in terms of its impact on wealth accumulation (and this can be explored for Britain), to align with the other rich countries for comparative purposes before-tax amounts would be preferable. We have therefore estimated the before-tax UK values from the reported after-tax figures using the marginal tax rates and thresholds appropriate for each past inheritance (using the year the inheritance was received).[13] The UK had a top marginal rate for bequests (estate duty and capital transfer tax) between 75% and 85% from 1949 and 1983, and it decreased gradually until the current flat 40% inheritance tax was established in 1988. We take into account recent evidence that the effective tax rate at the top of the distribution of inheritances is considerably lower than the statutory rate, for a variety of reasons due to reliefs and exemptions etc.

Individual versus Household Recipient Unit

The responses on receipt of inheritances and gifts are at the individual level in WAS, the relevant questions being part of the individual questionnaire to which each adult in the household was asked to respond. These responses have to be aggregated to the household level, since it is household-level receipt of transfers and its relationship with household wealth levels that the project is probing, and the household is the unit employed in the data for the comparator countries we will be examining. The household unit in question is that observed in Wave 3. After consultation with the ONS, to derive weights at the household level we average the weights for the household members for each household.

Inheritances from Spouses

Inheritances from a deceased spouse are specifically to be included in the WAS, but are excluded in both SCF and HFCS. Throughout our analysis, we exclude inheritances and gifts received from spouses in WAS.

Uprating of Nominal Amounts

Since we wish to aggregate inheritances and gifts received at different points in time, some many years ago, and these are reported in nominal terms, the impact of price changes on

[13] Since tax was levied on the bequest and that may have been divided among several beneficiaries, we make the simplifying assumption that half the total bequest came to the recipient responding in the survey.

their real value has to be taken into account by convert them to a common basis. We therefore update to 2010 values, using the consumer price index.

Excluding 'Small' Receipts

The final issue that needs to be addressed before the UK data from WAS can be brought together with the corresponding data from the SCF and HFCS relates to a potentially important difference in the way in which questions about inheritances and gifts were framed. In both the SCF and the HFCS, respondents were asked whether they had ever received an inheritance or *substantial* gift, whereas in WAS no such qualifier was used. As a consequence, a greater number of quite small amounts are included in the reported receipts of UK respondents. To bring the datasets into closer alignment, we apply a threshold set at 10% of median income in the country in question, which for Britain is about £3,000 (2010 values), which coincidentally is equal to the annual gift exemption for inheritance tax; receipts lower than that threshold will not be included in our main analyses. This has a significant impact on the proportion of UK households reporting receipt of gifts, as detailed below, with a considerably smaller effect elsewhere; the impact on inheritances is marginal.

Coverage of the Measures of Wealth Transfers and Wealth

The transfers we aim to cover should in principle include the full range of assets in the form of for example cash, housing, land, business, securities or shares and other financial assets, jewellery and art. Both the WAS and the HFCS make this explicit by presenting such a listing, though the SCF does not. WAS also prompts respondents to include gifts (from outside the household) to help the recipient to buy property or pay university fees, unlike HFCS or SCF. Whether parents or grandparents paying directly for housing costs, university fees or other expenses on behalf of non-resident children or grandchildren without going through the household member concerned would be covered depends on how respondents interpret the survey questions: no guidance is provided.

As far as the wealth concept we employ in examining the relationship between transfer receipt and wealth is concerned, this covers real assets such as the main residence, other real estate property, vehicles, valuables such as jewellery, antique or art, and business wealth, as well as financial assets such as bank and other deposits, stocks and shares, voluntary private pension assets and whole life insurance policies. Net wealth comprises the aggregate value

of all these assets held minus debt outstanding, in the form of mortgages, overdrafts, credit card debt, car loans, consumer loans, instalment and other loans.

The wealth concept does not include the value of private occupational pensions, which can be estimated using WAS as part of private pension wealth (see for example ONS 2019), or of entitlements to public pensions, as these are very difficult to assess in a robust and comparable way across the countries covered. To align with the measure of household wealth employed in our comparator countries we deviate from the measure employed in WAS by including the estimated value of own businesses, included in wealth elsewhere but not by ONS in its publications based on WAS. Also, we have excluded the "value of household contents" from the measure of wealth; this it is included in the wealth measure employed by the ONS in publications based on WAS but was not included in the other surveys, and given the fact that most British households have some such wealth its inclusion could bias the cross-country comparisons.

In analysing wealth with the household as the recipient unit, it is also worth noting how we take household size into account. It is common practice in analysing income inequality to adjust household income for household size and composition, to 'equivalise' it to take into account the economies of scale in household spending and the lower needs of children versus adults into account. By contrast, the application of equivalence scales to household wealth data is a matter of debate among researchers (Bover 2010, Jäntti et al. 2013, OECD 2013, Sierminska and Smeeding 2005). This reflects the fact that the conceptual and empirical issues arising in the case of wealth are distinctive, and practice therefore varies in empirical work. Here we do not employ equivalised wealth measures, but we do incorporate household size in different ways in the various statistical analyses we present.

Lessons for Measuring Wealth Transfers in WAS

As well as underpinning the analysis and findings which we present in the rest of this report, the quite complex strategy and set of 'data treatments' we have developed to produce a suitable dataset from WAS will be of significant value to future comparative researchers of wealth transfers. The need for the most significant of these could be avoided by adding a limited number of questions to WAS in future, specifically on inheritances and gifts received at any time in the past as well as in the two years since the previous wave. This would have a dual benefit. First, for 'continuing' respondents who have been in the survey all the way

since the first wave, the extensive imputations required with respect to missing values for amounts received as inheritances could be avoided, and the observation window for gifts would not be limited to the previous two years as it is now. Secondly, 'new' respondents joining the survey after Wave 1 could be included in comparative analyses of inheritances and gifts received over their lifetime, one would not be restricted to Wave 1 respondents. We have had fruitful discussions with ONS staff working on the survey on these issues, and are happy that these are being included in reviewing the questionnaire content, where difficult choices always have to be made given length/time constraints in an already demanding exercise for respondents.

5. Wealth Transfers in Britain and Other Rich Countries: Key Features

5.1 Introduction

We now present a descriptive picture of patterns of receipt of inheritances and gifts *inter vivos* in Britain and the other rich countries we are employing as comparators, based on analysis of the dataset we have constructed from WAS as described in the previous section and the micro-data for France, Germany, Ireland, Italy, and Spain from the HFCS and for the USA from the SCF described in Section 3. We start with an investigation of how many households report any intergenerational receipt, of inheritances and/or gifts, and the amounts they received. We then look at how both the receipt of transfers and the amounts received vary across the age range, the income distribution, and the wealth distribution. This allows us to identify some ways in which the patterns observed for Britain are similar to the other rich countries covered and others in which Britain appears somewhat or quite distinctive.

5.2 Incidence and Amounts Received

Table 1 shows the incidence of receipt of inheritances and/or gifts for the overall sample for each country. We see that just over one-third of British households report having received some form of wealth transfer: 30% report having received an inheritance, 8% having received a gift, and 35% having received one or both. The overall frequency of receipt in Britain is similar to France, Germany and Italy, somewhat higher than Spain, and considerably higher than Ireland and especially the USA. Indeed, the USA is the clear outlier, with only 19% of households having received an inheritance or gift.

Table 1: Percentage Receiving Intergenerational Transfers

	Britain	France	Germany	Ireland	Italy	Spain	US
	%	%	%	%	%	%	%
Inheritances	29.6	22.2	22.7	21.2	25.7	28.0	17.1
Gifts	8.5	17.4	12.4	3.5	7.1	0.9	2.4
Inheritances or Gifts	34.7	36.1	32.5	24.3	31.6	28.8	19.1

Focusing now on the form of the transfer, inheritances are reported most frequently in Great Britain, by 30% of households. The US is again the outlier at the other end of the spectrum, with only 17% having received an inheritance. The range for the other countries is from 21/22% in the case of France and Ireland up to 28% for Spain. Gifts, on the other hand, are most frequently reported in France and Germany, the figure for Britain is in the middle of the range, and very few gifts are seen in the cases of Ireland, Spain and the USA. The breakdown between inheritances and gifts in the case of Spain must however be heavily qualified because this information is often missing in the HFCS, as it was not sought in the underlying Spanish survey (which pre-dates the HFCS) in the case of transfers in the form of financial assets. We have counted these as inheritances, in the absence of any information, but this means that that proportion of transfers taking place through gifts is undoubtedly under-stated. The gifts figure for Britain is also biased downwards by the fact that, as emphasised in Section 4, the observation window available for gifts in WAS was only the previous six years. No such caveats apply in the US case, however, where the strikingly low figure of only 2% of households report having ever received such a gift.

It should be recalled in this context that we have applied a threshold such that 'small' transfers are not included. As explained in Section 4, this was to address the concern that, because of the way the different surveys obtained the information, relatively small gifts were more likely to be counted in Britain than elsewhere. If we look at the corresponding figures when no such threshold is applied, the percentage receiving an inheritance would be about 5 percentage points higher for Britain, while the impact for gifts is even greater: almost 20% of households are seen to have received a gift, compared with less than half that many when the threshold is applied. The application of the threshold makes little difference to the percentage receiving either gifts or inheritances in the other countries. So, this reinforces our belief that the application of the threshold, by excluding small gifts that would not have been counted in the other surveys, improves the alignment between the results for Britain and those for our comparator countries.

Turning to the amounts received as intergenerational transfers in the various countries, and focusing first on inheritances, Figure 1 show the mean and median value of the inheritances received expressed in national currency terms in current (mostly 2010) values. We see that in all countries mean values are much higher than the median (the value above and below which half the recipients are located), reflecting the fact that the average is pulled up by a

small number of very large amounts received. In Britain, the average inheritance in 2010 £ terms is about £130,000, whereas the median amount received is only £43,000. The gap between mean and median is even wider in France, where the average amount inherited is €190,000 whereas the median receipt is about €38,000, and the US where the mean is $290,000 and the median is $70,000.

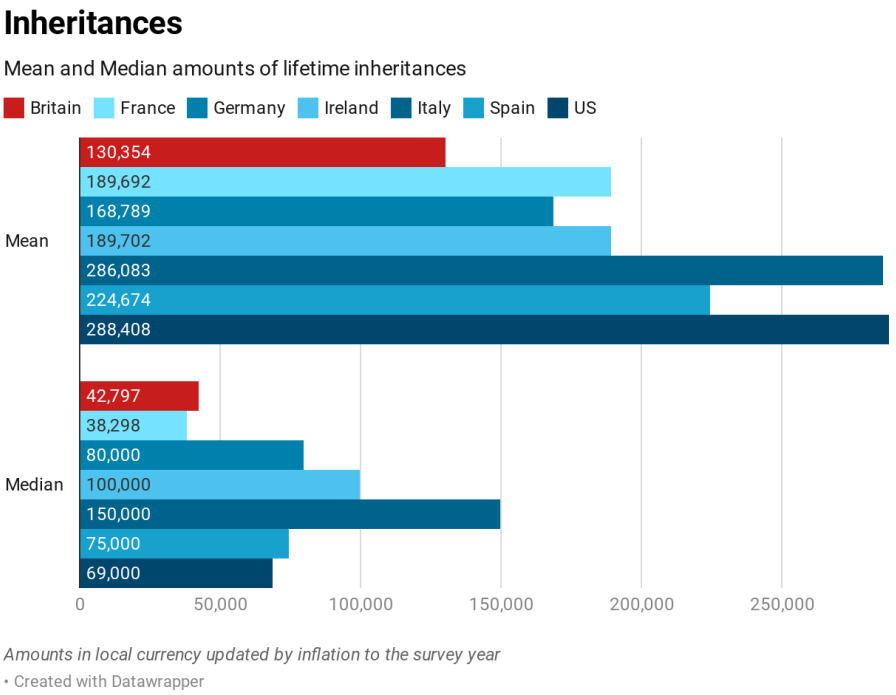

Figure 1. Mean and median amounts of lifetime inheritances among recipient households in national currency

Converting these amounts into a common currency for ease of comparison, and using US$ for that purpose, Figure 2 shows that the mean value of amounts received as inheritances ranges from about $185,000 in Britain up to $300,000 in Spain and the US and $350,000 in France. The median value of $60,000 for Britain, more representative of the typical receipt, is much closer to the corresponding figures for France and the US though a good deal lower than the median for Germany, Ireland, Spain and especially Italy.

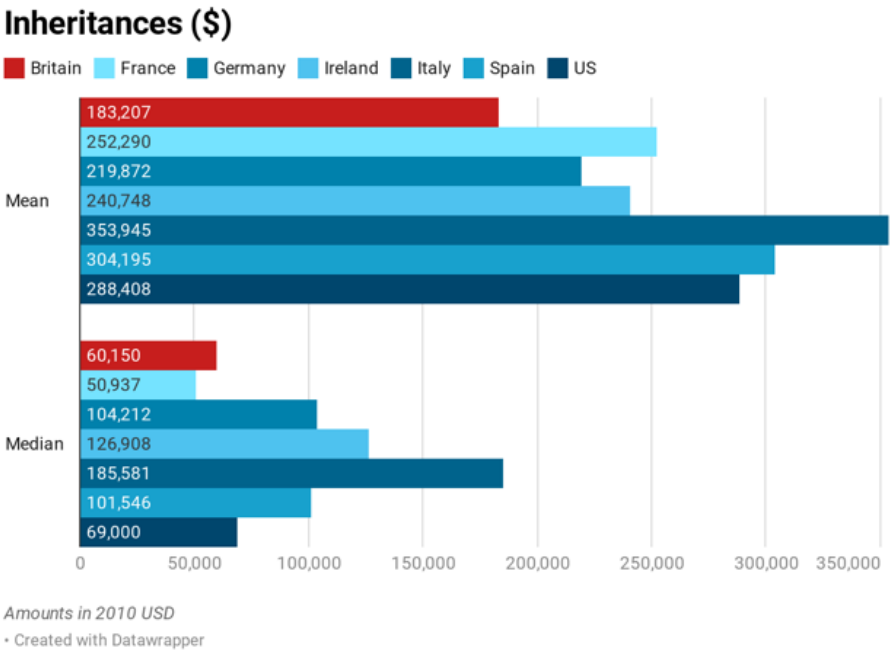

Figure 2. Mean and median amounts of lifetime inheritances among recipient households in common currency

The corresponding means and medians for receipts in the form of gifts in national currency terms are shown in Figure 3. Comparing with Figure 1, both mean and median amounts are much smaller for gifts than inheritances in the case of Britain, where the average amount received in the form of gifts is £25,000 and the median is only about £10,000. Gifts are also less substantial than inheritances in Ireland and the US, though the gap is a good deal narrower than for Britain. For France, Germany, Italy and Spain, by contrast, the mean amount received in the form of gifts is similar in scale the average inheritance.

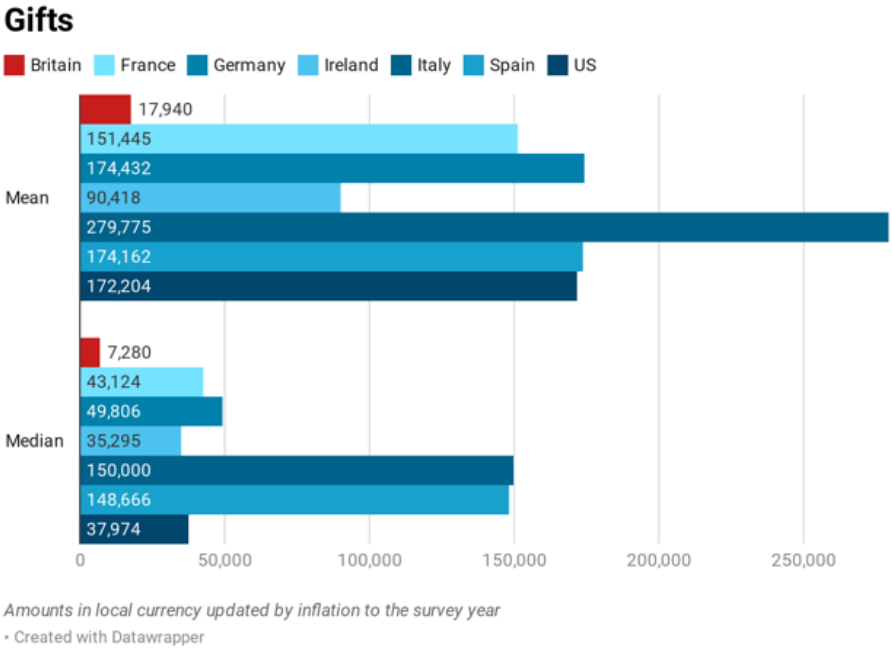

Figure 3. Mean and median amounts of lifetime gifts among recipient households in local currency

Figure 4 brings out that, expressed in common currency, both median and even more so mean gift amounts are much lower in Britain than the other countries we are covering. The short observation window for gifts in WAS could again but relevant here, but it is not obvious that this would produce a downward bias with respect to the mean gift amount – indeed, it could work in the opposite direction. There are also marked differences in the scale of gifts across the other countries, for which differences between the surveys are much more modest (though potentially still relevant).

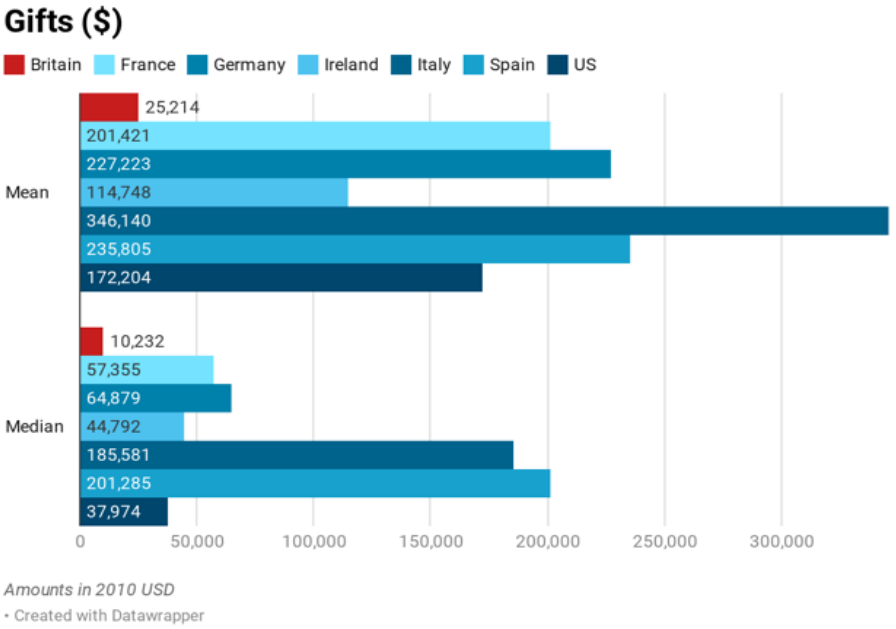

Figure 4. Mean and median amounts of lifetime gifts among recipient households in common currency

Aggregating inheritances and gifts, the mean and median for the aggregate transfers received are shown in Figure 5 in national currency terms. The British average is about £115,000 while the median receipt is very much lower at £34,000 so the mean is 3.4 times the median. This multiple, one indicator of inequality of transfers among recipients, is higher than some of the other countries covered but lower than in France and the US where it is about 4.

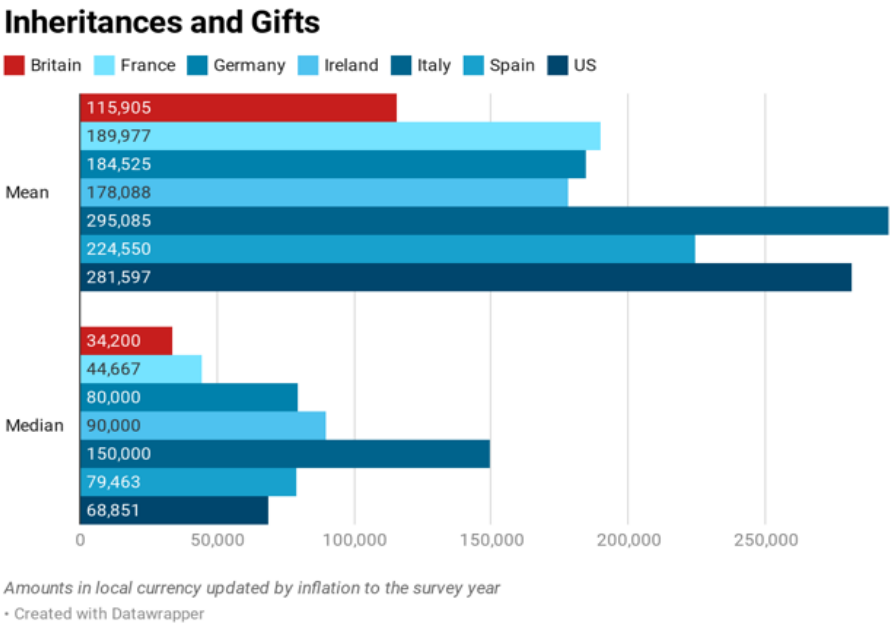

Figure 5. Mean and median amounts of lifetime transfers among recipient households in local currency

We can see from Figure 6 that in common currency terms the British average transfer receipt is the lowest of the seven countries. The median or typical amount is however less of an outlier in comparative terms, being quite similar to the corresponding figures for France and the US, though considerably lower than the median amount received in intergenerational transfers in Germany, Ireland, Spain and especially Italy.

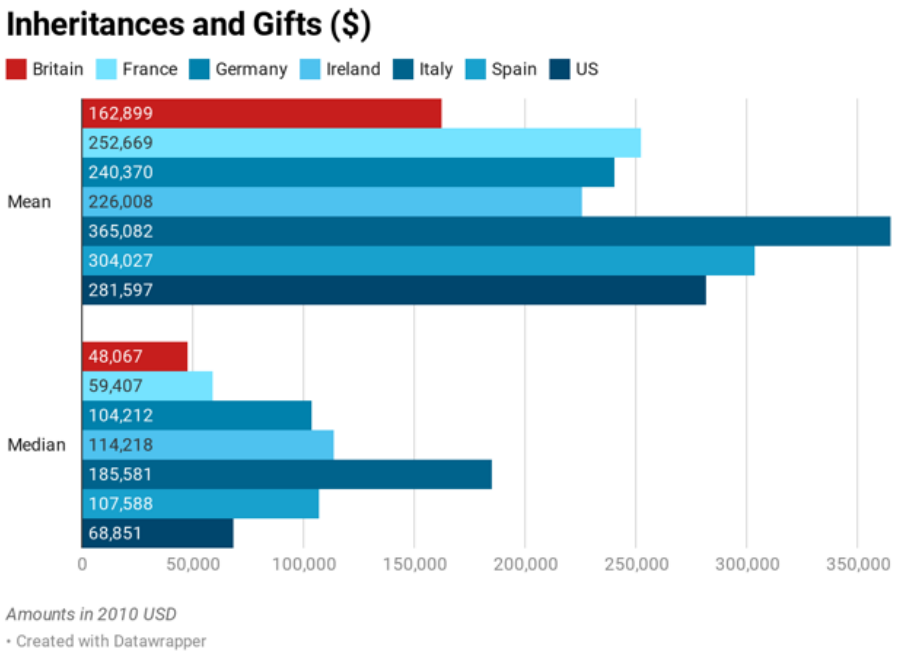

Figure 6. Mean and median amounts of lifetime transfers among recipient households in common currency

Bringing together the percentage of households receiving any transfer with the average amount they received, we can derive the average transfer amount across all households, whether recipient or not, and the total amount of wealth transferred in each country. It is interesting to compare these with the levels of wealth reported as being held by households in the same surveys in the various countries. Table 2 shows that the intergenerational transfer amounts captured in the household surveys as we have described constitute 18% of wealth for Britain compared with 12% for the US, 21-23% for Ireland and Spain, up to 32% for France and Germany and over 40% for Italy. In-depth investigation of the many factors – measurement-related and 'real' – that could underlie this variation is beyond the scope of this study but should be a priority for the future.

Table 2: Intergenerational Transfers Relative to Household Wealth Stock

	Britain	France	Germany	Ireland	Italy	Spain	US
	£	€	€	€	€	€	$
Mean transfers all households	40,172	68,498	59,956	43,303	93,318	64,610	53,667
Mean wealth	222,073	214,451	184,256	208,761	224,500	285,178	442,325
Mean transfers as % mean wealth	18.1	31.9	32.5	20.7	41.6	22.7	12.1

To this point we have uprated amounts reported as inheritances or gifts only by the rate of consumer price inflation since the year they were received. This takes no account of the return that recipients could have generated on those receipts if they saved and invested them. As flagged earlier and discussed further below, this is a crucial consideration in seeking to assess the contribution of intergenerational transfers to wealth and wealth inequality, but one that is surrounded by great uncertainty. Recipients may consume rather than save some or all of their transfer receipts, transfers may substitute for ('crowd out') private savings, and the rate of return on savings may vary across households, asset classes and amounts. Here we follow the research literature by employing a purely illustrative calculation whereby transfers received are 'capitalised' on the basis that they generated at a real rate of return (in excess of inflation) of 3% per annum from the time of receipt. As Table 3 shows, this would substantially increase the average amounts received per recipient household. For Britain, the mean amount received in the form of inheritances and gifts combined would rise from about £116,000 without capitalisation to £190,000 with capitalisation (all in 2010 values). The impact would be even greater for some of the other countries, notably France (reflecting the differing distribution of reported transfers by year of receipt). This also means that the total amount of transfers after capitalisation would be about 30% of current wealth for Britain, 23% for the US, and as much as 80% for France and Italy.

Table 3: Intergenerational Transfers Without and With Capitalisation

	Britain	France	Germany	Ireland	Italy	Spain	US
	£	€	€	€	€	€	$
Mean transfers all households without capitalisation	115,905	189,977	184,525	178,088	295,085	224,550	281,597
Mean transfers with capitalisarion	191,149	491,456	262,706	285,857	543,519	480,611	518,098
Mean transfers with capitalisation as % of mean weath	30.3	84.5	46.9	33.7	76.6	49.3	22.8

Given the differences we have seen across countries in the frequency and size of inheritances versus gifts, the mode by which this total transfer took place also varies widely. For Britain, almost all the measured transfer took place via inheritance – accounting for 96% of the total. This is influenced by the limited time window for which information on gift receipt is available in the WAS, as explained in Section 4.2, with in effect only a six-year window prior to Wave 3 being covered, whereas receipts at any point are (in principle at least) included for the other countries. For Ireland, Spain and the US inheritance also accounts for over 90% of the total amount transferred; in the case of Spain this is even higher but subject to the major caveat outlined above. For Italy that figure is closer to four-fifths. For France and Germany, on the other hand, only about two-thirds of the total transfer took place via inheritances with one-third through gifts – reflecting both the relatively high proportion of households receiving gifts in those countries and the fact that these gifts are on average as large as inheritances there.

We can arrive at a rough estimate of the extent of the gifts missed in the British case by the short observation window available, by looking at the frequency of gifts versus inheritances in the six years prior to wave 3 over which both were observed, and the proportion of total measured inheritances that were in that period rather than earlier. On that basis, we can conclude that the six-year window might have captured about one-third of the total gifts that would have been reported if the British survey had asked about gifts received at any point. If that were the approximate scale of 'missed' gifts, then had they been captured the total measured wealth transfer for Britain would have been about 8% higher. This would mean that total transfers would have represented about 19.5% of total wealth for Britain, only

marginally higher than the 18% reported in Table 2. It would also mean that the percentage of those transfers going via gifts rather than inheritances would be about 11% rather than our observed 4%. This would still leave almost 90% of the total transfer occurring via inheritances – similar to Ireland and the US, and perhaps Spain. That is considerably higher than what tax-related sources for the UK would indicate. Atkinson (2013), for instance, reports the share of total inheritances in total wealth transfers as varying from approximately 80% in the early 1990s to 75% in 2007.

We return below to a discussion of this striking variation across countries, having first filled out our descriptive picture by describing how patterns of transfer receipt vary by age as well as position in the income and wealth distributions.

5.3 Transfer Receipt by Age

One would expect the receipt of inheritances and gifts from the previous generation to be strongly related to where a person is in their life-cycle, their own age and that of their parents. Unsurprisingly, then, previous research has found transfer receipt to vary across the age distribution in individual countries. What is much less clear, though, is whether that variation by age is similar from one rich country to another – which it might well not be, for a variety of reasons. Here we explore this by distinguishing four age groups by reference to the age of the household 'reference person' or equivalent in the surveys we are employing. Table 4 shows the percentage in each age category reporting receipt of inheritances and gifts for the seven countries.

We see that for British households the likelihood of having received an inheritance is highest in the age range 55-64, where over 40% report receipt. This figure is lower among those over 65, where 35% report some inheritance – though still a good deal higher than for those under 55. For the other countries, by contrast, the share having received an inheritance is about the same for those aged 55-64 as for the 65 or over group. The other distinctive feature of the British pattern is the relatively high proportion of younger households – where the reference person is aged under 35 – reporting receipt of an inheritance. At almost one in five this is much greater than seen for the comparator countries other than Spain.

Table 4: Incidence of Inheritance and Gift Receipt by Age

% receiving any	Britain	France	Germany	Ireland	Italy	Spain	US
Inheritances	%	%	%	%	%	%	%
Under 35	19.3	6.6	5.0	4.7	11.2	15.2	6.6
35 to 54	24.2	15.0	20.1	17.9	20.3	24.3	13.3
55 to 64	40.7	33.8	35.7	32.0	33.4	38.2	26.6
Over 65	34.6	33.4	31.6	35.6	31.4	34.7	27.9
Gifts							
Under 35	19.5	14.4	11.8	4.7	8.1	0.8	2.1
35 to 54	11.6	19.9	17.9	4.3	9.8	1.2	3.0
55 to 64	5.9	18.7	11.5	2.1	7.3	0.9	2.8
Over 65	1.5	13.3	5.7	1.5	3.7	0.5	1.6
Inheritances or gifts							
Under 35	31.7	19.9	15.9	9.3	18.3	15.9	8.5
35 to 54	31.5	31.7	35.0	21.6	28.6	25.2	15.5
55 to 64	42.9	46.8	43.9	33.6	39.6	38.8	28.7
Over 65	35.2	42.9	34.2	36.9	34.2	35.2	29.1

The British pattern by age is also distinctive with respect to receipt of gifts, with the youngest age group reporting the highest proportion having received a gift, unlike the other countries. The limited time window for which information on gifts is available in the WAS is once again likely to be a significant contributory factor. Across all the countries, though, gifts are less concentrated among older groups than inheritances, as one would expect.

Focusing finally on receipt of either inheritance or gifts taken together, Table 4 shows that some such receipt is quite common across the entire age distribution, often affecting about one in three or one in four households. (There are a few notable exceptions to this pattern, such as the US where few of those under 35 report any transfer receipt).

As well as the incidence of transfer receipt, the average amounts received by recipients vary across the age range. Figure 7 shows the average receipt aggregating inheritances and gifts for each of the four age groups, expressed as a ratio of the overall average receipt. We see that amounts received are consistently lowest for the youngest age group, but there is then considerable variation across countries in how the middle and older age groups compare. For Britain, average receipt is highest for the 55-64 age group but those aged 65 or over also receive much higher amounts on average than the 35-54 group. Countries such as Germany

Italy and the US display only limited variation across those age groups, whereas in France the oldest age group receives by far the largest average amount. The average receipt will vary depending on a complex range of factors, and what underlies these patterns is not clear. Older recipients will have had longer to accumulate transfers, and younger recipients are more likely to have received gifts than inheritances, so it is not surprising that average receipts for those under 35 are relatively low. The fact that aggregate wealth stocks have been growing over time so more recent inheritances would be larger on average could help explain why the 55-64 age category has higher average receipts than those aged 65 and over for Britain, and even more so Spain. That pattern is not seen elsewhere, which could perhaps be related to the scale of the increase in house prices in the 2000s in Britain and Spain leading to high levels of inheritance for the middle-aged then, but this will need further investigation.

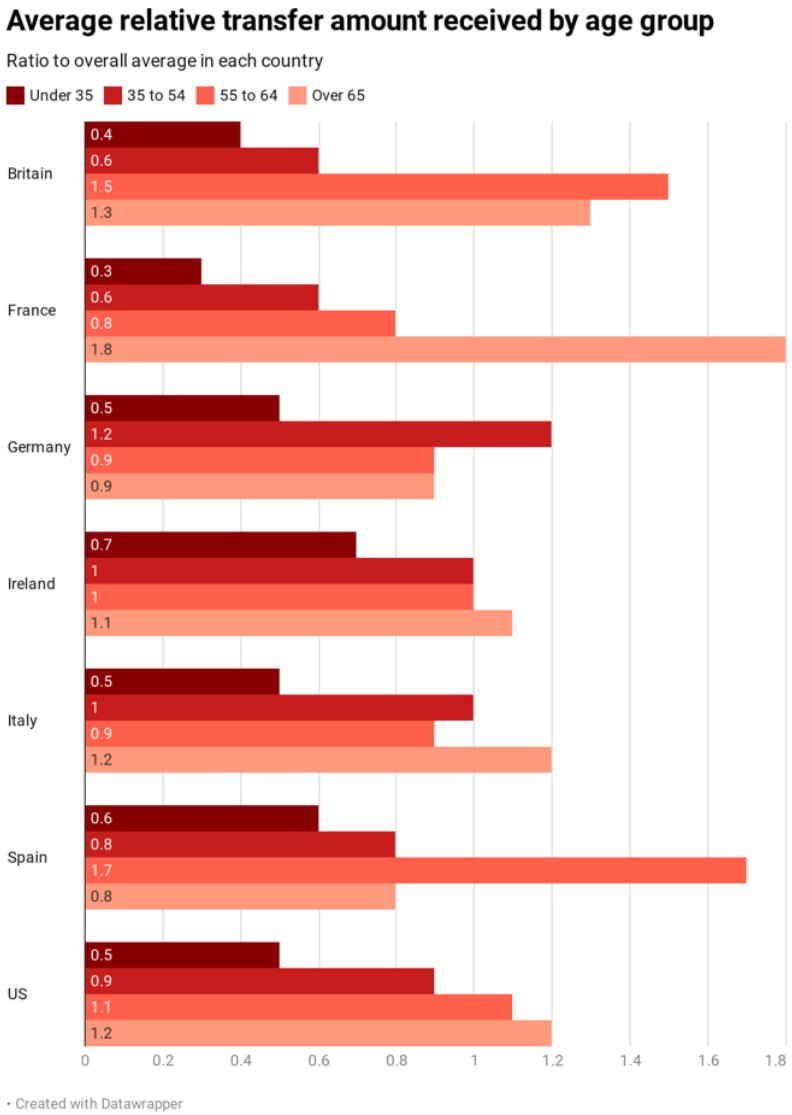

Figure 7. Average amount (relative to overall mean) of intergenerational transfers received by each age group

It is also of interest to see how the total amount transferred is distributed across the age range – how much has benefitted those who are (now) older as opposed to the middle-aged or young? Figure 8 shows that across all the countries very little of the total amount transferred, typically only about 5%, has been received by the youngest age group. The share rises steadily with age in the case of Britain, with the oldest age group having received about 40% of total transfers. This pattern is less consistent in other countries, with those aged 35-54 sometimes having received as much of the total as older households, or even more.

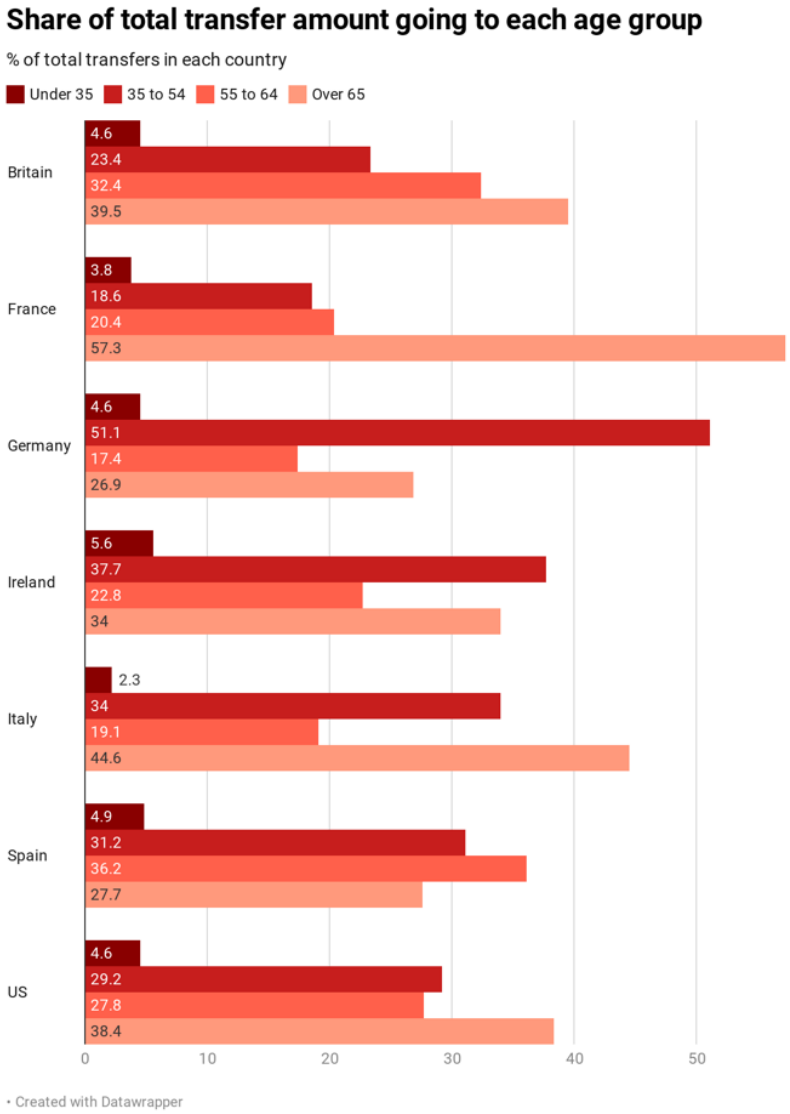

Figure 8. Share of the total value of intergenerational transfers going to each age group

The distribution of transfers reflects the combined effects of the varying proportions reporting receipt across age groups, the differing average amounts received by those

recipients, and also differences across countries in the share of all households located in the age group in question. It must be emphasised that this distribution of transfers by age relates to age when surveyed not age when the transfer was received, and the points already noted about older respondents having had longer to accrue such receipts but aggregate wealth increases potentially offsetting that advantage apply.

5.4 Transfer Receipt by Current Income

We now look at the way in which intergenerational transfers received by households vary with income at the time of the survey (rather than when the transfer was received). Table 5 shows the percentage receiving some transfer, whether in the form of inheritance or gift, for the bottom quarter of households ranked by income, the next quarter, and so on, and also for the top 10% and top 1%.[14] The proportion reporting receipt of some such transfer generally rises with income, but the variation is often not so strong. In Britain, about half the households in the top quarter report having received some transfer, compared with 21% for the bottom quarter. The latter figure is however still quite substantial – transfers are certainly not only relevant at the top or even in the top half of the income distribution. Across all the countries, one-fifth or one-quarter of households in the bottom quarter of the income distribution have benefitted from some receipt. In many of the other countries there is also little difference between the incidence of receipt in the bottom quarter and the rest of the bottom half – indeed, for the US the bottom quarter are more likely to have some receipt.

Another feature of note is that there is often little variation in the incidence of receipt towards the top of the distribution: for Britain, for example, about half the households in the top 10% or top 1% received some transfer, no higher than the corresponding figure for the top quarter. So, the very top is not distinctive in being more likely to have benefitted from a transfer – at least when ranking is by income. (The US is an exception in that respect with some increase in the proportion benefitting from receipt as we move from the top quarter to the top 10% and then top 1%, though even that increase is relatively modest.) In most countries, variation in the incidence of receipt across the income distribution is more pronounced for inheritances than it is for gifts, though for Britain there is also substantial variation for the latter.

[14] For this purpose, each household's income is adjusted to take the number of persons relying on it into account by 'equivalisation', taking economies of scale in living together (such as only needing one fridge or cooker) into account.

Table 5: The Incidence of Inheritance or Gift Receipt by Position in the Income Distribution

% receiving any	*UK*	*France*	*Germany*	*Ireland*	*Italy*	*Spain*	*US*
First Quartile	20.8	22.9	22.0	20.1	26.7	27.6	21.1
Second Quartile	29.1	29.3	23.2	21.2	29.8	27.7	14.0
Third Quartile	38.4	38.0	40.8	24.0	31.8	28.3	18.9
Fourth Quartile	50.3	50.5	44.4	31.6	38.7	31.6	23.2
Top Decile	51.3	54.5	51.8	38.3	41.3	33.2	27.9
Top 1%	49.3	63.3	47.3	43.9	40.2	52.2	30.5

So how do the amounts received by those reporting some transfer receipt vary across the income distribution? Figure 9 shows that for Britain, the pattern is again rather straightforward: the average amount received also rises consistently with income. The variation across the quartiles (quarters) of the distribution is however relatively limited, with the bottom quarter receiving 70% of the overall average receipt while the top quartile receives 130% of that figure. The pattern across the quartiles is less consistent for other countries, with the US for example having a relatively large average receipt for those in the bottom quarter. Where average amounts received really diverge from the average, though, is at the very top in Britain, Spain and the US, and to a lesser extent in France. Britain is the outlier in this respect, with the top 1% receiving amounts that on average are 6.4 times the overall average receipt (whereas the corresponding multiple for the top 10% is under 2). The top 1% also receives larger amounts than the top 10% in Germany, Ireland and Italy, but the gap is not nearly as large.

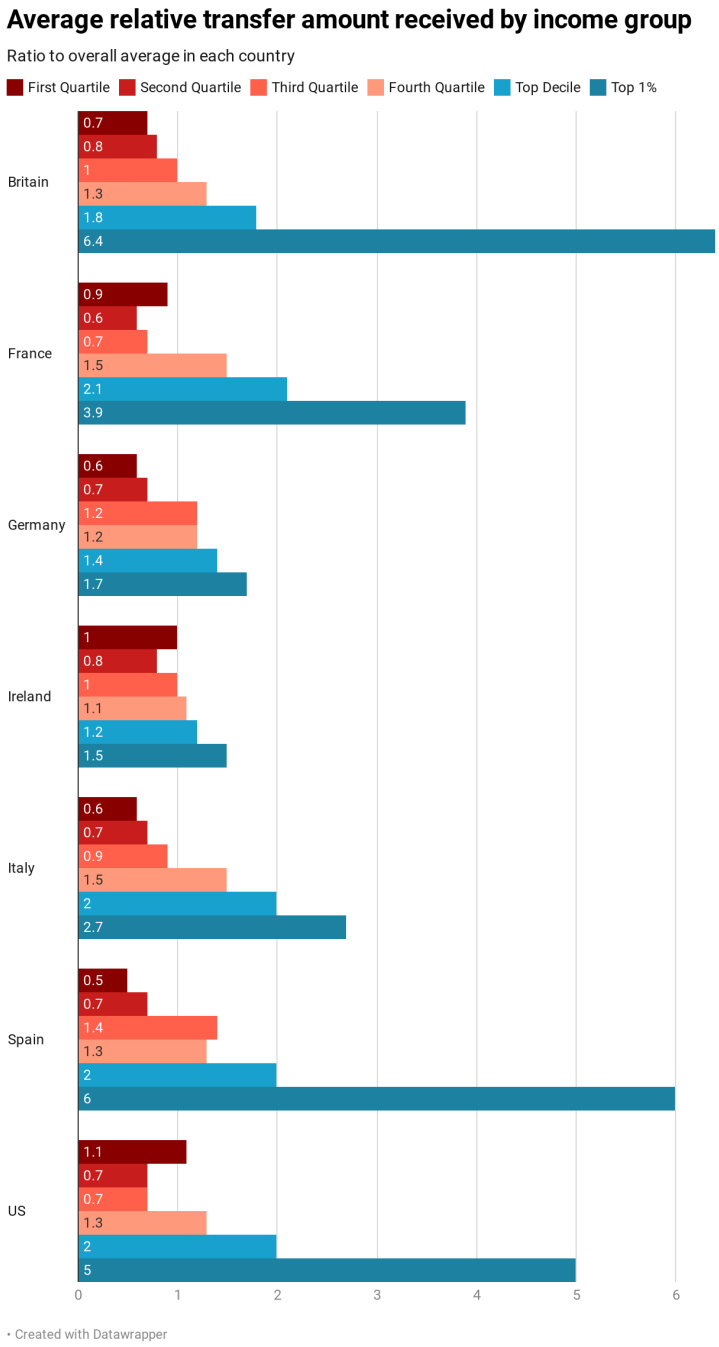

Figure 9. Average amount (relative to overall mean) of the intergenerational transfer received by each income group

Figure 10 shows how the total amounts received are distributed across the income distribution, reflecting the combined effect of variation in the proportion receiving and in their average receipt. Households in the top quartile in Britain received about 46% of total transfers, compared with 10% for the bottom quartile. This is a wider gap than in some other countries, notably the US where the corresponding figures are 40% and 20%, though similar to Germany and Italy. Over one-quarter of total transfers received went to the top 10% in

Britain, more than in some of the other countries but less than France or the USA. While those in the top 1% of the income distribution are more likely than others to have received some transfers and in relatively large amounts, they received less than 10% of the total amount transferred in Britain, France and the US, and much less than that in Germany, Ireland and Italy.

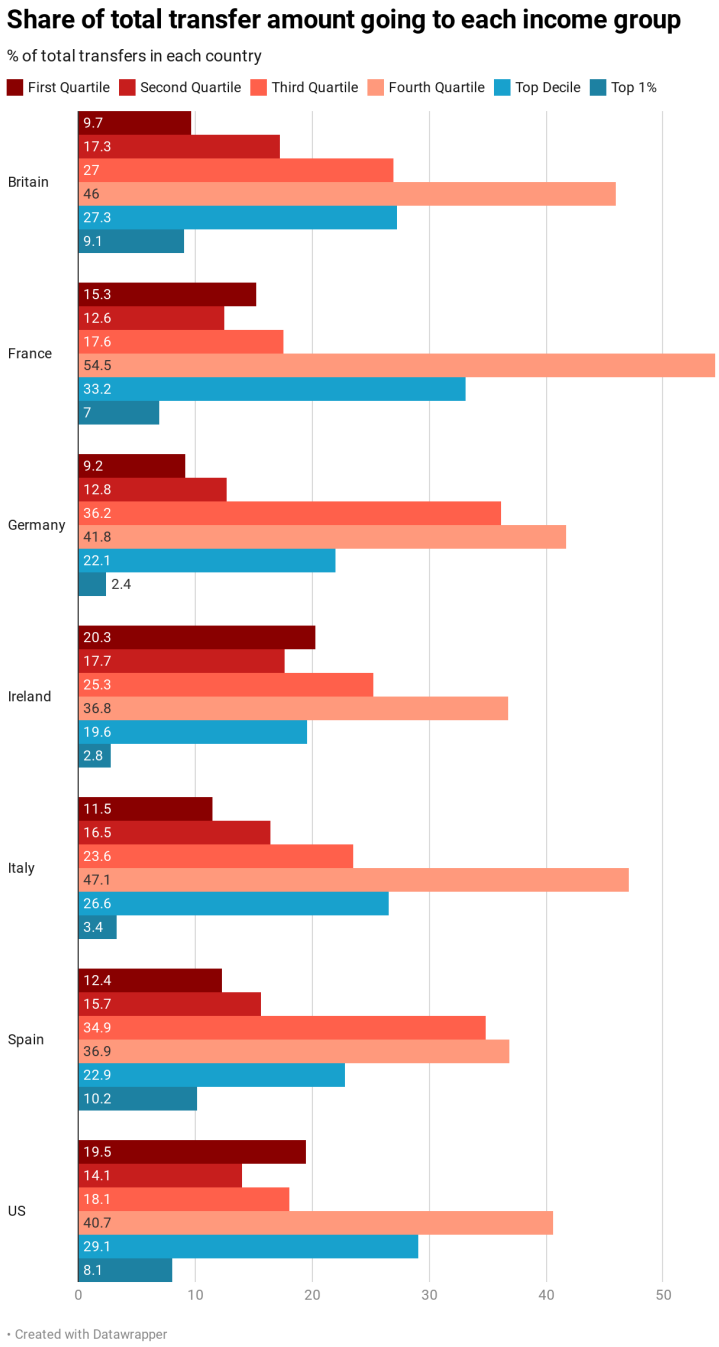

Figure 10. Share of the total value of intergenerational transfers going to each income group

This distributional pattern could be significantly driven by the fact that both transfers received and earnings are relatively low at younger ages. To probe this, Figures 11 and 12

present the corresponding picture for households with a 'reference person' aged 50 or over only (ranking households by their income position relative to others in that age range). For Britain, the share going to the top quartile and decile is higher so the distribution is slightly more unequal, but the overall shape is little different. For most of the other countries there is even less difference between the distribution of transfers for those aged 50+ and the overall sample. So, the unequal way in which transfers are spread across the income distribution is not simply an 'age effect', but instead primarily reflects what is seen within age groups.

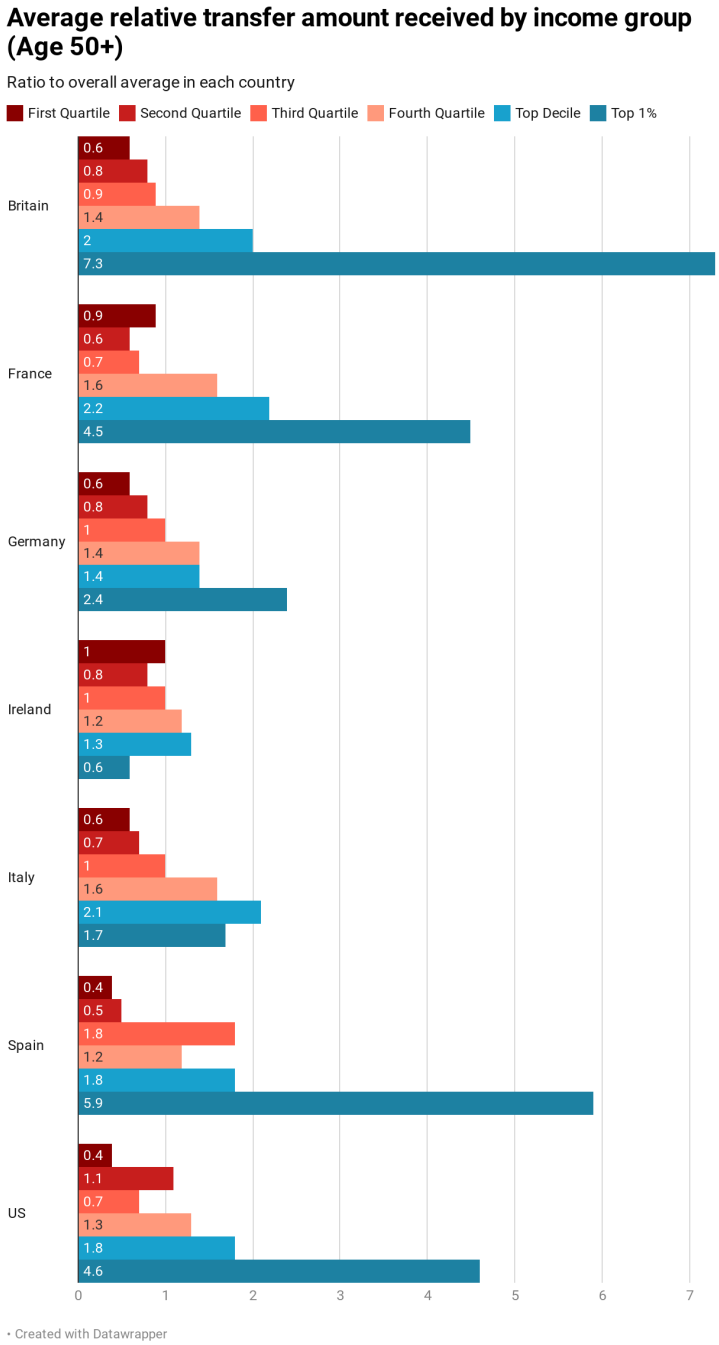

Figure 11. Average amount (relative to overall mean) of the intergenerational transfer received by each income group, households with head aged 50+ only

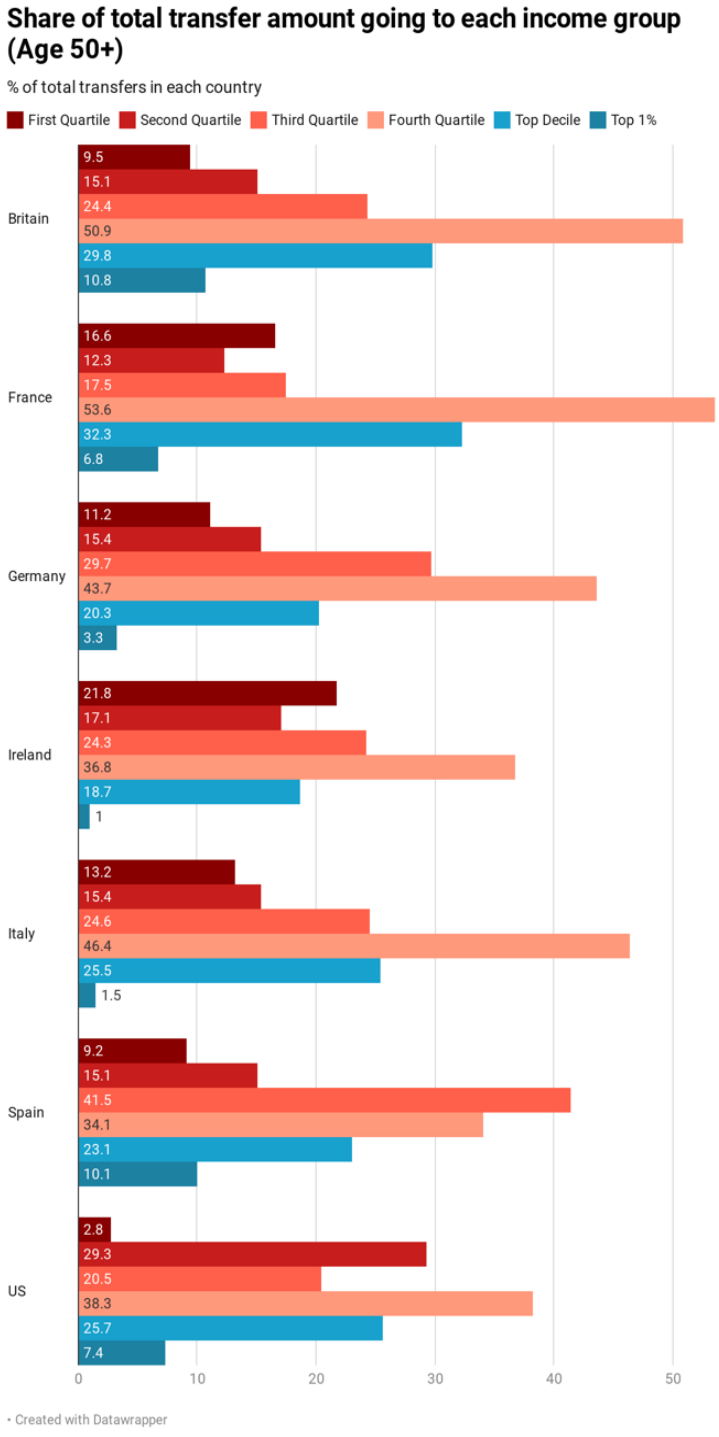

Figure 12. Share of the total value of intergenerational transfers going to each income group, households with head aged 50+ only

5.5 Transfer Receipt by Current Wealth

The final element of the descriptive picture we provide is the pattern of intergenerational transfer receipt by position in the wealth rather than the income distribution. For this purpose, we rank households by their net worth using the wealth measure described earlier, which is total household assets excluding public and occupational pensions minus total outstanding liabilities. Table 6 then shows that for Britain, 56% of those in the top quartile of the wealth distribution report having received an inheritance or gift, compared with 15% of those in the bottom decile. This is a wider gap than was seen by position in the income distribution in the previous section, though not dramatically so. Compared with the other rich countries, the British figure for the top quartile is quite high (though not as high as France where two-thirds received a transfer), but the figure for the bottom quartile is also relatively high so the gap between them is not an outlier.

Table 6: The Incidence of Inheritance or Gift Receipt by Position in the Wealth Distribution

	UK	*France*	*Germany*	*Ireland*	*Italy*	*Spain*	*US*
	%	*%*	*%*	*%*	*%*	*%*	*%*
First Quartile	14.9	11.7	6.4	6.6	3.4	14.9	5.7
Second Quartile	29.4	28.5	21.0	15.2	34.6	24.6	11.6
Third Quartile	38.2	41.6	40.9	25.8	39.4	31.1	23.0
Fourth Quartile	56.1	58.8	61.8	49.5	49.2	44.5	35.9
Top Decile	62.4	67.8	62.7	56.7	54.7	51.9	42.8
Top 1%	63.3	71.5	69.7	62.7	53.9	60.5	39.2

About 63% of those in the top 1% of the British wealth distribution received an inheritance or gift receipt, not much more than the corresponding figure for the top quartile. The striking feature in that respect is that more than one-third of those at the very top reported no inheritance or gift receipt. This is not markedly different across the other countries except for the US, where 39% of the top 1% had some intergenerational transfer but 61% did not. This reflects the fact that the overall percentage of US households receiving transfers is a good deal lower than elsewhere, but this is particularly pronounced towards the top of the wealth distribution.

Turning to amounts received, Figure 13 shows how the average amount received varies by position in the wealth distribution, again expressed as a ratio to the overall average receipt. The corresponding multiple for Britain, at 7, is not distinctively high or low.

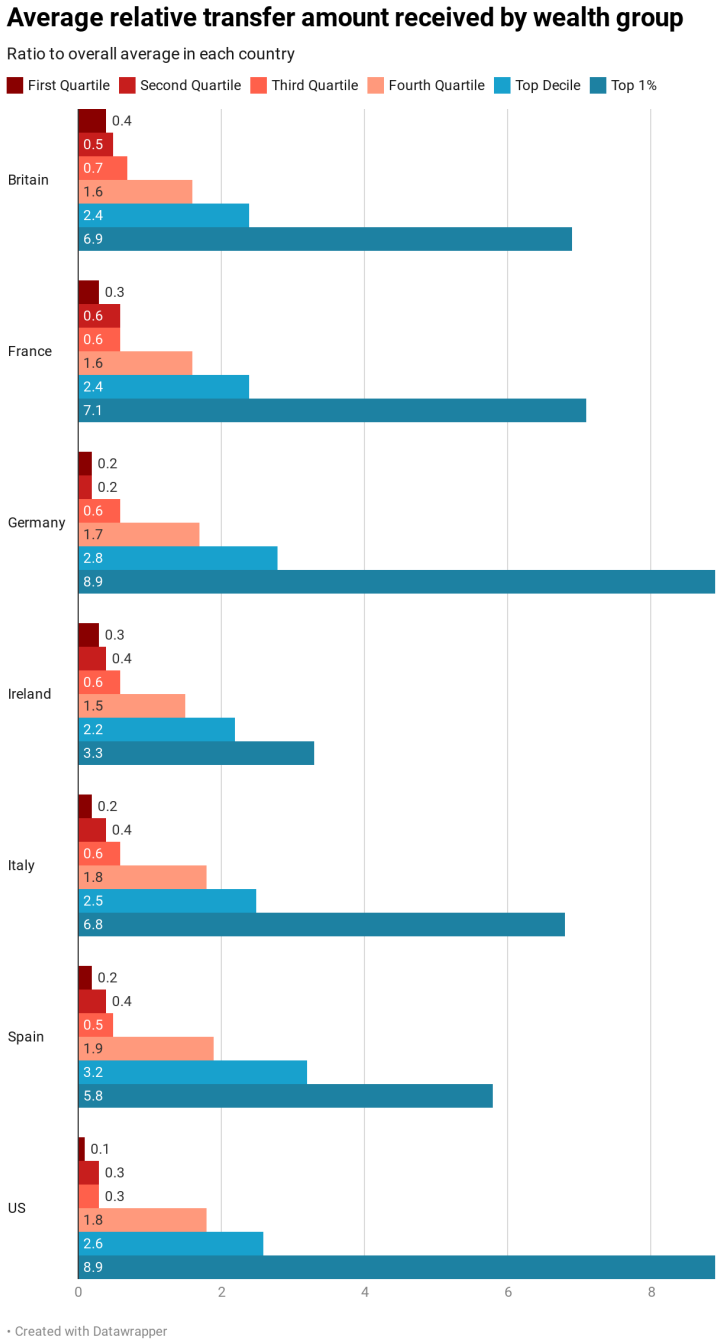

Figure 13. Average amount (relative to overall mean) of intergenerational transfer received by each wealth group

Figure 14 shows how the total amounts reported as transfers are distributed across the wealth distribution, reflecting the combined effects of varying incidence and average receipts. For Britain, households in the top quartile received about two-thirds of the total amount received;

this is lower than the corresponding figure for most of the other countries, notably the US. The bottom one-quarter, by contrast, received less than 5% of the total. That is actually higher than the share going to the bottom quarter in the other countries, which is 1% or below in Germany, Italy and the US. Households at the very top, in the top 1%, received about 13% of the total amount transferred in Britain, compared with 18% in Germany and the US. This exceptionally high degree of concentration in Germany and the US is not because more of the transfer recipients are located there, but by the size of the amounts they received.

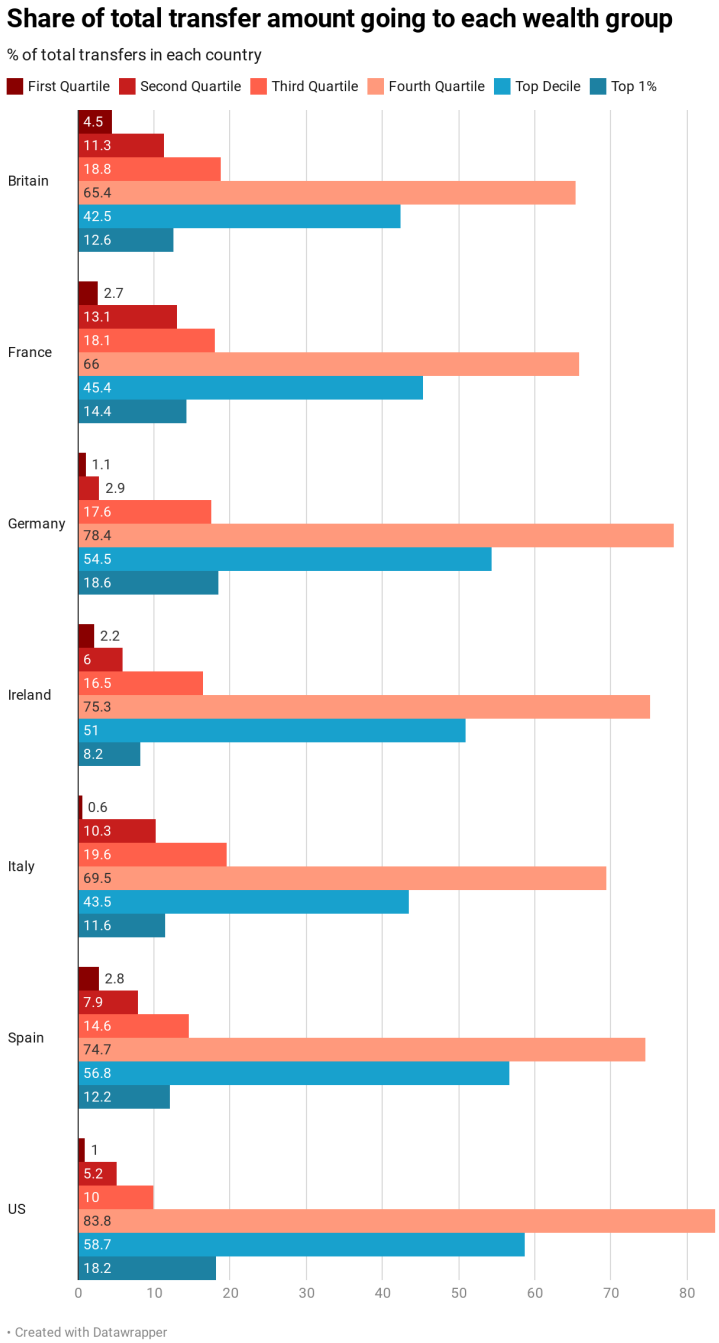

Figure 14. Share of the total value of intergenerational transfers going to each wealth group

Finally, we want to assess whether the observed pattern of transfer receipt is primarily driven by the fact that both transfer receipt and wealth distribution are systematically related to age. We therefore focus on the sub-set of households with a reference person aged 50 or over. Figure 15 shows the average transfer receipt for recipients in each wealth category relative to the overall average. Once again, the most striking feature is the very large amounts going to those right at the top of the distribution. It is also interesting, though, that recipients in the bottom quartile no longer have the lowest average levels in several countries, including Britain.

Figure 16 shows the corresponding distribution of the total amount of transfers across the wealth distribution when we focus only on households where the reference person is aged 50 or more. The patterns seen are very similar to the overall population, the most marked difference being that households in the bottom quarter receive somewhat more of the total – though still only 9% in the case of Britain and 5% for the US. The share going toward the top is little different for Britain; for Germany and the US it is lower than we saw for all households, though still exceptionally high in the latter. Once again, though, as with income the main message is the distribution of transfers we observe across the wealth distribution is not primarily driven simply by differences across the age distribution in wealth holdings and transfer receipt.

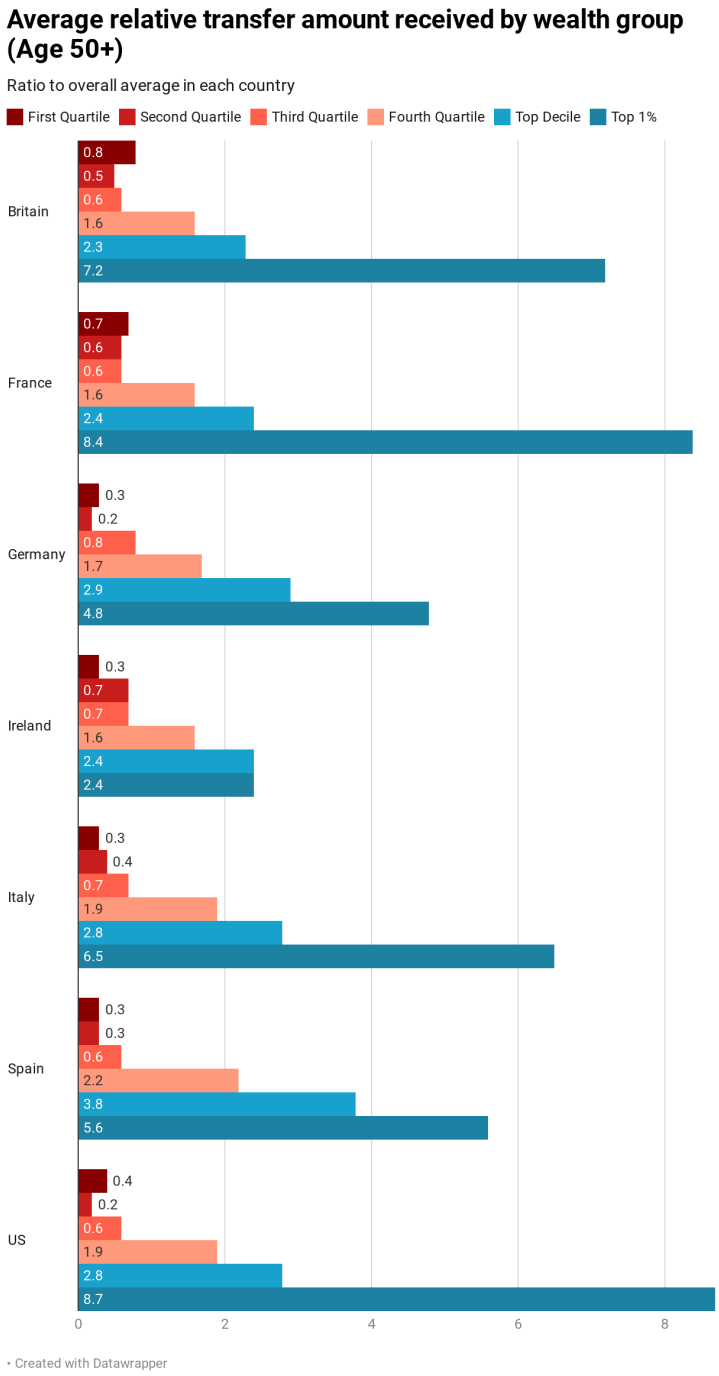

Figure 15. Average amount (relative to overall mean) of intergenerational transfer received by each wealth group, households with head aged 50+ only

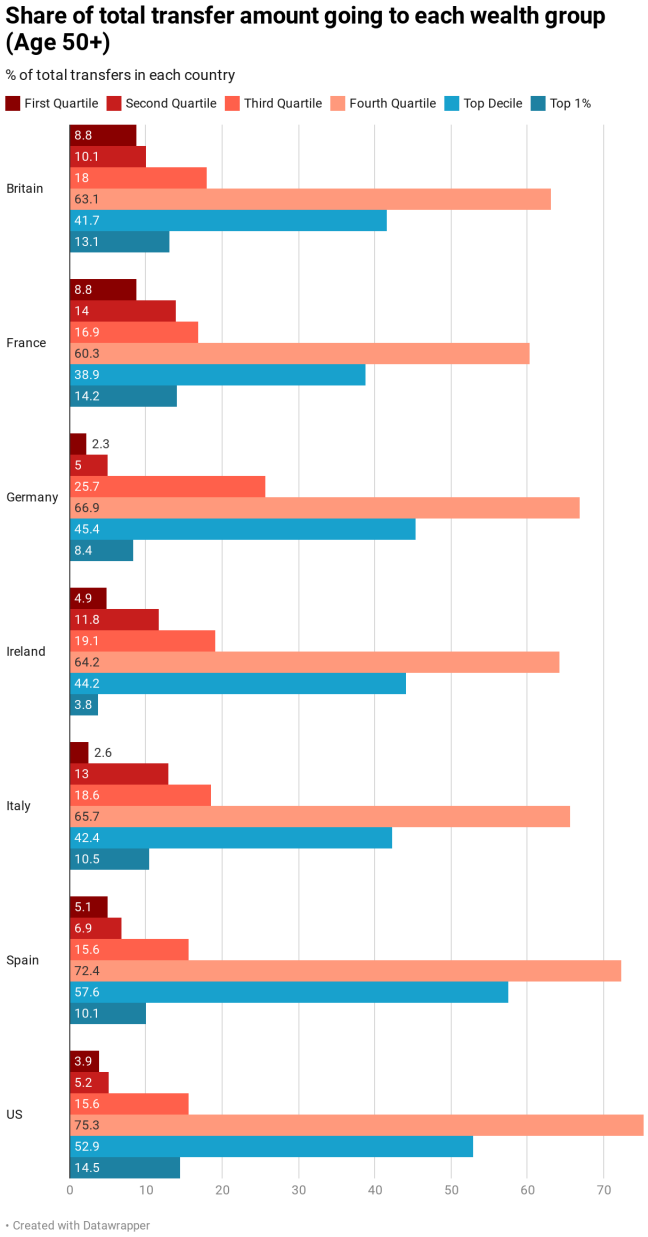

Figure 16. Share of the total value of intergenerational transfers going to each wealth group, households with head aged 50+ only

5.6 Conclusions

This section has presented a descriptive picture of patterns of receipt of inheritances and gifts *inter vivos* in Britain and other rich countries. About 35% of British households were seen to have received an intergenerational wealth transfer at some point, similar to France, Germany and Italy, somewhat higher than Spain and Ireland, and much higher than the US. Britain had the highest level of reported receipt of inheritances at 30% compared with only 17% in the US. Britain had an intermediate level of receipt of substantial intergenerational

gifts at 8%, again much higher than 2% for the US; had the WAS observation window been longer that British figure would have been somewhat higher.

In common currency terms, the median amount received in transfers for Britain was similar to the corresponding figures for France and the US and lower than the other countries covered. For Britain the average amount received was 3.4 times the median, and that indicator of inequality in transfer amounts among recipients was higher than some of the other countries but lower than France and the US.

For Britain, 90% or more of the total wealth transferred was through inheritance rather than gifts, similar to the US, whereas for France and Germany about one-third of total transfers were via gifts. Measured transfers represented about one-fifth of the current (net) wealth stock for Britain, less than the other European countries but more than the US. The factors underlying this variation merit further investigation, including in-depth comparison of the survey-based data with external information for each country.

Some transfer receipt was quite common across the entire age (when surveyed) distribution, but Britain was distinctive in the relatively high proportion of younger respondents reporting receipt (which is much rarer in the US). Younger respondents received much lower amounts on average than older ones so only about 5% of the total transferred went to those under 35, still higher than other countries. Those aged over 65 had lower average receipts than those aged 65-64 or over for Britain but not most of the other countries, for reasons that could perhaps be related to house price trends.

About half the households in the top quarter of the income distribution in Britain reported having received some transfer, compared with 21% for the bottom quarter. The average amount received rose consistently with income, but the really marked divergence was at the very top, and this was particularly marked for Britain where recipients in the top 1% received more than 6 times the overall average.

Ranked by position in the wealth distribution, 56% of those in the top quarter received an inheritance or gift in Britain compared with 15% of those in the bottom quarter, the latter being relatively high compared with Germany or the US. More than one-third of those at the very top of the wealth distribution in Britain had not received any inheritance or gift, a figure

that was considerably higher in the US. British households in the top quarter received about two-thirds of the total amount transferred, while the bottom one-quarter received less than 5%, which was still higher than other countries.

6. Characteristics and Receipt of Intergenerational Transfers

6.1 Introduction

Given that not all individuals receive wealth transfers, and that the size of any transfer differs substantially among those who do, the characteristics of those who receive transfers and of those who receive larger transfers are of major interest. The study of Britain by Crawford and Hood (2016), for example, using data for older recipients only (from ELSA) found that those with higher levels of education and higher levels of household income were more likely to receive an inheritance, and on average receive a larger inheritance; this was not the case to any great extent for gifts.

To deepen our understanding of who receives intergenerational transfers and how the amounts received vary, we now move beyond the patterns presented in the previous section, where the relationship with one household characteristic at a time was examined, by employing statistical methods which allow a range of characteristics and their inter-relationships to be incorporated into the analysis. We first investigate the characteristics associated with whether the household has received any transfers, irrespective of size, and then assess, among recipients only, which characteristics are associated with receiving larger versus smaller amounts. We then highlight the main findings across both sets of analyses.

6.2 Who Receives Intergenerational Transfers?

The standard regression-based approach to this type of analysis, which we follow here, is to first examine the characteristics associated with whether the household has received any transfers, irrespective of size, by estimating a logit regression for the probability of receipt (e.g. Crawford and Hood, 2016). We carried out such an analysis of intergenerational transfer receipt for Britain and our other six rich countries, employing the same datasets and constructed variables underpinning the descriptive picture presented in the previous section.

Table 7 presents the results of this part of the analysis. We see that in all countries current age is a major factor in predicting whether some transfer has been received, with households where the reference person is aged 40 or over more likely to have received a transfer than

younger households, and correspondingly higher effects for those aged 50-59 and 60 or over. The steepness of this age effect is particularly marked in France, Ireland and the US, and is less pronounced in Britain than elsewhere. Households where the reference person is aged 60 or over were 15% more likely to have received a transfer than those where he or she was under 40, compared with over 20% for Germany, Italy and Spain and over 30% for France, Ireland and the US. Households with a male reference person are also significantly more likely to have received a transfer in Britain and France, but there is little or no such difference elsewhere.

Those with higher levels of education are more likely to have received an inheritance or gift in most countries, with Spain the notable exception. The relative advantage of those with tertiary education in this respect is more marked in Britain, France, Germany and the US and relatively modest for Ireland and Italy. For Britain, someone with a third-level qualification was 28% more likely to have received some intergenerational transfer than someone with only lower secondary education, controlling for age and gender. This compares with 26% for France and Germany, 22% for the US, 15% for Ireland and 13% for Italy.

So, in comparative terms Britain is distinctive in the more limited (though still marked) relationship of transfer receipt with age, in the fact that gender (at household level) plays some role, and in the extent to which educational attainment is associated with receipt of inheritance or gifts.

Table 7: Regression Analysis of Receipt of Inheritances and Gifts

	Britain			
	Estimate	**Pr(>|t|)**	**Odds (% increase)**	**Prob (% increase)**
Intercept	-1.725	0.000		
Age 40s	0.051	0.493	5.2	**1.3**
Age 50s	0.404	0.000	49.8	**10.0**
Age 60s or over	0.627	0.000	87.3	**15.2**
Male Head/Reference Person	0.216	0.000	24.1	**5.4**
Higher Secondary Education	0.609	0.000	83.8	**14.8**
Tertiary Education	1.292	0.000	263.9	**28.4**
	France			
	Estimate	**Pr(>|t|)**	**Odds (% increase)**	**Prob (% increase)**
Intercept	-2.117	0.000		
Age 40s	0.578	0.000	78.3	**14.1**
Age 50s	1.144	0.000	214.0	**25.8**
Age 60s or over	1.505	0.000	350.5	**31.8**
Male Head/Reference Person	0.236	0.000	26.7	**5.9**
Higher Secondary Education	0.492	0.000	63.6	**12.1**
Tertiary Education	1.174	0.000	223.5	**26.4**
	Germany			
	Estimate	**Pr(>|t|)**	**Odds (% increase)**	**Prob (% increase)**
(Intercept)	-2.095	0.000		
Age 40s	0.905	0.000	147.1	**21.2**
Age 50s	1.009	0.000	174.2	**23.3**
Age 60s or over	0.991	0.000	169.5	**22.9**
Male Head	-0.014	0.902	-1.3	-0.3
Higher Secondary Edu	0.483	0.007	62.1	**11.8**
Tertiary Edu	1.139	0.000	212.4	**25.8**
	Ireland			
	Estimate	**Pr(>|t|)**	**Odds (% increase)**	**Prob (% increase)**
Intercept	-2.647	0.000		
Age 40s	0.960	0.000	161.2	**22.3**
Age 50s	1.457	0.000	329.4	**31.1**
Age 60s or over	1.827	0.000	521.7	**36.1**
Male Head/Reference Person	0.124	0.096	13.2	3.1
Higher Secondary Education	0.359	0.000	43.2	**8.9**
Tertiary Education	0.625	0.000	86.8	**15.1**

	Italy			
	Estimate	**Pr(>|t|)**	**Odds (% increase)**	**Prob (% increase)**
Intercept	-1.680	0.000		
Age 40s	0.579	0.000	78.4	**14.1**
Age 50s	0.935	0.000	154.7	**21.8**
Age 60s or over	0.995	0.000	170.5	**23.0**
Male Head/Reference Person	0.017	0.791	1.7	0.4
Higher Secondary Education	0.184	0.011	20.2	**4.6**
Tertiary Education	0.530	0.000	70.0	**13.0**
	Spain			
	Estimate	**Pr(>|t|)**	**Odds (% increase)**	**Prob (% increase)**
Intercept	-1.583	0.000		
Age 40s	0.304	0.091	35.5	**7.5**
Age 50s	1.091	0.000	197.6	**24.8**
Age 60s or over	0.888	0.000	143.1	**20.9**
Male Head/Reference Person	0.179	0.068	19.6	4.5
Higher Secondary Education	-0.324	0.023	-27.7	**-8.0**
Tertiary Education	0.117	0.365	12.4	2.9
	US			
	Estimate	**Pr(>|t|)**	**Odds (% increase)**	**Prob (% increase)**
Intercept	-2.847	0.000		
Age 40s	0.613	0.000	84.6	**14.9**
Age 50s	1.177	0.000	224.6	**26.4**
Age 60s or over	1.584	0.000	387.7	**33.0**
Male Head/Reference Person	-0.067	0.374	-6.5	-1.7
Higher Secondary Education	0.741	0.000	109.8	**17.7**
Tertiary Education	0.922	0.000	151.4	**21.5**

Note: Probabilities in red are statistically significant from zero at the 1% level; those in blue are significant at the 5% level.

6.2 Who Receives Large vs Small Intergenerational Transfers?

To probe the characteristics associated with the varying size of transfers received, we again follow standard practice by estimating a linear regression for those who did received some transfer with the value of that receipt (in log form) as dependent variable. Table 8 shows that, among those receiving, the amount received in total via inheritance or gifts tends to be higher for those who are currently older, though this is relatively limited in the cases of Italy

and Spain. For Britain, France and the US the relationship with age is relatively strong. Having a male household reference person generally makes little difference to the expected size of transfers received.

Having third-level education is associated with marked increases in the predicted size of transfer for most countries, though not Ireland. For Britain, a household where the reference person has tertiary education would be expected to have received 68% more on average than one where he or she has only lower secondary education. That is more than in Germany, Italy or Spain, though much less than in France (121%) and the US (183%). Having a higher rather than lower second-level qualification also makes a difference, with the size of this gap on average not being distinctive for Britain but particularly large in the US.

Table 8: Regression Analysis of Size of Transfers via Inheritances and Gifts

	Britain			
	Estimate	**Pr(>|t|)**	**Est. Exp.**	**% Impact per unit**
Intercept	10.123	0.000	24921	
Age (each year over 40)	0.024	0.000	1.025	**2.5**
Male Head	-0.034	0.518	0.966	-3.4
Higher Secondary Education	0.224	0.000	1.251	**25.1**
Tertiary Education	0.517	0.000	1.677	**67.7**
Gender-Age Interaction	0.004	0.074	1.004	0.4
	France			
	Estimate	**Pr(>|t|)**	**Est. Exp.**	**% Impact per unit**
Intercept	10.235	0.000	27873	
Age (each year over 40)	0.024	0.000	1.024	**2.4**
Male Head	0.062	0.251	1.064	6.4
Higher Secondary Education	0.329	0.000	1.390	**39.0**
Tertiary Education	0.793	0.000	2.210	**121.0**
Gender-Age Interaction	0.004	0.107	1.004	0.4
	Germany			
	Estimate	**Pr(>|t|)**	**Est. Exp.**	**% Impact per unit**
Intercept	10.859	0.000	51990	
Age (each year over 40)	0.015	0.000	1.015	**1.5**
Male Head	0.197	0.058	1.217	21.7
Higher Secondary Education	0.158	0.258	1.171	17.1
Tertiary Education	0.479	0.001	1.615	**61.5**
Gender-Age Interaction	-0.004	0.392	0.996	-0.4

	Ireland			
	Estimate	**Pr(>|t|)**	**Est. Exp.**	**% Impact per unit**
Intercept	11.326	0.000	82955	
Age (each year over 40)	0.014	0.000	1.014	**1.4**
Male Head	0.143	0.166	1.154	15.4
Higher Secondary Education	0.100	0.293	1.106	10.6
Tertiary Education	-0.185	0.067	0.831	-16.9
Gender-Age Interaction	-0.008	0.115	0.992	-0.8

	Italy			
	Estimate	**Pr(>|t|)**	**Est. Exp.**	**% Impact per unit**
Intercept	11.703	0.000	120903	
Age (each year over 40)	0.006	0.005	1.006	0.6
Male Head	0.162	0.036	1.176	17.6
Higher Secondary Education	0.290	0.000	1.336	**33.6**
Tertiary Education	0.449	0.000	1.567	**56.7**
Gender-Age Interaction	-0.002	0.495	0.998	-0.2

	Spain			
	Estimate	**Pr(>|t|)**	**Est. Exp.**	**% Impact per unit**
Intercept	11.209	0.000	73819	
Age (each year over 40)	0.008	0.008	1.008	0.8
Male Head	-0.143	0.113	0.867	-13.3
Higher Secondary Education	0.274	0.003	1.316	31.6
Tertiary Education	0.320	0.000	1.377	**37.7**
Gender-Age Interaction	0.000	0.998	1.000	0.0

	US			
	Estimate	**Pr(>|t|)**	**Est. Exp.**	**% Impact per unit**
Intercept	10.385	0.000	32357	
Age (each year over 40)	0.020	0.000	1.020	**2.0**
Male Head	0.084	0.468	1.088	8.8
Higher Secondary Education	0.506	0.000	1.658	**65.8**
Tertiary Education	1.039	0.000	2.827	**182.7**
Gender-Age Interaction	-0.003	0.501	0.997	-0.3

Note: Probabilities in red are statistically significant from zero at the 1% level; those in blue at the 5% level.

6.4 Conclusions

The results presented in this section suggest that both receipt of wealth transfers and receiving larger amounts in transfers are strongly associated with education level for Britain, France and the US in particular. Higher levels of education are of course an indicator of social advantage more generally. This could be taken as suggesting that intergenerational wealth transfers are reinforcing other forms of economic advantage and may well increase wealth inequality. However, as we explore in the following sections, assessing the impact of such transfers on the accumulation of wealth and its distribution is a very complex question where the relationship of the transfers received to other forms of wealth, and the use to which those transfers are put, play a central role.

7. Intergenerational Transfers and the Generation of Household Wealth

7.1 Introduction

Having examined patterns of intergenerational transfer receipt across countries and which households are more likely to have received some versus none and larger versus smaller transfers, we now wish to examine the impact that receipt may have on the wealth of the recipients. This is a highly complex and contested topic, as noted in Section 2. In essence, even with a high degree of confidence in the survey-based figures for intergenerational transfers received and when they were received, knowing their impact on the household's current wealth level would require us to know much of that receipt was consumed rather than saved, what real return the amount saved generated, and how receipt affected the behaviour of household members in the labour market and with respect to other savings. Household wealth is affected by transfers through a variety of direct and indirect channels, and debates about how to estimate and incorporate these immediate and longer-term behaviours continue in the research literature.

Here, while highlighting these complexities, we employ several analytical approaches that provide some insights into the relationship we observe in the surveys between transfers and total household wealth, as well as the main components of wealth. To provide the context we first briefly describe the observed profiles of wealth in Britain and our comparator countries in terms of its different components. Against this background we investigate the differences between transfer recipients and non-recipients in average wealth and in its composition. To take other observed differences between these households into account we then estimate a regression model for the relationship between transfer receipt and wealth controlling for age, gender, education and household size and their interactions. We also estimate separate regression models to probe whether transfer receipt has a different impact on total net wealth for households where the reference person is male versus female and has differing levels of education. In addition to wealth levels, we are particularly interested in where households are located in the wealth distribution and how that relates to receipt of transfers. To probe this we employ quantile regression methods to capture the relationship between receipt/non-receipt of transfers, and receipt of a large versus small transfer, and the

household's percentile rank in the wealth distribution. Finally, we bring together the key messages from these different analyses.

7.2 The Composition of Household Wealth

Our measure of net wealth is consistent across countries and, as noted earlier, includes the total value of household assets minus the total value of liabilities. We distinguish three components: main residence wealth (the net value of the household's main residence), other real wealth (which includes real estate property other than the main residence, vehicles and valuables) and financial and business wealth (financial assets and value of businesses directly owned by the household).

We saw in Section 5 that the US has the highest average household net wealth, followed by Spain and Britain, with Germany lowest. Figure 17 (showing average amounts) and Figure 18 (showing shares in total wealth) bring out that the US is also distinctive in the composition of wealth, having a much higher share of financial wealth (over 54%) than other countries, with Britain and Germany having the next-highest shares at around one third. The value of the main residence is the main constituent of wealth in most countries, representing around half average wealth, but this is much lower in the US (26%). Britain has the lowest share for other real wealth (11%), which represents between 20% and 30% of average wealth in most of the other countries.

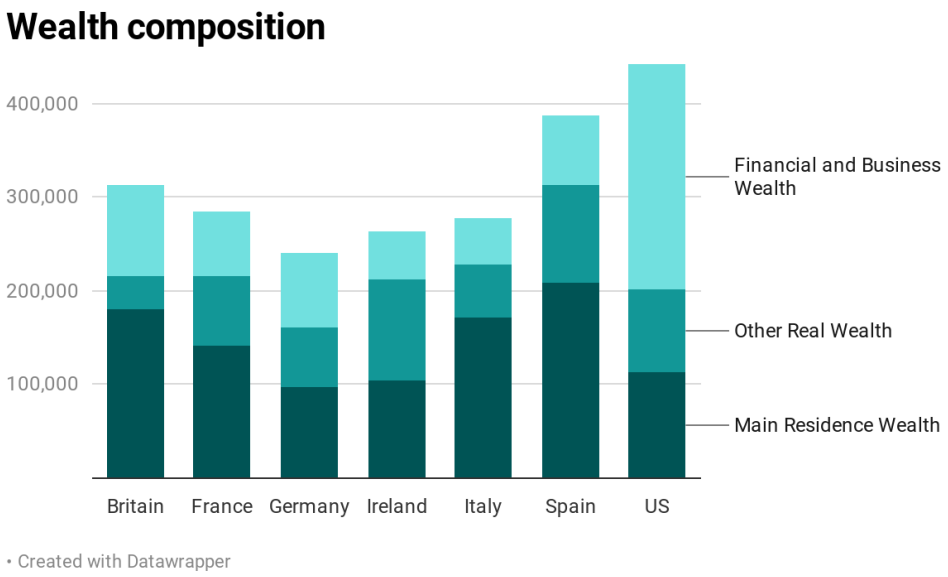

Figure 17. Average household net wealth by asset type in 2010 US$

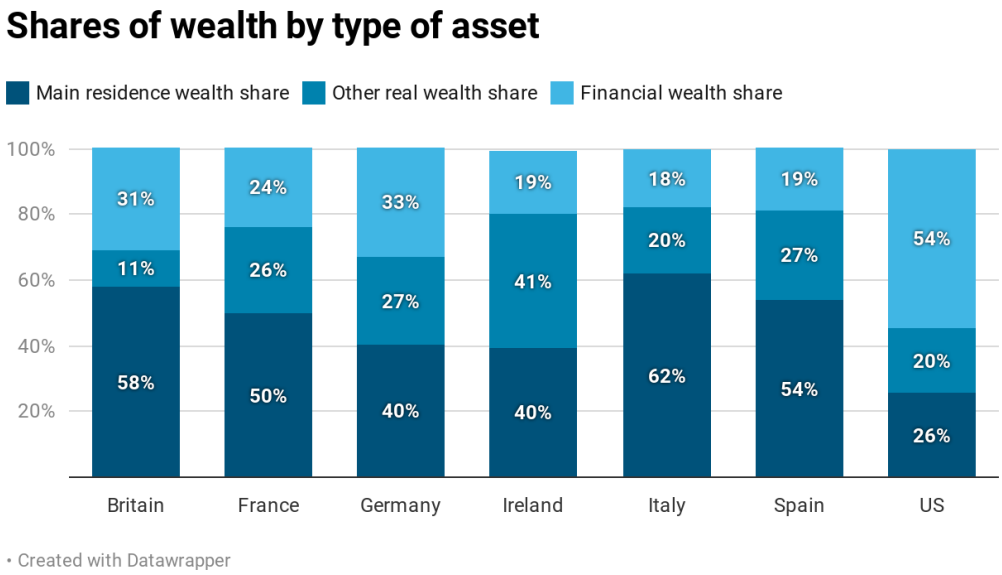

Figure 18. Share of household net wealth by type of asset

As well as their share in overall wealth, the percentage of households having each type of wealth is also an important aspect of the cross-country picture. Table 9 shows that in most countries almost all households have some kind of financial wealth, however modest (this includes bank accounts, credit union etc). There is more dispersion in other non-main residence real wealth (ranging from 100% in France to 74% in Germany). The percentage of households holding wealth in the form of a main residence ranges from 84% in Spain down to 44% in Germany, with the other countries between 60-70%.

Table 9. The Prevalence of Wealth Types (Percentage of households with each type)

	Percentage of households having each type						
	Britain	France	Germany	Ireland	Italy	Spain	US
	%	%	%	%	%	%	%
Main Residence	69	57	44	71	68	84	67
Other Real Wealth	79	100	74	92	95	83	88
Financial and Business Wealth	99	99	98	94	86	96	96

7.3 Household Wealth and Intergenerational Transfers

Investigating whether recipient households have different average wealth, and different wealth composition, to non-recipients provides a first indication of the relationship between

transfer receipt and wealth. We saw in Section 5 that 35% of British households received some such transfer, with that figure ranging from a low of 19% in the US to 36% in France. We compare the average wealth levels of households that did and did not benefit from receipt of an intergenerational transfer in Figure 19. We see that the average wealth of transfer recipients is much higher than that of non-recipients in all countries, with that gap being particularly wide in the US. For Britain, transfer recipients had average wealth of almost $500,000, compared with just above $200,00 for non-recipients.

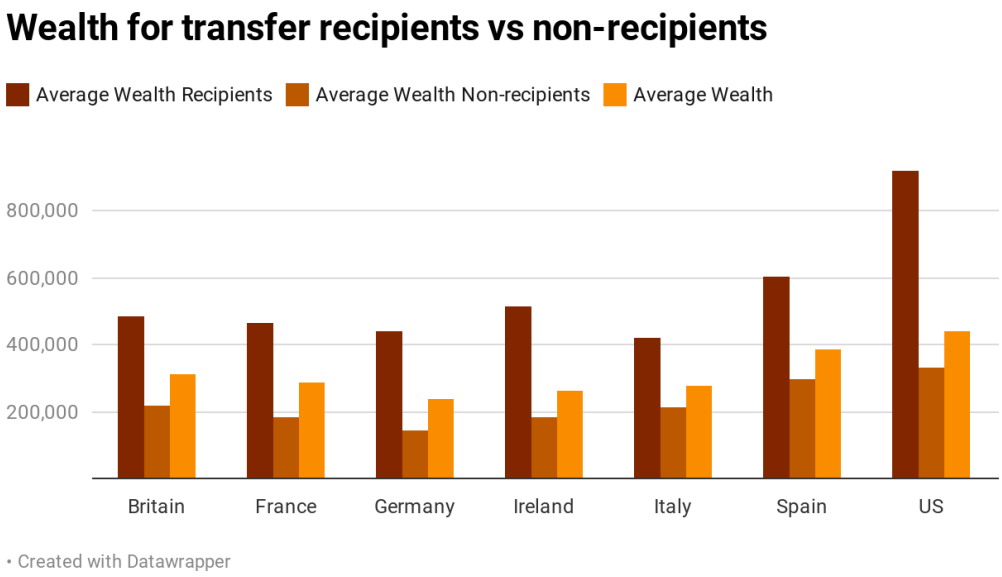

Figure 19. Average household net wealth by type of household by inheritance receipt in 2010 US$

Comparing the proportion of transfer recipients and non-recipients households that have each type of wealth in Table 10, the most marked differences are for main residence wealth. Fewer non-recipient households have this form of wealth in all countries, with the gap for Britain of more than 20 percentage points being fairly typical. That difference is widest for Germany with only 31% of non-recipients versus 74% of recipients having main residence wealth, whereas at the other end of the spectrum there is little difference in Spain. The difference between transfer recipients and non-recipients in the proportion with some other real wealth is less marked, and even smaller in the case of financial wealth.

Table 10. Share of Transfer Recipient and Non-recipient Households Having Each Wealth Type

	Share of recipient households having each type of wealth						
	Britain	France	Germany	Ireland	Italy	Spain	US
Transfer Recipients:	%	%	%	%	%	%	%
Main Residence	84	73	72	93	94	93	85
Other Real Wealth	90	100	88	96	97	90	94
Financial and Business Wealth	100	100	99	97	90	97	99
Non-Recipients:	%	%	%	%	%	%	%
Main Residence	60	48	31	64	56	80	62
Other Real Wealth	73	100	67	91	94	80	87
Financial and Business Wealth	99	99	97	93	84	95	95

7.3 Household Wealth and Transfer Receipt Controlling for Characteristics

These 'gross' comparisons between transfer recipients and non-recipients do not take into account that these households differ in a variety of other ways that also influence their wealth, such as age, gender, household size or educational levels. For example, households with an older head are more likely to have received a transfer but may also have higher wealth due to lifetime savings. We now take this into account by estimating the impact of transfer receipt on wealth and its constituents in a regression model controlling for age, gender, education and household size and their interactions. Transfer receipt is entered as a dummy variable in the model, irrespective of the amount received.[15] We will refer to the estimates from this regression as the 'impact' of transfer receipt for convenience, but this is not to be taken as representing a causal relationship.

[15] The actual equation specification is $W_i = \hat{\beta}T_i + \hat{\pi}S_i + \hat{\tau}E1_i + \hat{o}E2_i + \sum_{n=1}^{4}\hat{\lambda}_n {A_i}^n + \sum_{n=1}^{4}\widehat{\varpi}_n {Q_i}^n + \sum_{n=1}^{4}\hat{\varsigma}_n(S_i * A_i)^n + \sum_{n=1}^{2}\theta_n(Q_i * S_i)^n + \sum_{n=1}^{2}\zeta_n(E1_i * A_i)^n + \sum_{n=1}^{2}\varphi_n(E2_i * A_i)^n + \hat{\varepsilon}_i$, where T_i is the dummy stating if household i has received an intergenerational transfer, and β our coefficient of interest: the estimated impact on household net wealth W_i of that receipt. A_i, S_i, Q_i and E_i are controls for the head age and gender, household size and head education level, respectively. Interactions between the controls have also been included.

We see from Figure 20 that the net impact of transfer receipt on wealth estimated in this fashion is smaller than the gross difference that we observed between recipients and non-recipients. That gap is reduced by almost one-quarter for Britain, and by more than that for the US. Comparing net impacts across the countries, these are quite similar in common currency terms in most of the countries, but higher in the US than elsewhere.

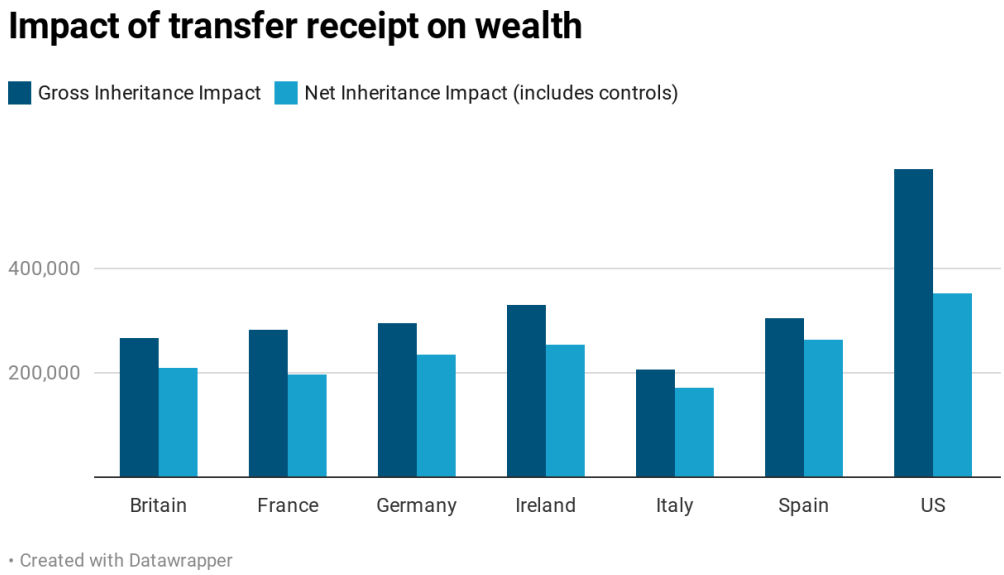

Figure 20. Gross recipients minus non-recipients' household net wealth difference vs net impact of intergenerational transfers on total household net wealth in 2010 US$.
(Controls include household size, age, gender and education of the household head)

By running separate regressions of the same form for each of the components of net wealth, we can decompose the overall effect into impacts on these different types of wealth. Figure 21 and Table 11 show that, controlling for households' characteristics, the difference in main residence wealth between the average recipient and not-recipient household is relatively high for Britain, accounting for over 40% of the total impact. This element is relatively modest in Ireland and Spain, whereas for Germany it is considerably larger.

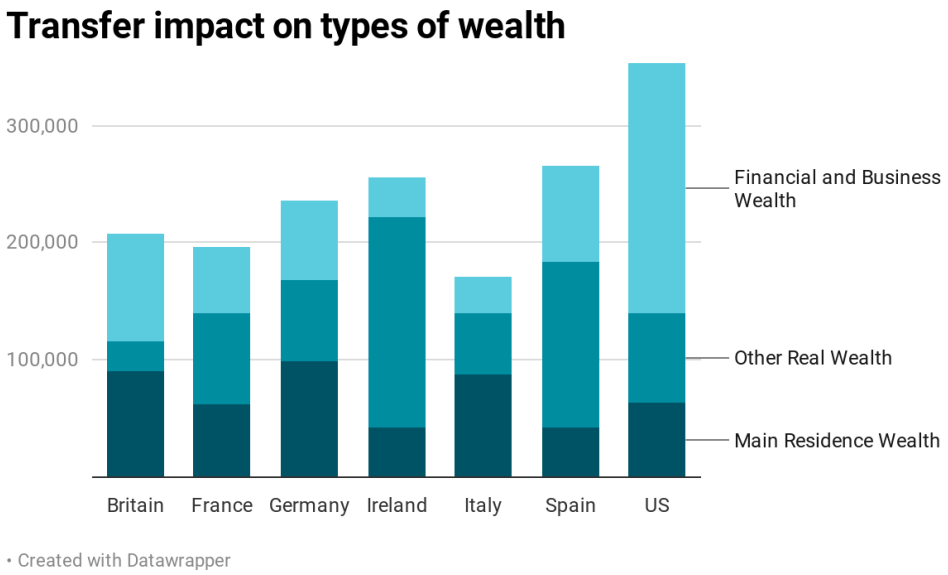

Figure 21. Net impact of intergenerational transfer on household net wealth by type of asset in 2010 US$

Table 11. The Net Impact of Transfer Receipt on Wealth by Type

	Net Impact on Wealth						
$	Britain	France	Germany	Ireland	Italy	Spain	US
Main Residence	90,431	62,567	98,735	42,519	87,735	41,785	64,030
Other Real Wealth	26,075	78,128	69,229	179,220	52,918	140,769	75,690
Financial and Business Wealth	92,364	56,566	68,247	33,937	30,409	81,893	213,391
Total	208,870	197,261	236,212	255,676	171,062	264,447	353,111

For other real wealth, the greatest impact is for Ireland followed by Spain and France. For Britain transfer receipt a relatively low impact on this type of wealth, representing only 12% of the average overall transfer impact. By contrast, the impact on financial and business wealth is particularly substantial for Britain, where this is as important as the main residence in underpinning the overall impact on wealth. It is even more important in the US, where on average financial wealth accounts for 60% of the overall estimated impact of receipt on wealth, much more than the main residence.

One might expect that the pattern of transfer impacts across the different wealth components would be broadly similar to the overall composition of wealth in each country, but the

comparison between Figure 22 and Figure 19 shows that in all countries except Germany the share of the impact of receipt on main residence wealth is less than the share of that wealth type in total wealth. This is especially marked in Ireland and Spain. In contrast, the contribution of other real wealth to the impact of transfer receipt is greater than its share in wealth in all countries, though for Britain, Germany and the US that difference is modest.

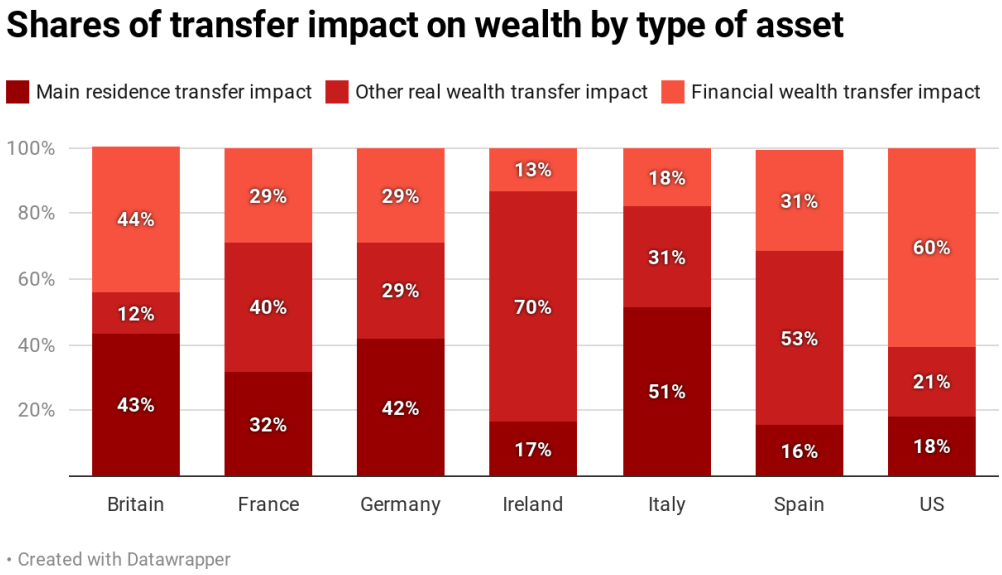

Figure 22. Share of transfer receipt impact on household net wealth by type of asset

It is in the importance of financial and business wealth in the impact of transfers that Britain stands out: 44% percent of the impact of transfer receipt is through this form of wealth there, compared to its 31% share in total wealth. In the US, 60% of inheritance impact is in the form of financial wealth, but this is not so different from the 54% average share of this form of wealth in households' portfolios there.

We also estimate separate regression models to probe whether transfer receipt has a measurably different impact on total net wealth for households where the reference person is male versus female, or has different levels of education.[16] Figure 23 shows that there is little difference in the predicted impact of transfer receipt between higher versus lower

[16] The specification is $W_i = \hat{\beta}T_i + \hat{\pi}S_i + \sum_{n=1}^{4}\hat{\lambda}_n {A_i}^n + \sum_{n=1}^{2}\hat{\varpi}_n {Q_i}^n + \sum_{n=1}^{4}\hat{\varsigma}_n(S_i * A_i)^n + \sum_{n=1}^{2}\theta_n(Q_i * S_i)^n + \varepsilon_i$, where T_i is the dummy stating if household i has received an intergenerational transfer, and β our coefficient of interest: the estimated impact on household net wealth W_i of that receipt. A_i, S_i and Q_i are controls for the head age and gender and household size, respectively, and interactions between the controls have also been included.

education levels for Britain, but there are marked differences for some other countries, notably Italy, Spain and the US.

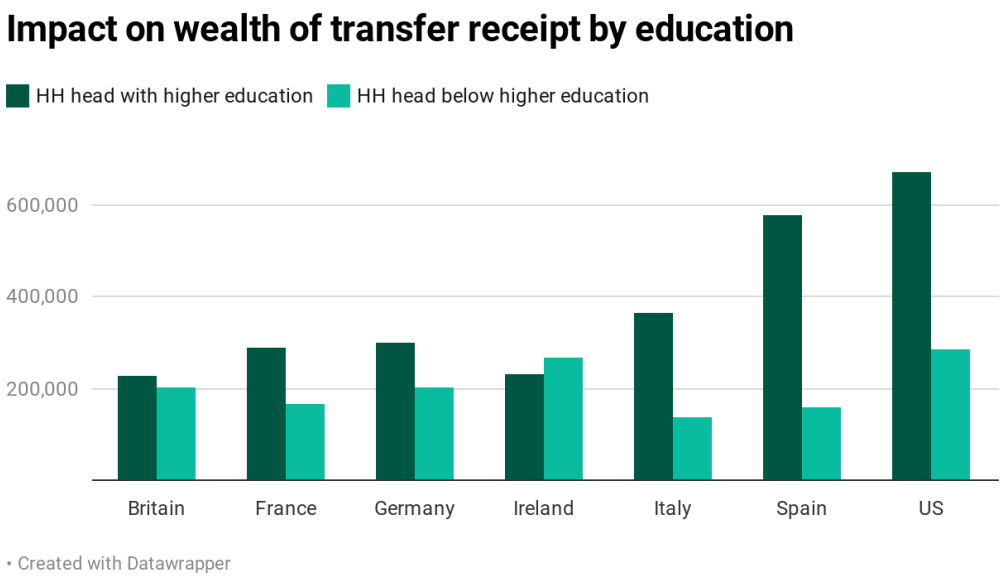

Figure 23. Impact of intergenerational transfer receipt on wealth by household head gender
(Coefficient on receipt in regression on household net wealth controlling for age and gender)

Figure 24 shows that the estimated impact of transfer receipt is consistently higher for households with a male rather than female reference person. The gap between them is at an intermediate level for Britain while being particularly pronounced for Spain and, especially, the US. [17] This could reflect differences in the types of asset these households are most likely to receive. It is notable that among recipient households, those with a male reference person have a higher share of financial and business wealth. This is especially true in the four countries - Britain, France, Spain and the US - with the highest gap between these households in the impact of transfer receipt on wealth.

[17] The actual equation specification is $W_i = \hat{\beta}T_i + \hat{\pi}S_i + \hat{\tau}E_{1_i} + \hat{o}E_{2_i} + \sum_{n=1}^{4}\hat{\lambda}_n {A_i}^n + \sum_{n=1}^{2}\widehat{\varpi}_n {Q_i}^n + \sum_{n=1}^{2}\zeta_n(E_{1_i} * A_i)^n + \sum_{n=1}^{2}\varphi_n(E_{2_i} * A_i)^n + \hat{\varepsilon}_i$, where T_i is the dummy stating if household i has received an intergenerational transfer, and β our coefficient of interest: the estimated impact on household net wealth W_i of that receipt. A_i, S_i, Q_i and E_i are controls for the head age and gender, household size and head education level, respectively. Interactions between the controls have also been included.

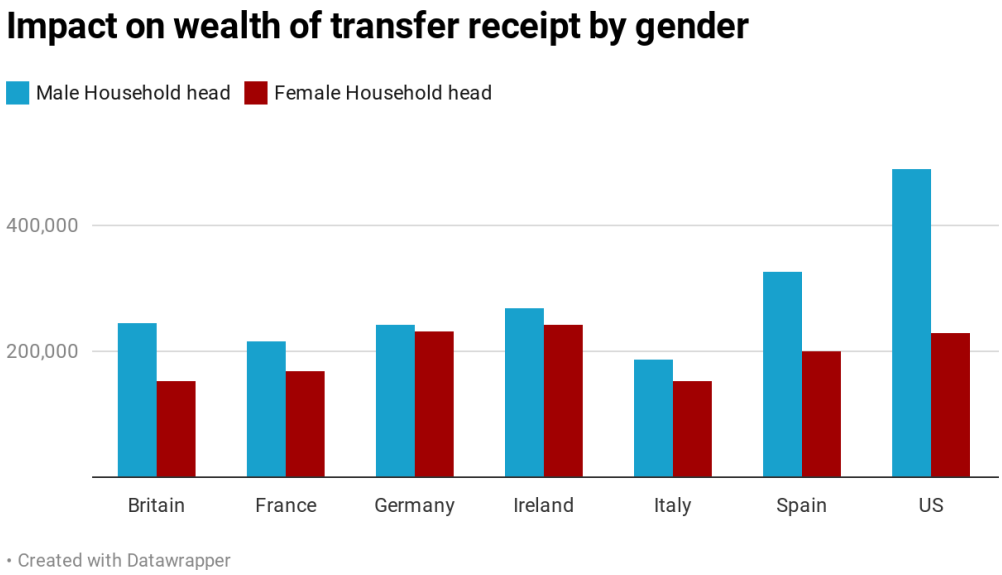

Figure 24. Impact of intergenerational transfer receipt on wealth by household head gender. (Coefficient on receipt in separate regressions on equivalent household net wealth for male and female headed households, controlling for head age, education and for household size)

7.4 The Impact of Intergenerational Transfers on Wealth Rankings

In addition to the impact of receipt of transfer receipt on the absolute wealth levels of beneficiaries, we are particularly interested in what effect they have on where a household ends up in the wealth distribution. This outcome is most conveniently captured by focusing on the percentile rank of the household in that distribution – whether they are for example at the 10th percentile, with only one-tenth of households below them, around the middle (the median), or at the 90th percentile with only one-tenth of households above them. The impact of simply receiving an inheritance or gift, or of receiving a large versus small intergenerational transfer, on that ranking can be estimated via quantile regression. In this instance we can again control for household characteristics, but to further ensure that the most marked age-related differences do not dominate we concentrate in this analysis on households where the reference person is aged 50 or over.

We look first at the distinction between those who received some intergenerational transfer, irrespective of amount, and those who did not. Figure 25 shows the results for Britain, while the corresponding results for other countries are in Figure 26. These illustrate the estimated

impact from the quantile regression of transfer receipt on wealth rank at different points in the distribution, together with the confidence intervals around those estimates. The pattern for Britain is fairly typical: receiving transfers has a considerable impact on the household's rank, they tend to move households higher up the wealth distribution. The median wealth rank of households who received a transfer is 25 percentage points higher than the median rank of households who did not receive any transfer. The inverted U shape of the curve shows that the benefit of receiving the transfer is however not uniform: the least and most wealthy from both groups still have very similar wealth ranks.

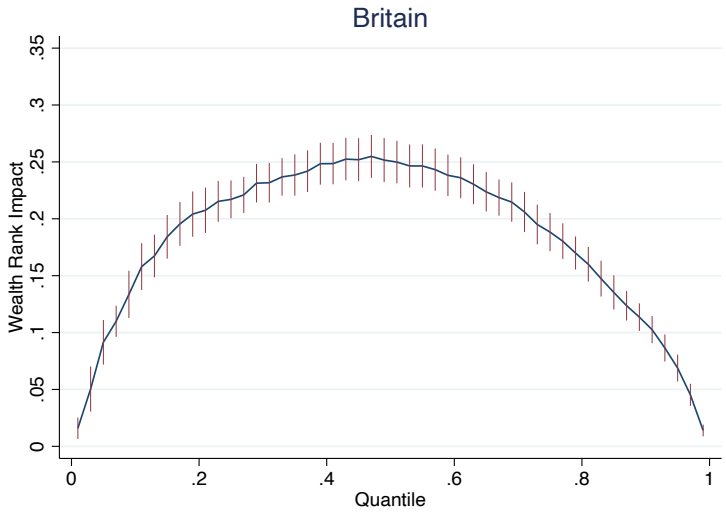

Figure 25. Impact of intergenerational transfer receipt on rank in the wealth distribution at different quantiles

(Coefficient on receipt in quantile regression with wealth rank as dependent variable, controlling for gender, age, household size and their interactions, confidence Intervals in red)

We see from Figure 26 that this inverted U-shape pattern is similar to that found for France, Ireland and the US, while it is more pronounced in Germany where transfer receipt seems to have a stronger impact in the wealth rank than elsewhere. Italy has the strongest impact at the lower part of the distribution, while Spain presents a flatter shape, with the smallest impact of all countries of around 10 percentiles along most of the distribution.

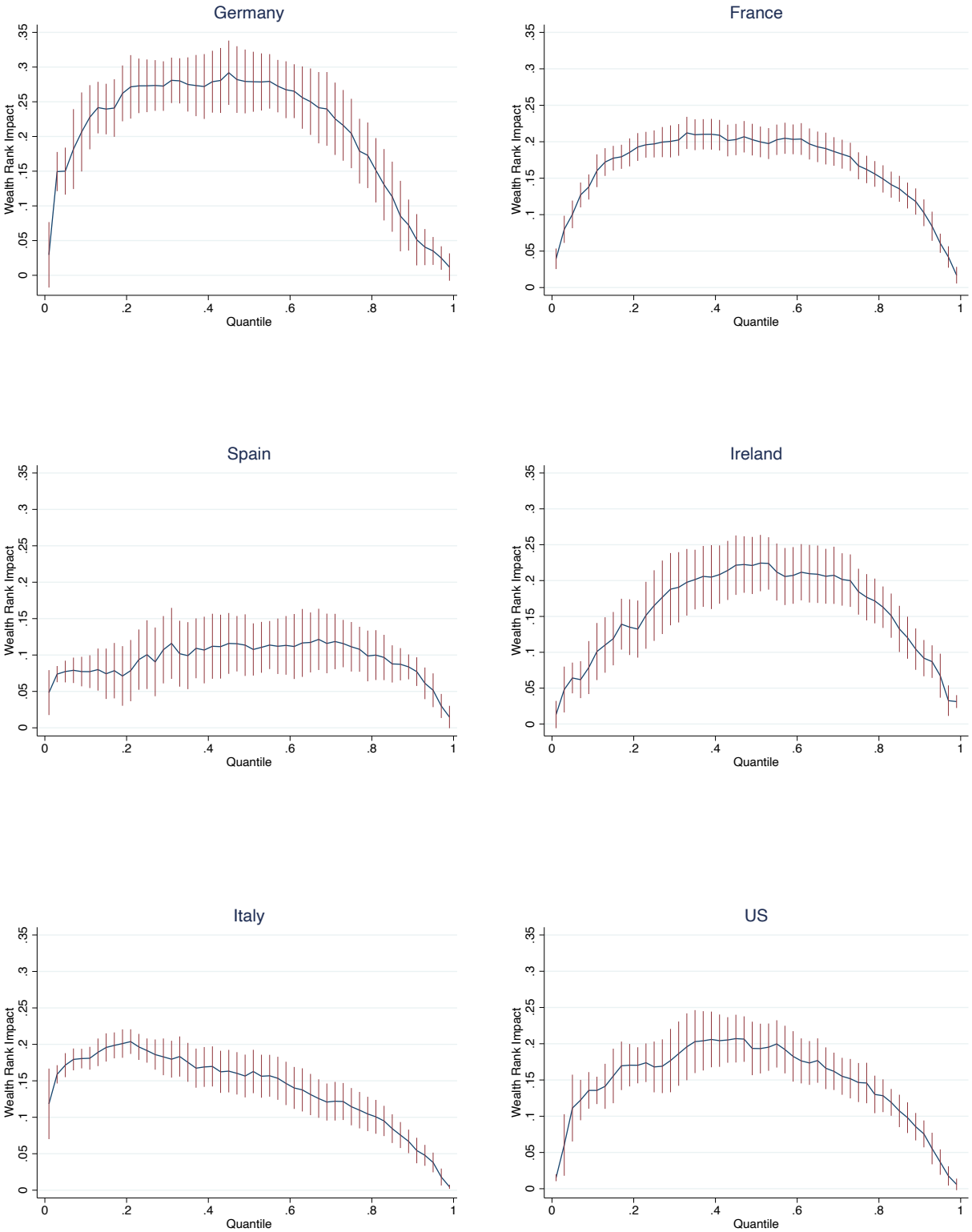

Figure 26. Impact of intergenerational transfer receipt on the rank in the wealth distribution at different quantiles.

(Coefficient on receipt in quantile regression with wealth rank as dependent variable, controlling for gender, age, household size and their interactions, confidence Intervals in red

We now incorporate the size of the transfer received into the analysis. To do so we distinguish between amounts up to the median receipt, which we term 'small', amounts from the median up to the 90th percentile of receipts, which we term 'intermediate', and amounts greater than the 90th percentile, which we call 'large transfer amounts. With dummies for these receipt categories and the control variables included in the model, the estimated impacts of each category on rank in the wealth distribution are shown in Figure 27 for Britain. The size of the transfer receipt is now seen to be highly relevant for the impact on wealth rankings. The median wealth rank upon receipt of a small transfer is just about 15 percentage points higher than the median wealth rank of non-recipients, whereas a large transfer is associated with a rise in median rank of close to 50 percentage points.

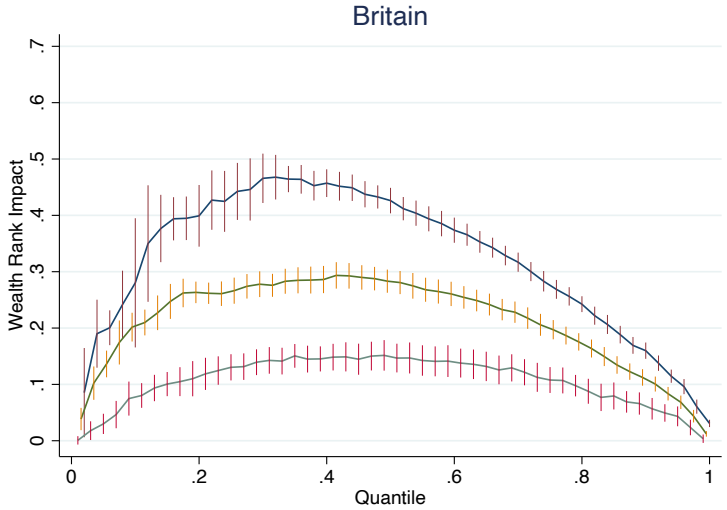

Figure 27. Impact of different levels of intergenerational transfer receipt on the rank in the wealth distribution at different quantiles

(Coefficient on receipt in quantile regression with wealth rank as dependent variable, controlling for gender, age, household size and their interactions, confidence Intervals in red)

The corresponding results in Figure 28 for our comparator countries show that the modest impact of 'small' transfers, below the median transfer receipt, is a common pattern. The expected impact on the wealth rank is always modest, around 10 percentiles or less. On the other hand, receipt of large transfers, in the top decile of the transfer distribution, has a very strong impact in all countries, reaching as high as 50 percentage points in some.

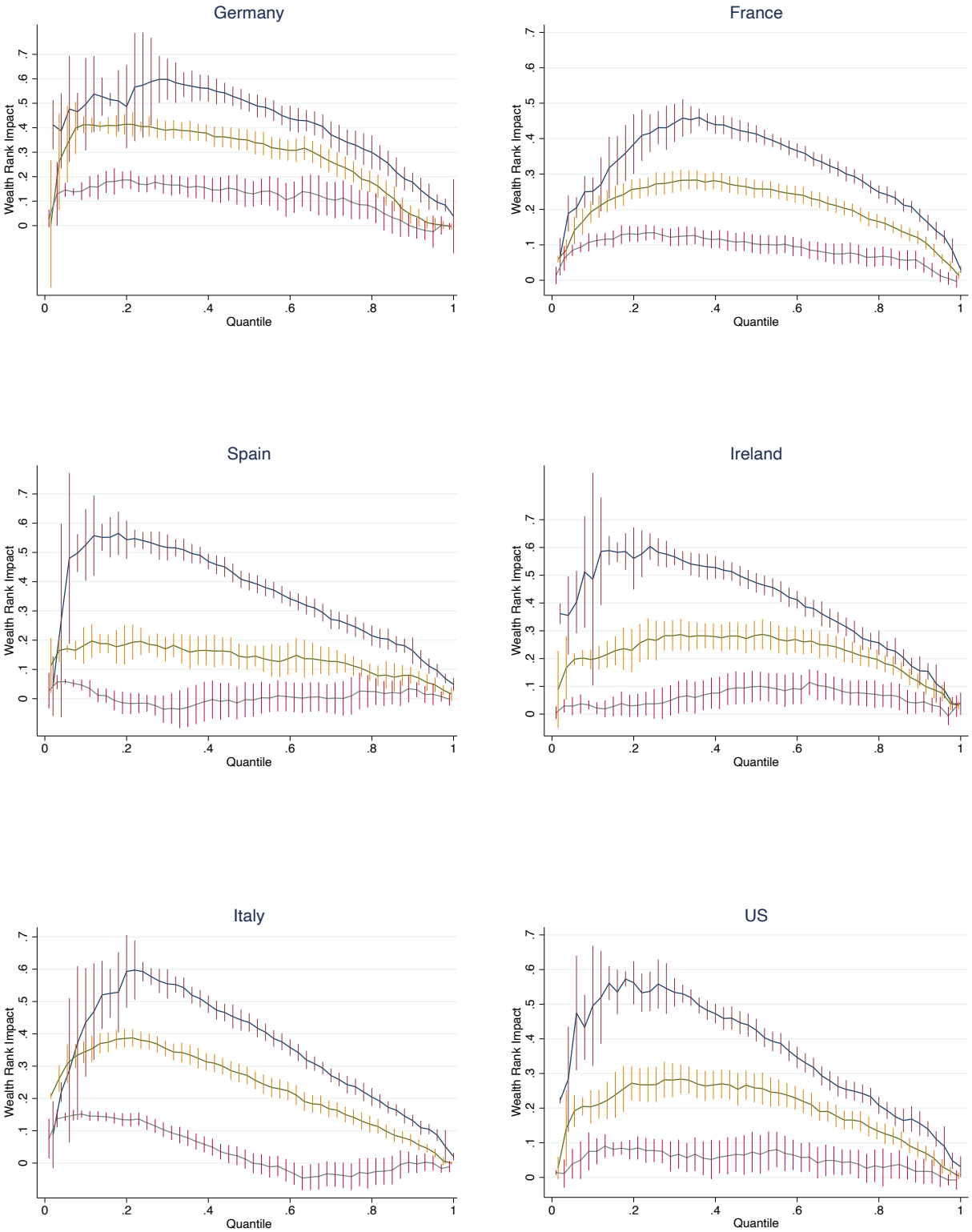

Figure 28. Impact of different levels of intergenerational transfer receipt on the rank in the wealth distribution at different quantiles

(Coefficient on receipt in quantile regression with wealth rank as dependent variable, controlling for gender, age, household size and their interactions, confidence intervals in red)

7.5 Conclusions

We emphasised at the outset of this analysis that the relationship between having received intergenerational transfers and the household's current level of wealth depends on many factors, which could not be fully taken into account here. Instead, we applied several analytical approaches that exploited the comparative data we assembled to shed some light on that relationship.

Examining levels of wealth for those who did versus did not report having received some transfer, for Britain the former had average wealth of £500,000 compared with only £220,000 for non-recipients. A similar gap was seen in the other European countries covered but this was much wider in the US. Distinguishing between different components of wealth, that gap was widest for owning one's principal residence: for Britain, 84% of those who received a transfer owned their own house compared with 60% for non-recipients.

When we controlled statistically for differences in age and education the wealth gap between recipients and non-recipients narrowed but remained substantial; for Britain it was still of the order of £200,000 on average. The relationship between transfer receipt and owning one's own house accounted for a substantial proportion of this difference, but for Britain (and even more so the US) financial and business wealth also played a major role.

We then sought to capture the relationship between transfer receipt and where households were located in the wealth distribution, concentrating on those aged 50 or over. Transfer receipt was associated with being about 20 percentage points higher across much of the wealth distribution. That gap was much lower towards the bottom of the distribution for Britain, and also approaching the top of the distribution where the scope to move up is more limited. Incorporating the size of the transfer into this analysis revealed that while receipt of any transfer is associated with a higher rank, receiving the largest transfers is associated with a much larger increase in rank. This may reflect a variety of other factors associated with receiving such a transfer, as well as the influence of the transfer itself.

8. The Impact of Intergenerational Transfers on Wealth Inequality

8.1 Introduction

Having examined the impact of intergenerational transfers on the wealth of the households receiving them, we now turn to the even more tangled question of their influence on overall wealth inequality. As outlined in Section 2, this is hotly debated among researchers, with a number of recent studies tending to see inheritance as equalising rather than dis-equalising but the assumptions and logic underlying this conclusion being questioned by others. Here we employ three distinct analytical approaches to investigate this question with the data for Britain and the other six countries, in order to learn from the different perspectives they offer and in particular to exploit the potential from seeing what they produce comparatively. The first is a rather mechanical decomposition exercise, where wealth deriving from intergenerational transfers is estimated at household level and its contribution to overall inequality compared with non-transfer wealth. The second is based on what are known as 'influence function regression' models. The third adapts the analytical framework developed in recent research to assess inequality of opportunity and applies it to assess the role of intergenerational transfers. We briefly describe these methods and set out the results they each produce in Sections 8.2-8.4 respectively, before bringing together the findings in Section 8.5.

8.2 Decomposing Wealth Inequality by sources of wealth

The decomposition approach we employ relies on the method put forward by Lerman and Yitzhaki (1985) to analyse the contribution of incomes from different sources (earnings, self-employment, capital, social transfers) to overall income inequality as measured by the Gini coefficient. We can adapt this to our current context by distinguishing wealth from intergenerational transfers from other 'non-transfer' wealth as distinct 'sources' and looking at the contribution of each to overall inequality.

Adapting Lerman and Yitzhaki, overall wealth inequality as measured by the Gini (G_W) can be decomposed as:

$$G_W = \underbrace{(S_T \cdot G_T \cdot R_T)}_{Tranfers\ Contribution = C_T} + \underbrace{(S_{NT} \cdot G_{NT} \cdot R_{NT})}_{Non-Tranfer\ Wealth\ Contribution = C_{NT}}$$

The contribution of wealth from transfers to overall wealth inequality then depends on:

- the share of transfer S_T and non-transfer S_{NT} wealth in total household wealth;
- the Gini coefficient for inequality in the distribution of transfer G_T and non-transfer wealth G_{NT}, taken alone; and
- the (Gini) correlation of transfer R_T and non-transfer R_{NT} wealth with total wealth.

The key input then is the calculation of wealth from transfers, and this can only be highly tentative and based on a set of assumptions that are of their nature open to question. As pointed out in the Section 7, even if we had a high degree of confidence in our figures for intergenerational transfers received and when they were received, we do not know what a given household did with that receipt, how much was consumed rather than saved, immediately or over time, and what return the saving generated. More indirectly but also very importantly, we do not know what impact receiving the transfer had on the behaviour of household members in earning and other savings, potentially affecting their wealth outcome. Incorporating the range of behaviours potentially affected would require a more elaborate and encompassing model than has currently been developed.

Here we make some crude assumptions to allow tentative but informative results to be produced. We first look at the decomposition results if we simply take the amount received in transfers uprated to current (2010) values to represent the current wealth generated by those transfers for the household in question. This can be seen as assuming that the total amount received was all saved rather than consumed (subject to the qualification noted in the next paragraph), that the return this generated merely kept pace with consumer price inflation in the years since receipt (or, equivalently, that any amounts consumed were funded by an above-inflation return), and that other behaviours were unaffected. The transfer receipts in 2010 values we examined in Sections 5 and 6 are thus counted as 'transfer wealth', and 'non-transfer wealth' is calculated as the household's current wealth minus this transfer wealth.

One significant feature to be noted is that transfer wealth calculated this way is in some instances larger than the household's current stock of wealth as measured in the surveys. In

such cases we cap transfer wealth at total current wealth, in effect assuming the 'excess' has been consumed rather than saved, since otherwise non-transfer wealth would be negative. (While one could envisage that conceptually, it is not easily incorporated into this mode of analysis with the Gini coefficient.) The proportion of transfer recipients whose transfer wealth has to be 'capped' in this way for this exercise is substantial: 29% for Britain, and as high as 70% for the US. These households have clearly consumed some of the transfers received, if the amounts received and current wealth have been correctly reported; of course, other households may also have done so, but this cannot be seen from the simple comparison of transfer amounts with current wealth. The amounts involved – the difference between transfer wealth and current wealth – are often modest, but in a minority of cases are very large.

We present the components of the decomposition with transfer wealth constructed on this basis in Table 12. We see first that the Gini coefficient for transfer wealth in the case of Britain, at 0.89, is much higher than the Gini for wealth overall, which is 0.67. The Gini for non-transfer wealth is much closer to the overall Gini, though slightly above it at 0.69. The same relationship holds for each of the other countries – the Gini for transfer wealth is much higher than that for non-transfer wealth, which in turn is somewhat higher than the Gini for total wealth. The Gini for transfer wealth is so high because only a minority of households receive any, alongside the variation in amounts received among recipients.

From the perspective of for example Crawford and Hood, (2016), the fact that the Gini for total wealth is below that for non-transfer wealth can be taken to mean that transfers are equalising – in the sense that incorporating transfer wealth into the picture, going from non-transfer wealth to total wealth, reduces measured inequality. Our results for Britain from WAS for the entire age range are consistent in that sense with Crawford and Hood's findings from ELSA for the age range 65-79 only. As they point out, what drives this result is that while inheritances are smaller in absolute terms for those lower down the wealth distribution, they are more important relative to other wealth holdings in that part of the distribution, and hence reduce inequality on a relative measure. However, the 'no transfers' counterfactual or point of comparison this involves is arguably not the most relevant in assessing the role of transfers. Instead, it may be more relevant to ask what the wealth distribution would look like if transfers were distributed differently, or if there were more or fewer transfers than we

observe. The latter perspective will underlie our analysis in the next section, but first we proceed with our discussion of the decomposition results.

Transfer wealth calculated in the way we have described represents about 12% of total wealth in Britain, a lower share than in any of the other countries except the US whereas it accounts for only 9%. It should be noted that these are lower figures than we reported in Section 5 for total transfers in 2010 values as a proportion of total net wealth. This is because a significant proportion of households have had their transfer wealth capped at their current wealth levels, so the 'excess' amounts above that are not being counted here.

Table 12. Decomposition of Wealth Inequality by Transfer/Non-Transfer Wealth

No Capitalisation	**Britain**	**France**	**Germany**	**Ireland**	**Italy**	**Spain**	**US**
Gini total wealth (G_W)	0.668	0.678	0.776	0.758	0.604	0.581	0.868
Gini transfer wealth (G_T)	0.891	0.887	0.892	0.907	0.848	0.891	0.952
Gini non-transfer wealth (G_{NT})	0.688	0.705	0.818	0.797	0.687	0.615	0.881
Share of transfers in total wealth (S_T)	0.119	0.166	0.279	0.178	0.292	0.147	0.086
Correlation transfers with total wealth (R_T)	0.731	0.779	0.865	0.790	0.716	0.658	0.848
Correlation non-transfer wealth with total wealth (R_{NT})	0.974	0.959	0.951	0.962	0.878	0.943	0.992
Contribution of transfer wealth to Gini total wealth (C_T)	0.077	0.115	0.215	0.128	0.177	0.086	0.070
Contribution of other wealth to Gini total wealth (C_{NT})	0.591	0.563	0.560	0.630	0.427	0.495	0.799
Relative contribution of transfers to Gini total wealth ($\frac{C_T}{G_W}$)	0.116	0.169	0.278	0.169	0.293	0.148	0.080

The table then shows that the correlation of transfer wealth with total wealth is 0.73 for Britain, which is similar to most of the other countries, though for Germany and the US the correlation is higher at about 0.85. The contribution of transfer wealth to overall wealth inequality is then seen to be much lower than the contribution of non-transfer wealth. Taking

the former as a proportion of the total contribution of both, we see that transfers account for 12% in Britain, whereas that figure is rather higher in the other countries except for the US, where it is only 8%. This particularly low contribution of transfer wealth for Britain and the US reflects the low share of transfer wealth in total wealth in those countries: accounting for only 8-11% of total wealth, transfer wealth derived in the manner described is simply not important enough to have a major impact on overall inequality.

Indeed, the variation across the seven countries in the contribution of transfer wealth to overall inequality very much mirrors the variation across them in the scale of transfer wealth. Transfer wealth is most substantial in the cases of Germany and Italy and that is where it has the most pronounced contribution to overall inequality, accounting for 28-29% of the total contribution. For France, Ireland and Spain the share of transfers in total wealth is about 15-17%, and the contribution of transfers to overall inequality is similarly in that intermediate range. The differences across the seven countries in inequality in transfer wealth and its correlation with total wealth are more modest and are dominated by the impact of the varying share of transfers in total wealth. Very much the same message emerges from a series of counter-factual simulations where we hold other factors constant and vary either the share of transfers, the Gini for transfers, or the correlation of transfers with total wealth. Increasing the share of transfers for Britain to the level seen in some of the other countries increases the estimated contribution to overall inequality markedly, whereas holding that share fixed while varying the other components has much less impact.

It is instructive to look at the results of the same analysis when transfer wealth is derived in a different way. Now, rather than no real return being generated on transfer amounts received, we assume the common 3% capitalisation rate discussed in Section 5. All transfers are in effect assumed to have been fully saved and to have generated that annual return from date of receipt to 2010. Once again, where necessary these amounts are capped at the level of the current net wealth reported by the household: amounts in excess of that are not counted, assumed to have been consumed. This now applies to an even higher proportion of recipient households, though the difference is not dramatic - in the case of Britain, the percentage ‘capped’ increases from 29% to 33%. Table 13 shows the results of the decomposition exercise when transfer wealth, and residually non-transfer wealth, are derived in this way.

We see that the level of inequality in transfer wealth is very similar to what was shown in Table 12 without capitalisation, and the same is true for the correlation of transfer wealth with total wealth. The share of transfers in total wealth is however now a good deal higher, and this is reflected in its contribution to overall wealth inequality. In the case of Britain, the share of transfer wealth in total wealth has increased to about 15%, and so has its contribution to overall wealth inequality. That contribution is now over 30% in the two countries where transfer wealth is most important, Germany and Italy. For the US however, while higher than without capitalisation it still only accounts for 11% of total inequality.

Table 13: Decomposition of Wealth Inequality by Transfer/Non-Transfer Wealth with Capitalisation

With capitalisation	**Britain**	**France**	**Germany**	**Ireland**	**Italy**	**Spain**	**US**
Gini total wealth (G_W)	0.668	0.678	0.776	0.758	0.604	0.581	0.868
Gini transfer wealth (G_T)	0.891	0.882	0.887	0.910	0.846	0.891	0.953
Gini non-transfer wealth (G_{NT})	0.696	0.719	0.831	0.810	0.694	0.621	0.885
Share of transfers in total wealth (S_T)	0.147	0.219	0.324	0.228	0.317	0.183	0.113
Correlation transfers with total wealth (R_T)	0.745	0.792	0.872	0.817	0.729	0.690	0.860
Correlation non-transfer wealth with total wealth (R_{NT})	0.961	0.935	0.934	0.941	0.862	0.923	0.988
Contribution of transfer wealth to Gini total wealth (C_T)	0.097	0.153	0.251	0.170	0.195	0.112	0.093
Contribution of other wealth to Gini total wealth (C_{NT})	0.570	0.525	0.525	0.588	0.409	0.468	0.776
Relative contribution of transfers to Gini total wealth ($\frac{C_T}{G_W}$)	0.146	0.225	0.323	0.224	0.323	0.193	0.107

We have also carried out similar decompositions when transfer wealth is calculated on the assumption that not all the amounts received are saved (over and above the impact of 'capping' at current wealth levels). When one-quarter of those receipts are assumed to be immediately consumed rather than saved, but the saved amounts still generate 3% per annum in real return, the results for the share of transfer wealth and its contribution to overall wealth

inequality lie between those shown in Tables 11 and 12 but closer to the latter. It must also be recalled that the overall extent of transfers in the case of Britain will have been under-counted in the data for the survey-related reasons discussed at length in Section 4, in particular the limited time window over which gifts *inter vivos* were measured. Given the central role that the overall scale of measured transfers plays in driving the decomposition results for the contribution they make to wealth inequality, it is important to keep this in mind in assessing those results for Britain versus the comparator countries.

8.3 The Influence Function Approach

We now employ another analytical approach, which like the decomposition method is descriptive or 'static' rather than attempting to identify causal or general equilibrium impacts of intergenerational transfers on the total wealth distribution. This approach builds upon the (recentered) influence function (RIF) regression methods proposed in Firpo et al. (2009), which capture how marginal changes in the distribution of covariates impact on distributive statistics. We apply these methods to calculate the effect that a marginal increase in the number of households in receipt of transfers would have on the overall shape of the wealth distribution, holding constant the wealth distributions *conditional* on the transfer. Substituting recipient households for ones that are equivalent in terms of other observed characteristics but have not received transfers, we can see what impact this has on the distribution. If transfers have no impact and the two groups are similar, such a substitution would leave the wealth distribution unchanged. If, on the other hand the wealth of recipients differs substantially from the wealth of non-recipients, the substitution will transform the shape of the overall distribution in possibly complicated ways. Looking at how various indicators---the mean, percentiles and inequality measures--respond to such substitutions therefore represents an indirect way to assess how transfers contribute to the shape of the overall wealth distribution.

The RIF regression approach has several advantages over conventional inequality decomposition methods such as that applied in the previous sub-section. The first is that RIF regressions apply generally to any conventional statistic of interest, not only to specific decomposable measures such as the Gini coefficient, including alternative summary inequality measures and top income or wealth shares. Second, and even more importantly, they allow us to assess the distributive impact of transfer receipt not only 'unconditionally'

but also 'conditionally', that is, holding constant covariates such as age and gender that may also influence wealth. (For details on the method and the extension on Firpo et al involved, see Choe and Van Kerm, 2018.) In essence, the method probes what the wealth distribution be expected to look like if there were more transfer recipients and fewer non-recipients, or more recipients of large versus medium versus small transfers, with everything else held constant? This impact will then depend on the locations in the wealth distributions of recipients versus non-recipients, and recipients of large versus medium versus small amounts. (What we count as 'large' versus 'medium' versus 'small' transfers is the same as in the previous section.)

In applying this method, as in Section 7.4 we restrict the analysis to the subsample of households with reference person over 50 years of age, to limit the influence of age-related variation. Figure 29 then shows the estimated impact that a marginal increase in the proportion of transfer recipients of various types would have on the Gini coefficient for total wealth, for Britain and the other six countries.

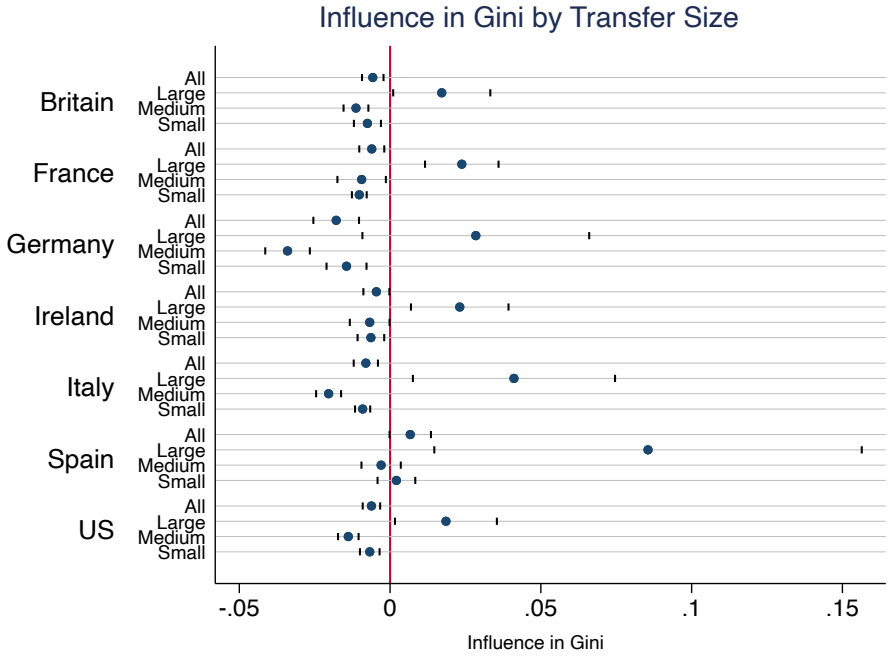

Figure 29. Influence on the Gini index of difference sizes of transfer receipt
(Estimates from RIF-Gini regression with age, gender and household sizes controls)

We see that the impact of transfer receipts in the Gini depends on the size of transfer involved. The first line for each country in Figure 29 shows the effect of an increase in the share of households receiving transfers of *any* size. The impact of having more recipients

and fewer non-recipients would be to *reduce* the Gini - reduce overall wealth inequality- in all countries except Spain. This reduction is larger in some countries than others, but in all countries including Britain it is statistically significant. What this reflects is the fact that transfer recipients are, on the whole, more frequently positioned around the middle of the overall wealth distribution than non-recipients, because a considerable number of the latter are towards the bottom of the wealth distribution, with very little or no wealth. Increasing the proportion of transfer recipients serves to increase the number of households in the middle of the distribution, to which the Gini coefficient is particularly (negatively) sensitive.

We also see from Figure 29 that a similar inequality-reducing impact is found when we consider only small transfers (below the median value) and even more so medium-sized inheritances (between the 50th and the 90th percentile of the value of transfers). Since most recipients of small and medium transfers are in the central part of the distribution, increasing their share would again have an equalising effect.

However, when we consider the receipt of large inheritances the influence on the Gini index is positive, in other words increasing the weight of large inheritance recipients in the overall distribution would increase inequality. What this reveal is that large transfers recipients tend to be found in the upper tail of the distribution: more large transfer recipients would tend to push inequality upwards.

It is interesting to test the sensitivity of these results to the inequality measure employed, by carrying out a similar analysis with a different inequality measure, namely the ratio between the wealth held by the top 5% and the bottom 95% of the wealth distribution. Figure 30 shows that this produces rather similar results. The influence of large transfers receipt is again clearly disequalising, having a significant increasing impact on this inequality measure. On the other hand, receipt of small, medium and overall transfers seems to have an equalising effect in this measure in all countries, and more strongly in Germany and the US. However, in most countries (including Britain) that influence is not as clearly significant as it was when the Gini was employed.

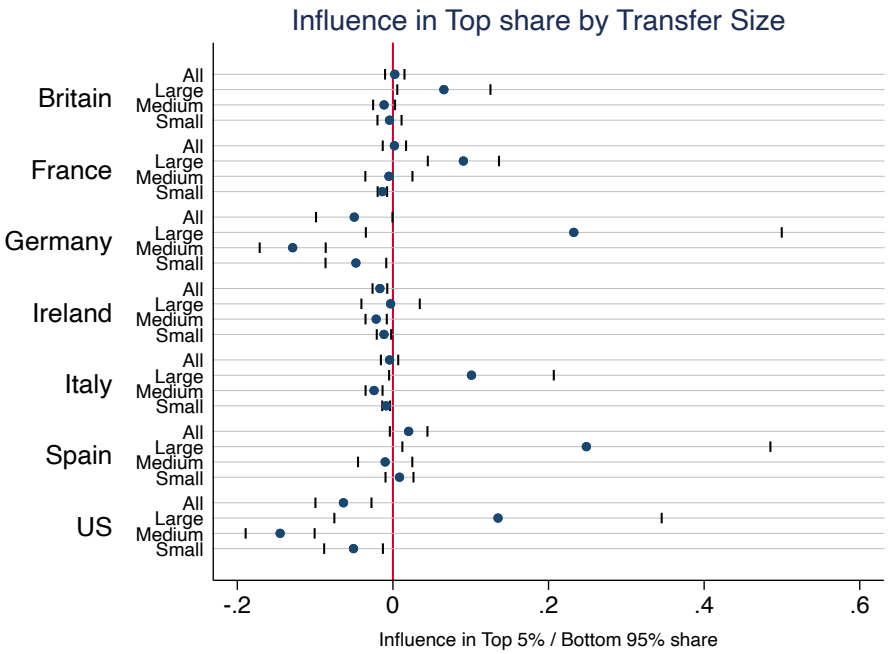

Figure 30. Influence on the "Top5/bottom95 share ratio" of different sizes of transfer receipt
(From a RIF regression with age, gender and household sizes controls)

8.4 The Inequality of Opportunity Approach

The final methodological approach we employ to analyse the contribution of intergenerational transfers to wealth inequality is derived from what is generally known in the research literature as the 'inequality of opportunity' framework. This has been developed to allow an assessment of the extent in how advantaged or disadvantaged outcomes (income, educational achievement, wealth) relate to 'circumstances' over which the individual has no influence (see for example Roemer, 1993; Fleurbaey, 2008; Roemer and Trannoy, 2016). As we have seen, much of the recent literature considers intergenerational transfers simply as a component of wealth and finds that transfers can have an equalising effect on wealth inequality. This result appears even if the poorest individuals receive no inheritance and inheritances are increasing with wealth. Unlike most other studies, however, the method employed in this section does not focus on intergenerational transfers only as a constituent of wealth. It rather provides a broader approach to teasing out the link between transfer receipt (and receipt of differing amounts) and outcomes in terms of the level of wealth and position in the wealth distribution, crucially including non-recipients in the analysis.

The data available allow us to apply this approach to Britain and three other countries, treating both intergenerational transfers and socioeconomic background (education or occupation of parents) as the 'circumstances' in the analysis; this enables us to provide a measure of the total wealth inequality that can be linked to each of these factors individually and jointly.[18] For Britain we use our 'continuing' sample from Wave 3 of the WAS, while for Spain and France we now rely on the second wave of HFCS (2012-2014) which includes parental background information, and for the same reason now use the 2016 release of the SCF survey for the US. In all countries, a pre-step regression of equivalent wealth on age, gender and their interactions allows us to use a standardised or adjusted measure of wealth not conditioned by these variables throughout the analysis.

We first classify inheritances in different categories depending on their amount, and then partition the population in groups or 'types' according to those categories (from 'non receivers' -subdivided between those expecting and not-expecting a transfer- to 'high-amount inheritance receivers'). The distribution of wealth will be independent of the inheritance level if the wealth distribution across types is the same, that is, if all households at the same rank of their respective type distribution have the same wealth. Otherwise, the inheritance received will have an influence on the final distribution of wealth and, therefore, on the observed level of wealth inequality.

Figure 31 shows that for Britain there is indeed a difference in expected wealth depending on the size of the inheritance received. Particularly, households receiving a higher inheritance -at the top quartile of the inheritance distribution- show a higher level of wealth than the other groups at practically all points of the distribution. For example, a household at the 75th percentile (rank 0.75) of the wealth distribution with high transfer receipt has an adjusted equivalent wealth of around 1 million dollars, while a household at the same percentile of the non-recipients' distribution has less than half that amount.

[18] The influence of household size, gender and age is also accounted for by using an equivalised 'adjusted' measure of household wealth in which differences due to these factors have been pre-removed.

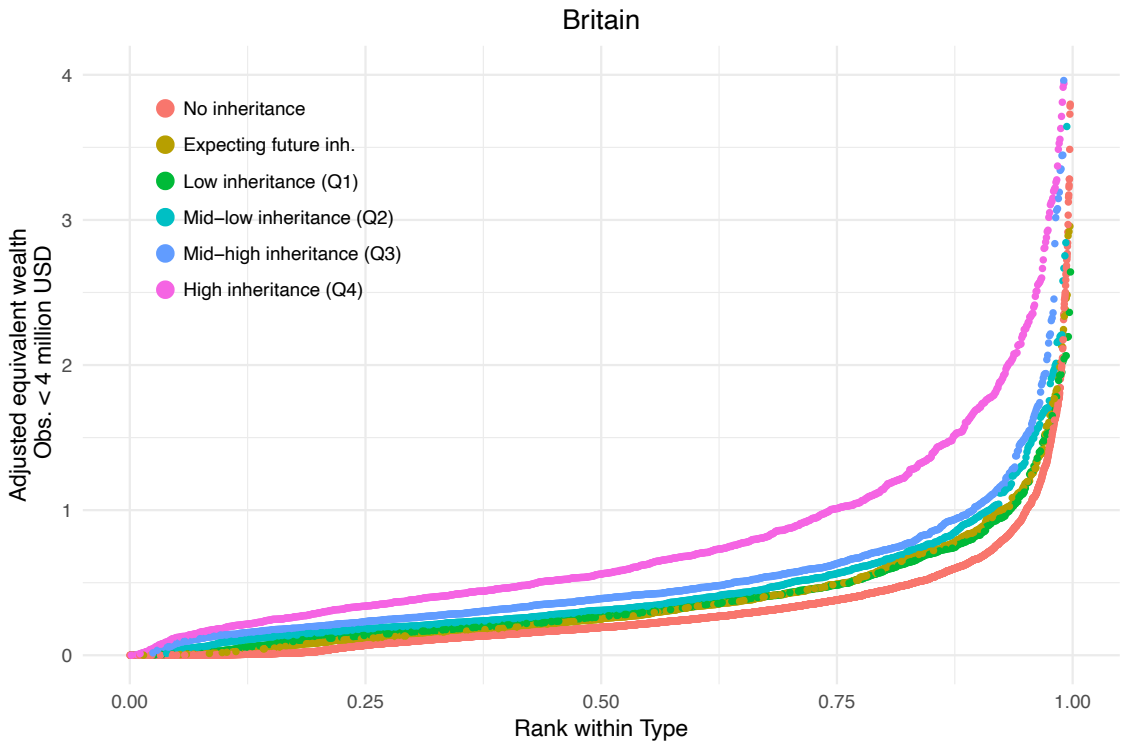

Figure 31. Ranked distribution of adjusted wealth within the different groups of households classified according to the size of the intergenerational transfer received

If transfers had no influence in wealth, households at the same rank of each different 'type' would have the same wealth. We can construct a counterfactual distribution Z that assigns the same level of wealth to all households in the same rank across transfer types, shown as the black line in Figure 32. By comparing that counterfactual distribution of wealth Z -free of the influence of intergenerational transfers on the wealth rank- with the observed one W we can measure the share of total wealth inequality that is explained by differences in the inheritance level.[19]

$$Inequality\ (I_w) - Inequality\ (I_Z) = Inequality\ associated\ with\ transfers\ (I_T)$$

In relative terms, I_T/I_w would give us the share of total wealth inequality associated with the receipt of intergenerational transfers.

[19] This distribution is built using non-parametric estimation. In distributions where values and quantiles do not follow a specific functional form, like wealth, the non-parametric approach is preferred.

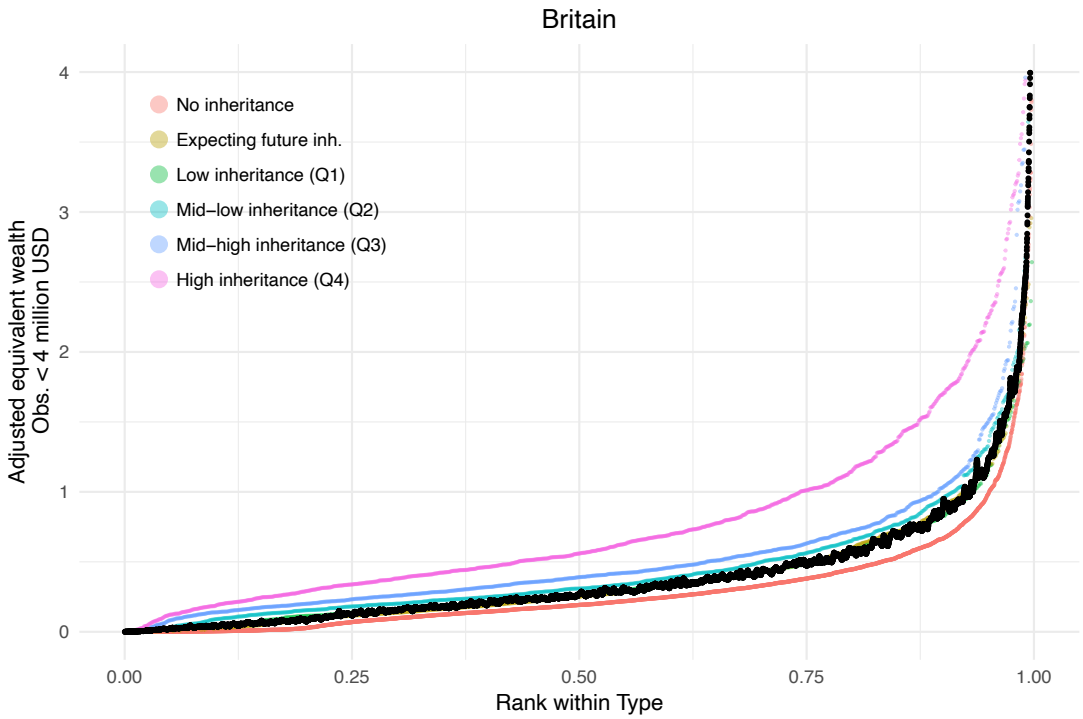

Figure 32. Ranked distribution of adjusted wealth within the different groups of households by inheritance size, and smoothed distribution Z (in black).

This gross contribution of inheritance to inequality is 33% of total wealth inequality for Britain, according to calculations using the decomposable Mean Logarithmic Deviation (MLD) inequality index, as shown in the first row of Table 14.

Table 14. Contributions to Wealth Inequality

		Britain	France	Spain	US
Gross contribution	**Transfers**	32.8%	39.3%	38.9%	36.7%
	Socioeconomic Background	13.6%	14.1%	22.8%	22.3%
Combined contribution	**Socioeconomic Background and Transfers**	36.5%	43.6%	46.4%	47.9%
Net contribution	**Transfers**	22.8%	29.5%	23.5%	25.7%
	Socioeconomic Background	3.7%	4.3%	7.4%	11.3%
Interactive contribution	**Transfers and Socioeconomic Background**	9.9%	9.8%	15.4%	11.0%

However, this estimated 'gross' contribution of intergenerational transfers to wealth inequality could also reflect the effect of variables highly correlated with transfers such as family background. Our approach and data sources allow us to net out the individual effect of family background in terms of education or occupation and its potential interaction with transfers and wealth. For that purpose, we re-run the analysis using the parental background variables described earlier to group individuals. As visualised in Figure 33, differences in parental education are also associated with differences in wealth. Quantitatively, the gross contribution of parental background to inequality is 13.6% for Britain and is shown for each country in the second row of Table 14.

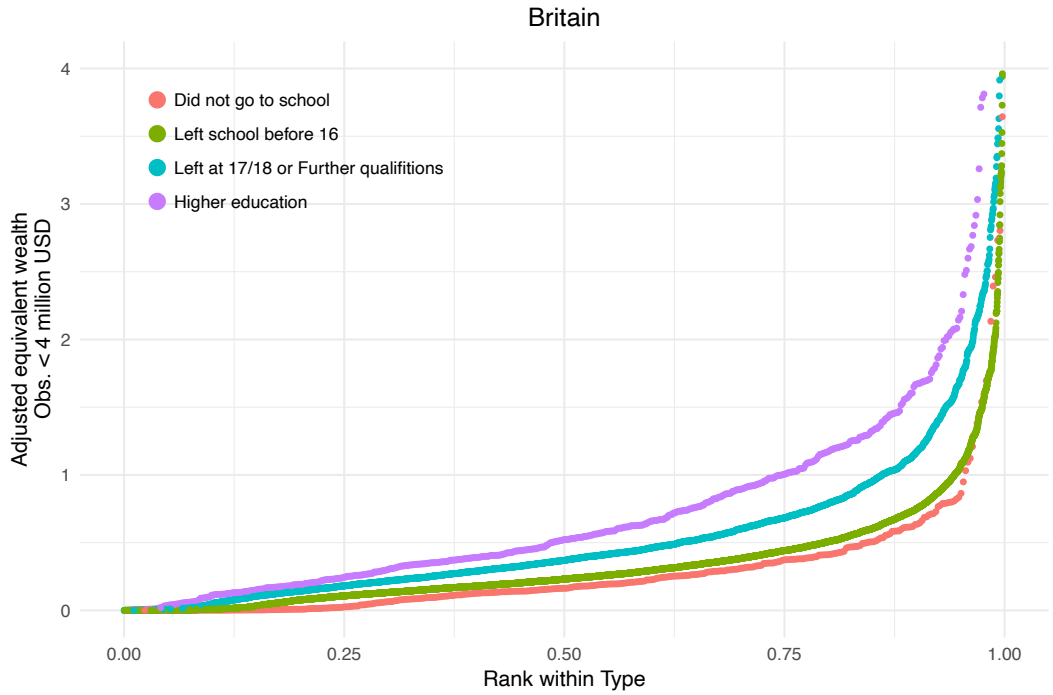

Figure 33. Ranked distribution of adjusted wealth within the different groups of households classified according to socioeconomic background (parental educational level).

In a third step, we try to disentangle the possible interactive contribution of both variables, by running the analysis grouping by both dimensions, and then comparing the results with their individual contributions. In general, we observe that this joint contribution, shown in the third row of Table 14, is smaller than the addition of the individual gross contributions of both factors. For Britain, the combined contribution of transfers and socioeconomic background is 36% (whereas 46% would be the addition of both gross contributions).

This implies that part of the effect on wealth that is shared by transfers and socioeconomic background. This interactive contribution is 10% in Britain (the difference between the

potential joint contribution if the variables were independent, 46%, and the actual combined contribution of 36%). The net contribution can then be calculated conservatively for each of the variables, excluding all the interactive effect. Thus, the contribution of transfers net of socioeconomic background is 33%-10% = 23%, while the net contribution of socioeconomic background is 14%–10% = 4%.[20]

The results of applying this analytical framework thus show that intergenerational transfers contribute up to 40% of total wealth inequality (according to the mean logarithmic deviation) in France and Spain, 37% in the US and 33% in Britain. When interactions with family background are controlled for, these contributions are still substantial at 30% for France, 26% for the US, 24% for Spain, and 23% for Britain. The overall contributions of both transfers and social background including their interaction to wealth inequality comes to 48% for the US, 46% for Spain, 44% for France, and 36% for Britain. In other words, from this perspective, removing the differences in wealth associated with transfer receipt and parental background would account for nearly half of wealth inequality of opportunity in some rich countries and for more than one third in Britain.

8.5 Conclusions

Like the influence on wealth levels, we have stressed how complex and wide-ranging a comprehensive assessment of the impact of intergenerational transfers on overall wealth inequality would have to be. Once again the approach adopted here has been to implement several different analytical approaches to exploit from different angles the potential of the comparative data assembled. The first was a decomposition exercise, adapted from the research literature on decomposing income inequality. For that purpose, we measured 'transfer wealth' as the accumulated value of transfer receipts (capped at current wealth) and the 'non-transfer wealth' as the difference between that and total current wealth.

Indexing transfer receipts to consumer prices, transfer wealth represented 12% of the current wealth stock of households for Britain, lower than the corresponding figures for the other European countries but higher than the US. Taking its correlation with non-transfer wealth into account, the contribution of transfer wealth to overall inequality was relatively modest,

[20] Note that the actual combined contribution is the addition of the net contributions and the interactive contribution: 36.5% = 22.8% + 3.7% + 9.9%

accounting for only about 12% for Britain, less than in the other European countries and more than the US, reflecting primarily the importance of transfer wealth in total wealth. Applying a capitalisation factor of 3% real return per annum to transfers since receipt increased the importance of transfer wealth in total wealth and its contribution to overall inequality to 15% for Britain.

Transfer wealth was a good deal more unequally distributed than non-transfer wealth and total wealth for Britain and each of the other countries. The fact that the Gini for total wealth is below that for non-transfer wealth could be taken to mean that transfers are equalising, and our results for Britain from WAS for the entire age range are consistent in that sense with Crawford and Hood's findings from ELSA for the age range 65-79 only. (In the decomposition exercise, by contrast, only if transfer wealth was negatively correlated with total wealth would it be seen to be inequality reducing.) However, the 'no transfers' counterfactual this involves is arguably not the most relevant in assessing the role of transfers. Instead, it may be more relevant to ask what the wealth distribution would look like if there were more or fewer transfers than we observe.

We did this by employing recentered influence function regressions to estimate what impact a marginal increase in the proportion of recipients of transfers of differing sizes would have on the overall shape of the wealth distribution. The results suggested that in Britain and most of the other countries, having more transfer recipients and correspondingly fewer non-recipients, or more recipients of small or medium-sized transfers, would be expected to reduce wealth inequality modestly, reflecting the fact that those transfer recipients were more concentrated around the middle of the wealth distribution than non-recipients. In contrast, increasing the proportion of recipients of large transfers generally increased overall wealth inequality.

Finally, we also adapted and applied the analytical framework developed in research on inequality of opportunity. Estimating what the wealth distribution would look like if transfers had no impact on wealth outcomes led to the conclusion that inequality (adjusted for age and gender) would then be about one-third lower in the case of Britain. Incorporating other aspects of family background potentially correlated with transfers into the analysis, namely parental occupation or education, reduced the estimated contribution of transfers but that

remained substantial. Britain was seen to be similar in that respect to France, Spain and the US, the other countries for which this part of the analysis could be implemented.

The findings from the various approaches we have employed to probe the relationship between intergenerational transfers and wealth inequality sometimes point in different directions, in essence because they are asking rather different questions: the underling point of comparison or counterfactual is different. Comparing inequality in wealth with inequality in 'non-transfer' wealth in effect asks what the distribution would be if there were no transfers. The decomposition approach provides an accounting-style measure of the contribution of transfers versus non-transfer wealth to overall wealth inequality taking their relative importance and inter-correlations into account. The RIF regression asks how different the wealth distribution would be if there were more or fewer transfers, whereas the inequality of opportunity approach asks how different would that distribution be if there were no transfer-related inequalities in the capacity to accumulate wealth. Showing what one finds when these differing approaches are applied to a common set of data will hopefully prompt further reflection and investigation of the contribution each can make to understanding this key relationship.

9. The Taxation of Intergenerational Wealth Transfers

9.1 The Current Context

The taxation of wealth and wealth transfers has moved to the centre of the political agenda recently in the US, and has also been a hotly-debated topic in a number of other rich countries. Debates about the taxation of intergenerational transfers has to be seen in the broader context of whether and how wealth itself is taxed, as they can be seen as proxies for wealth taxes, but transfer taxes have very specific features. This applies in terms of differing normative perspectives on the capacity of the wealthy to pass on their wealth to the next generation, and also in terms of design issues, how best to tax such transfers effectively. Both researchers and policymakers wrestle with these complex issues, with recent research attempting in particular to both tease out some of the underlying normative considerations and assess the sensitivity of transfer and other relevant behaviours to the way tax systems operate.

Here we first set out the background in terms of the way revenue from taxing transfers has evolved across the rich countries. We then describe the transfer tax systems in operation in the UK and our six comparator countries. Finally, we look again at the transfer patterns observed in the household surveys and described earlier in this report in light of those institutional contexts and current debates about taxing such transfers.

9.2 Taxing Intergenerational Transfers in Rich Countries

To see how important or unimportant taxation of wealth transfers is in the rich countries in terms of the revenue raised, we can rely on the Revenue Statistics produced each year by the OECD, the 'rich country club'. Table 15 shows that in 2018, these taxes mostly accounted for less than 1% of total tax revenue. The highest shares in total revenue are Belgium's 1.6% and Korea's 1.5%, while France and Japan are at 1.3%; no other country raised as much as 1% of its total tax revenue via these taxes. This means that for most countries taxes raised on wealth transfers come to no more than 0.2%-0.4% of GDP.

Table 15: The Importance of Estate, Inheritance and Gifts Taxes, 2018

Country	Revenue from Estate, Inheritance and Gifts Taxes as % of	
	total tax revenue	GDP
Australia	0.0	0.0
Austria	0.0	0.0
Belgium	1.6	0.7
Canada	0.0	0.0
Czech Rep.	0.0	0.0
Denmark	0.5	0.2
Estonia	0.0	0.0
Finland	0.7	0.3
France	1.3	0.6
Germany	0.5	0.2
Greece	0.2	0.1
Hungary	0.1	0.0
Iceland	0.4	0.1
Ireland	0.7	0.2
Israel	0.0	0.0
Italy	0.1	0.0
Japan	1.3	0.4
Korea	1.5	0.4
Latvia	0.1	0.0
Lithuania	0.0	0.0
Luxembourg	0.4	0.2
Netherlands	0.6	0.2
New Zealand	0.0	0.0
Norway	0.0	0.0
Poland	0.0	0.0
Portugal	0.0	0.0
Slovak Rep.	0.0	0.0
Slovenia	0.1	0.0
Spain	0.6	0.2
Sweden	0.0	0.0
Switzerland	0.6	0.2
UK	0.7	0.3
United States	0.6	0.1

Source: OECD Revenue Statistics

For the UK, these taxes accounted for 0.7% of total tax revenue and 0.3% of GDP in 2018. Among our comparator countries, France as already noted is among the highest shares. Germany, Spain and the US raise slightly less than the UK this way as a proportion of total taxes, while Ireland is very similar to the UK; with taxes overall in the US a relatively low share of GDP, transfer taxes are correspondingly low there as a proportion of national income. Italy currently raises very little through wealth transfer taxes.

So how has revenue from these taxes evolved over time? We show trends in their share in total tax revenue for various groupings of countries in Figures 34-38.

Figure 34 presents these shares for the UK, together with the (unweighted) average across OECD countries, from the mid-1960s. This brings out the importance of going back that far rather than beginning in say the 1980s. Wealth transfer taxes in the UK case accounted for a substantially higher proportion of total taxes in the mid-1960s, declining precipitously from about 2.5% then to under 1% by the late 1970s. There has been only limited change since then, with taxes rising as a share of the total in the mid-1980s boom, falling back during the 2007-08 financial crisis, and rising again from 2009. The OECD average started from a much lower figure but also fell markedly in the 1960s and 1970s, remaning at below 0.5% of total tax revenue since the late 1970s.

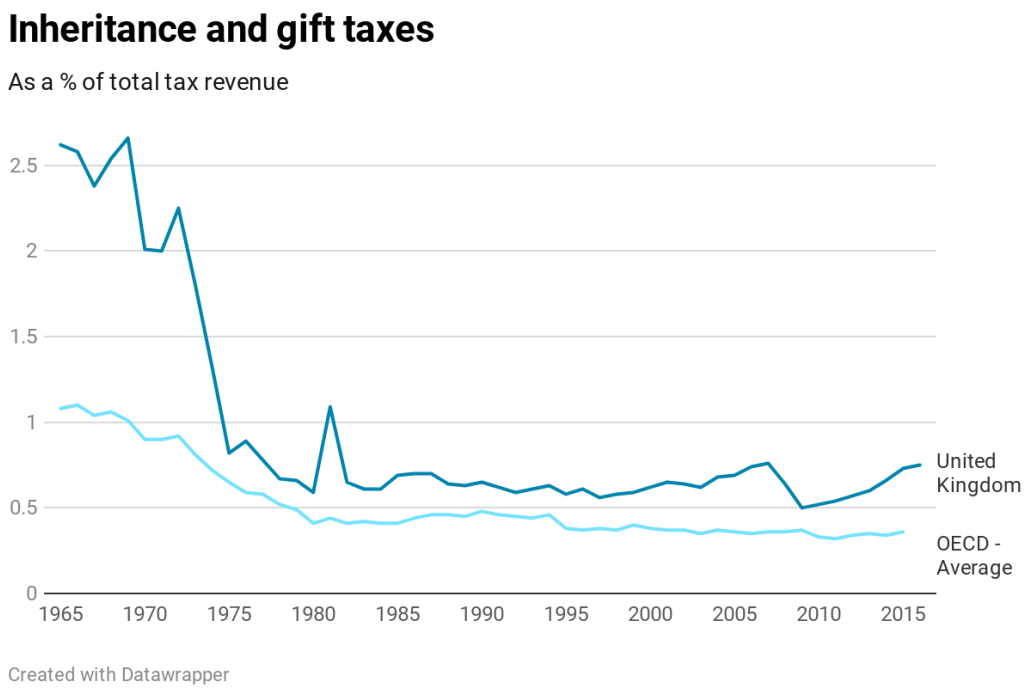

Figure 34: Inheritance and Gift Taxes as a Share of Total Tax Revenue: UK and OECD Average

The UK's experience is compared with other English-speaking rich countries in Figure 35. Rather similar patterns are seen for most of them in terms of the very marked decline in the earlier part of the period covered. For Canada and New Zealand, this took them all the way to abolishing these taxes altogether by the late 1980s/early 1990s.

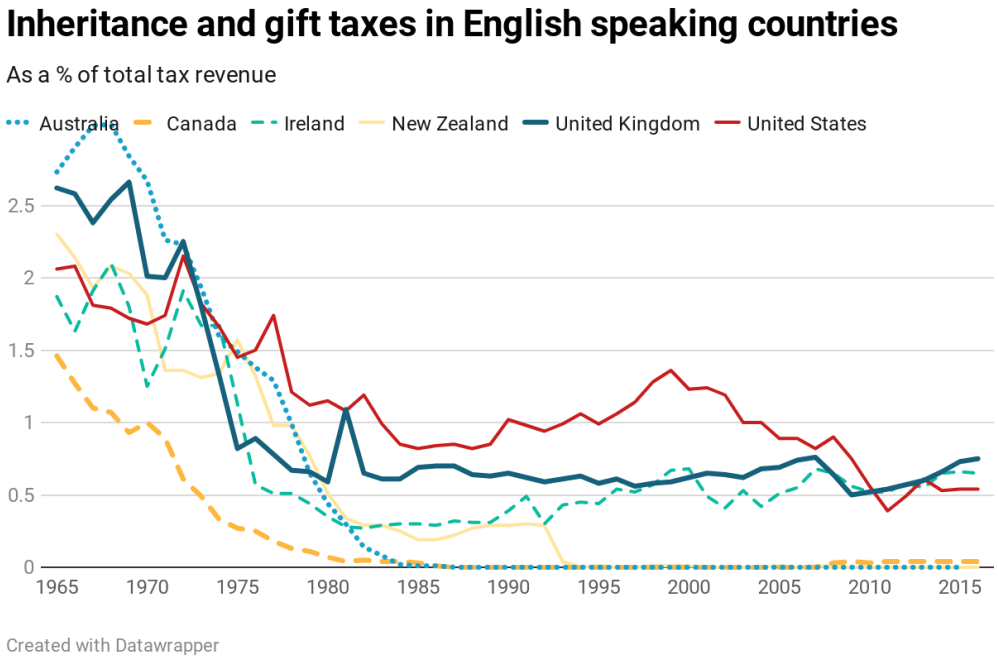

Figure 35: Inheritance and Gift Taxes as a Share of Total Tax Revenue: English-Speaking Countries

The corresponding trends for Nordic countries are shown in Figure 36. There, these taxes contributed no more than about 0.5% of total tax revenue even at the outset, and for many of these countries that remained fairly stable except for Finland which saw a trebling of the contribution of wealth transfer taxes to total revenue since 1965. Sweden abolished wealth transfer taxes in 2005, and Norway followed suit in 2014.

Figure 36: Inheritance and Gift Taxes as a Share of Total Tax Revenue: Nordic Countries

The patterns observed in the 'continental' European countries in Figure 37 vary. Belgium and France have seen the share of taxes on wealth transfers rise, and Germany has seen a modest increase over time. The Netherlands has seen a relatively stable share, Switzerland has seen a decline, and Austria saw little revenue before it abolished these taxes.

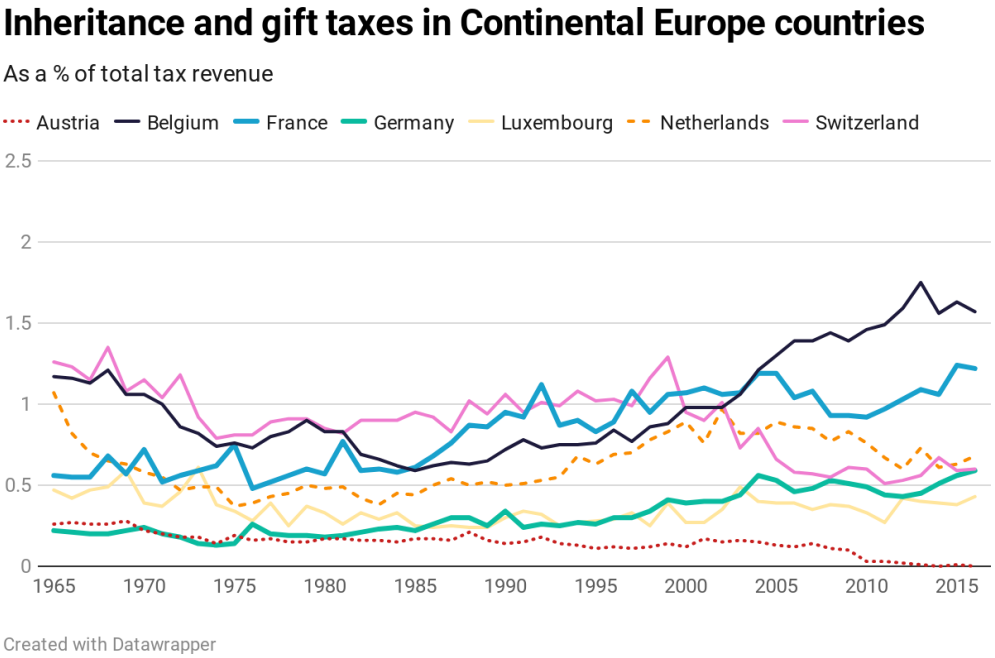

Figure 37: Inheritance and Gift Taxes as a Share of Total Tax Revenue: 'Continental' European Countries

Finally, southern European countries are shown in Figure 38. Greece, Portugal and Italy have seen the share of taxes on wealth transfers decline markedly, whereas for Spain there has been some modest increase.

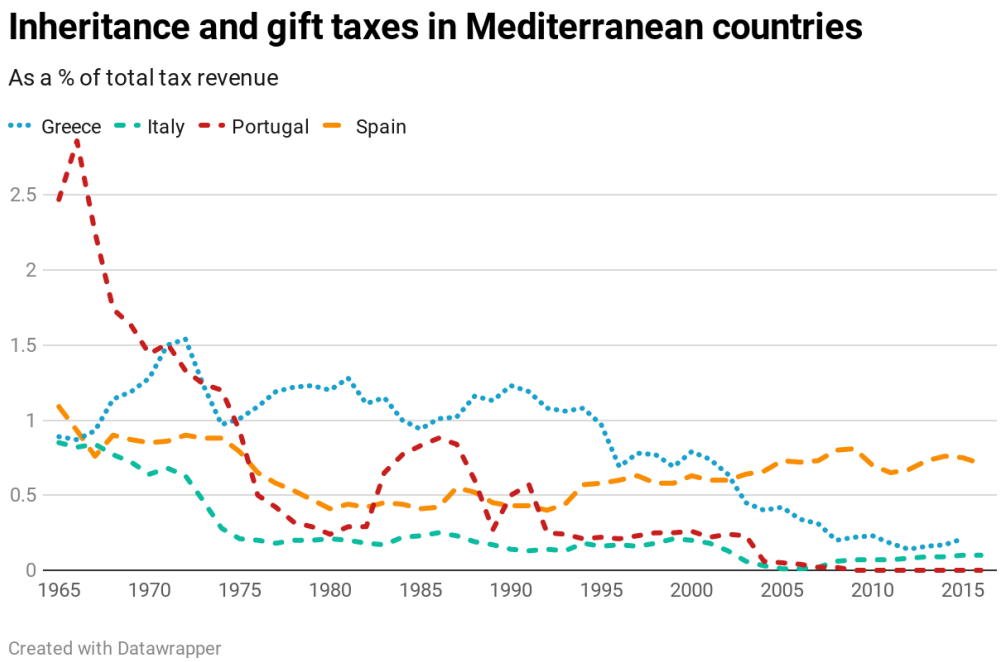

Figure 38: Inheritance and Gift Taxes as a Share of Total Tax Revenue: Southern European Countries

9.3 Wealth Transfer Taxation in the UK and Comparator Countries

In the UK, estate duty was replaced by Capital Transfer Tax (CTT) in 1975. Under CTT, transfers in excess of specified limits made during a person's lifetime were accumulated, with tax assessed on a sliding scale on the total amount. All transfers made at death or within a number of years before were taxable at a separate, higher sliding scale. CTT was reduced in scope during the 1980s with most lifetime gifts removed by the 1986 Finance Act and renamed Inheritance Tax (IHT). Currently, inheritance tax is applied at a 40% rate to estates that are worth over £325,000; an additional allowance (currently £125,000) was introduced in 2017 for the value of a family home left to children or grandchildren. As far as gifts are concerned, no IHT is paid (regardless of the size of gift) on gifts made more than seven years before the donor's death. If the donor dies before the seven years have passed, IHT can be

charged at 40% on gifts made within three years of death, with the rate tapered down after that by 8 percentage points per year to 8% in year 6.

In France, succession tax is levied on the beneficiary(ies) of the estate and paid independently by each heir on the share they receive. Children can each receive €100,000 tax-free (in 2019), while for other relatives and non-relatives the allowances are much lower. Succession tax is applied when assets pass on death or as lifetime gifts. The tax rates for children on inheritances and lifetime gifts range from 5% to 45% depending on the amount, with higher rates for other relatives and a rate of 60% for non-relatives.

In Germany inheritances and gifts given during someone's lifetime are also taxed such that the tax rates and tax-free allowances depend on both the amount involved and the relationship between the deceased and heir/ donor and recipient. Various exemptions apply equally to gifts and transfers upon death. Currently, the tax rate for gifts/inheritances to children and grandchildren range from 7% to 30%, while for more distant relatives the range is 15% to 43% and for non-relatives from 30% to 50%. These taxes operate at federal level.

In Italy inheritance and gifts are taxed at 4% for spouses and children of the donor, with an exemption for the first 1 million of assets and cash transferred to each beneficiary; rates are higher and allowances lower for other relatives, with non-relatives of the donor paying 8% with no exemption threshold. Gifts during life are subject to the same tax structure which is paid separately. Moreover, in the event of an inheritance, all the gifts received during life by the same donor will reduce the individual tax exemption threshold, creating an almost complete integration of gifts and inheritance tax.

A full integration of gifts and inheritance tax operates in Ireland, where inheritances and gifts are taxed via Capital Acquisitions Tax (CAT). The tax is payable when gifts and inheritances received by an individual over his or her lifetime exceed a threshold amount. Amounts over that threshold are currently charged at a rate of 33%. The threshold is currently €335,000 for children of the donor, with much lower amounts for other relatives (including grandchildren) and for non-relatives. Capital Acquisitions Tax was first introduced in 1976, replacing the system of death duties which had been in place for over a century and was very similar to the British system of estate duties up to that point.

In Spain, inheritances and inter-vivos gifts are taxed at national level, with a progressive rate currently starting at 7.65% and reaching a maximum of 34% for taxable amounts over €800,000. For inheritances there is a general exemption threshold for main residence transmission via inheritance to children. Inter-vivos gifts may give rise to an income taxation liability for the donor if there has been an increase in the value of the asset since acquisition, which does not apply in the case of transmission via inheritance. The seventeen Autonomous Regions can establish deductions to the inheritance and gift tax, and all now apply total or significant relief. In some regions direct descendants pay only nominal amounts in inheritance tax, and in others recipients only pay if their receipts are above often relatively high thresholds. These reliefs are also substantial for *inter vivos* gifts in some regions, but in general are not as significant as for inheritances, so there is little fiscal incentive for transfers to be made via gifts.

In the US, the federal government does not have an inheritance tax, and only six states collect one. There is a federal estate tax, but very few pay it because only estates valued at more than $11.4 million (in 2019) are liable. Cumulative gifts made during life are summed to the total value of the estate left at death to determine the final tax liability, making estate and gift taxes fully integrated. At one point all US states had an estate tax, and the federal estate tax had a credit toward state-level estate taxes and states based their own tax rates on this federal credit. In 2001 federal tax law eliminated the credit and many states repealed their estate taxes as a result. Only twelve states and the District of Columbia now collect an estate tax at the state level, while a few states also collect a separate inheritance tax.

9.4 Issues in the Taxation of Intergenerational Transfers

Taxes on wealth transfers between households can be structured in a variety of different ways. In particular, they can be based on the donor or on the recipient. Estate taxes are based on the total value of net wealth transferred at death regardless of how it is divided among heirs, whereas inheritance taxes are based on the value of individual bequests received from a deceased person's estate regardless of its size. Gifts *inter vivos* may also be subject to taxation in different forms, levied on gifts made in a given tax year or over a lifetime. As discussed in the previous section, the degree of integration of gift taxation with transfers of wealth occurring at death appears to be a crucial feature. A fully integrated gift and estate tax exists when the total gifts made throughout a person’s life are added to the estate left at

death as a “last gift”. This is definitely not the case for the UK, where only gifts within 7 years before the death of the donor are subject to “integration” and therefore potentially liable for taxation. A partial integration applies in countries like Italy, France, Germany, and Spain in the context of the inheritance tax levied on the recipients. In such cases, the tax base can be composed of the inheritances as well as the lifetime gifts received by the same donor. The application of a lifetime capital acquisition tax, like the one in Ireland, makes the integration of inheritance and gifts taxation complete. An important distinction here is that all gifts and inheritances received over the lifetime by a person are subject to taxation irrespectively of the donor’s identity. The tax base is therefore the lifetime acquisition of fortunes via inheritances and gifts.

As noted in describing the evolution of tax revenues, taxes on bequests have been abolished in recent decades in a number of rich countries, notably Austria, Czech Republic, New Zealand, Norway, Portugal, and Sweden. It is worth setting out the arguments advanced for this policy shift as they resonate in debates elsewhere including the UK. When Norway abolished its tax in 2014, arguments about fairness with respect to middle-class individuals dominated the debate, and the claim that the tax impeded the transfer of family businesses to the next generation and was considered complicated with high administrative costs also featured. (Note that Norway kept an annual wealth tax in place.) In New Zealand, inheritance taxation was abolished in 1992 mainly because of increasing tax avoidance, and the gift tax was abolished in 2011 mainly due to high compliance costs and the low revenue produced. In Sweden, inheritance taxation was abolished in 2004 amid perceptions that the rich avoided it while increasing tax rates meant a financial burden for the middle class, while the revenue was so low that it was considered unfair and ineffective (Henrekson and Waldenström 2016).

In the UK, recent discussion of these taxes has to an extent focused on more technical aspects of the quite complex current arrangements. In 2018, for example, the Chancellor of the Exchequer asked the Office of Tax Simplification (OTS), an independent statutory body, to review the tax to advise on how to simplify IHT from a “technical and administrative” perspective. In a report issued in mid-2019 the OTS recommended reducing the seven years exemption for gifts to five to make it easier for executors (as bank records required would be available for that shorter period), and also suggested scrapping the taper allowance, which it found was widely misunderstood and only rarely used. It also recommended that the existing range of free gift allowances, unchanged since the 1980s and poorly understood, be

replaced with one allowance per person. In the recent election inheritance tax featured only to the extent that the Labour party proposed to abolish the addition to the exemption threshold when a home is given to children or grandchildren introduced in 2015. HMRC is also actively examining specific tax treatments that allow the very wealthy to avoid tax by various means, with the aim being to close some of these loopholes.

From a structural perspective, some debate among academics has focused on whether taxing the overall estate and gifts made by the deceased person should be replaced by a tax on lifetime capital receipts of individual beneficiaries. Such a shift was advocated forcefully by for example the late Tony Atkinson in his 1972 volume *Unequal Shares* and again in his book *Inequality: What Can be Done* (2015). Under such a lifetime capital receipts tax, every legacy or gift received by a person is recorded from the date of initiation of the tax, and the tax payable is determined by the sum received to date. All gifts inter vivos above an additional modest annual exemption would be included, but transfers between spouses/partners would not generally not be included.

It may be recalled from the previous sub-section that Ireland made precisely this shift in structure in the 1970s; from a UK-style estate duty to a capital acquisitions tax. Such a structure may be regarded as more attractive from a fairness perspective, in that beneficiaries who are equally placed in terms of their aggregate transfer receipt (and their relationship to the donor) will pay the same amount of tax. The Irish experience does not suggest however that such a shift necessarily facilitates a significant increase in revenue generated. Looking back at Figure 28 shows that in the Irish case revenue fell back for a period as the new system was introduced, as might be expected, though there had been a much more precipitous decline in revenue the preceding decade, paralleling the British experience. Revenue from the tax then picked up as a percentage of total taxes for Ireland, and since around 1990 has in fact closely tracked the corresponding UK figure. This does not mean that the capacity of the two systems to raise revenue is necessarily the same, or that the Irish experience is representative. It does however suggest that the political pressures under which either system operates, for example to raise thresholds when more people are drawn into the tax net, are similar. The arguments for shifting to a lifetime capital receipts tax are thus probably best framed in terms of equity or administrative considerations, rather than the expectation that it would readily allow taxes on wealth transfers to make a much greater contribution to overall revenue.

Moreover, the failure to generate substantial additional revenue may not necessarily be a sign of "failure" of the tax as low revenues may result from an underlying less unequal distribution of wealth. Lifetime capital receipts tax is largely designed to reduce inequality of lifetime wealth transfers among individuals and to incentivize wealth distribution in the population. As emphasised by Atkinson in *Unequal Shares* "even if the lifetime capital receipt tax did not generate any additional revenue, it might still be a much more effective means of securing redistribution. The amount of revenue is not necessarily a good indicator of the extent of redistribution: if the lifetime receipts tax led the rich to give away their wealth in small parcels to people without much wealth the revenue might be very small, but the tax would have been highly effective." (p171). Such redistributive patterns of wealth transfers would contribute to reducing inequality of opportunities among individuals.

Academic debates among economists in particular have also focused on the potential impact of different transfer tax structures and parameters on behaviour, not only on work, saving and investment behaviours (of both donors and recipients) but also on when transfers are made and in what form. Much attention has been paid in the UK case to the fact that gifts inter vivos made at least seven years before the donor's death are free of tax. That provision provides a very effective means of tax avoidance, which can considerably reduce tax liability. One might expect this to be reflected in a particularly large share of overall intergenerational transfers being made in that form rather than via inheritance. However, as we saw in Section 5, this is not evident in the household survey data analysed here; indeed, the share of transfers made via gifts reported in the surveys was relatively low in the British case. This partly reflects the particular issues arising in the way these were measured in WAS, which means that gifts will have been under-counted for the reasons explained in Section 4. However, even making an approximate adjustment to take that understatement into account, about 90% of total amounts transferred were seen to have been via inheritances, similar to Ireland and the US and much higher than for France or Germany. We noted though that administrative data point to a higher share for gifts in the UK case, pointing again to the need for further validation of the survey-based data against external sources.

This is certainly not to suggest that those transferring wealth are insensitive to the incentives built into the tax system and how those may change. Indeed, the very high proportion of transfers in the form of gifts in the case of France – where these were almost as substantial

as total inheritances received – is evidence to the contrary. Arondel and Laferrere (2001) combined evidence from administrative records and a national households survey to study the impact of the 1992 French law that made inter-vivos gifts partly tax-free and found that this resulted in a marked increase in gifts. Their broader conclusion, taking this and other aspects of the pattern of transfers they observed into account, is that wealth transmission behaviour is highly responsive to changes in the fiscal system. The fact that this is not evident in the scale of gifts in the British survey data, leaving measurement difficulties aside, suggests that there are other ways in which tax liability can be effectively minimised that do not require British wealth-holders to transfer that wealth 'prematurely' if they do not wish to do so. The detailed provisions of the tax code in terms of reliefs and exemptions provide ample scope for avoidance, particularly for the very wealthy, as reflected in the lower effective rate observed by the Office for Tax Simplification (2019) as being paid by those with the largest bequests compared with intermediate levels.

Examining the trends in revenue generated from capital transfer taxes over time across the seven countries, presented in Section 8.2, alongside the evolution of key system parameters such as the top tax rate and the exemption threshold also serves to highlight the importance of the way reliefs and allowances are framed. This examination occasionally throws up some fairly striking patterns. For France, for example, Figure 39 shows that several increases in the top tax rate on transfers were accompanied by increases in their revenue contribution. This much less obvious in the case of the UK, as Figure 40 shows. Figure 41 illustrates the US experience where some relationship may be seen. More generally, top tax rates and headline exemption limits will only take us so far (alongside the way underlying asset values change) in explaining or predict the evolution of revenue from capital transfer taxes. The intricacies of what is and is not liable for tax, in terms of the type of asset and the relationship of the beneficiary to the donor, make all the difference and cannot be captured in simple summary headline indicators of key parameters. That has major implications for any effort to restructure these complex structures or to significantly increase the revenue they raise.

Examining the trends in revenue generated from capital transfer taxes over time across the seven countries, presented in Section 8.2, alongside the evolution of key system parameters such as the top tax rate and the exemption threshold also serves to highlight the importance of the way reliefs and allowances are framed. This examination occasionally throws up some fairly striking patterns, as can be seen from Figures 39-42 which show the relationship

between the top marginal tax rate and revenue from wealth transfer taxes (as a share of total revenue) over time for the UK, France, Italy and the US respectively, and Figures 43-46 which show the corresponding picture for the main exemption thresholds and revenue. From these we can see that several increases in the top tax rate on transfers and relatively modest changes in the tax exemption threshold were broadly accompanied by increases in their revenue contribution. Conversely, the substantial drop in the top marginal tax rate in Italy and the US, coupled with marked increases in the tax exemption threshold, resulted in much more visible and volatile changes in tax revenues. This is much less obvious in the case of the UK where top marginal estate tax rate dropped from 75% to 60% in 1985 and to 40% in 1988 with no further changes until recent years whereas the exemption threshold moderately and steadily increased from £50,000 to £325,000 over the same period.

More generally, top tax rates and headline exemption limits will only take us so far (alongside the way underlying asset values change) in explaining or predicting the evolution of revenue from capital transfer taxes. To make proper comparisons we would also need to examine the entire tax schedule and take fully into account the heterogeneous treatment of gifts across different countries tax regimes. Similarly, the intricacies of what is and is not liable for tax, in terms of the type of asset and the relationship of the beneficiary to the donor, can make all the difference and cannot be captured in simple summary headline indicators of key parameters. That has major implications for any effort to restructure these complex structures or to significantly increase the revenue they raise.

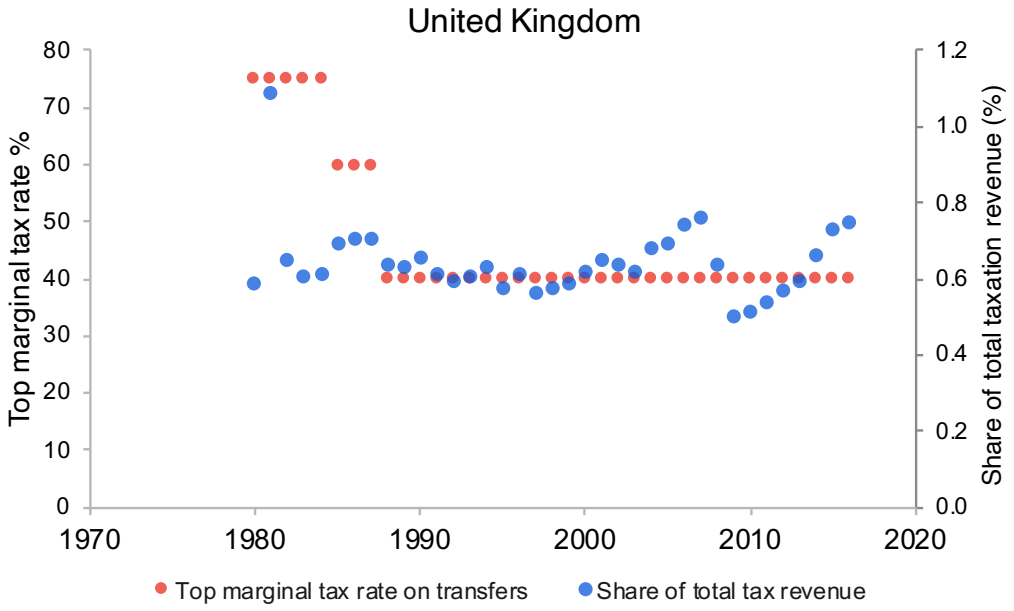

Figure 39: Revenue from Wealth Transfer Taxes and Top Marginal Tax Rate, UK

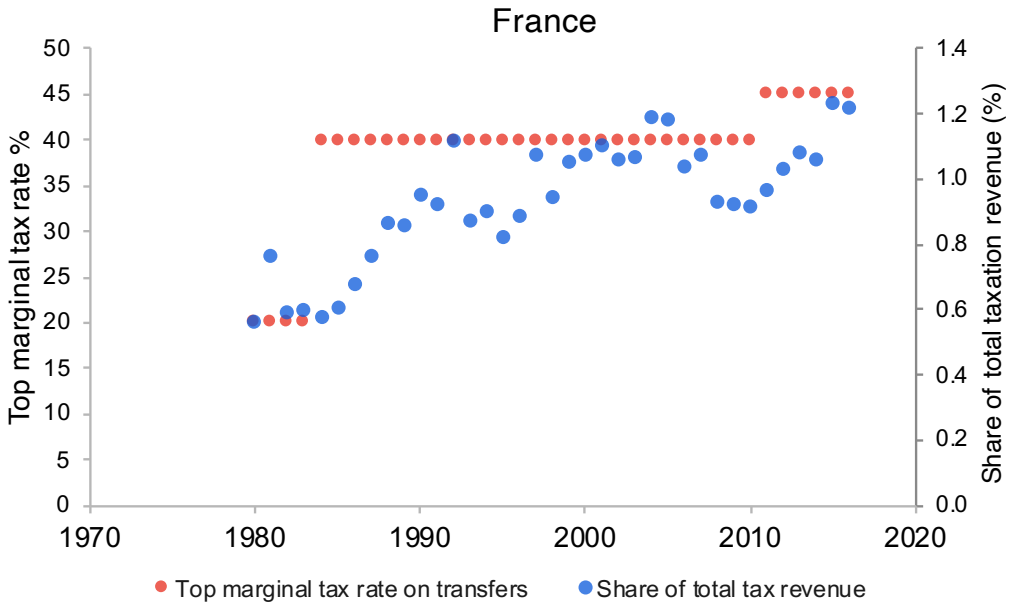

Figure 40: Revenue from Wealth Transfer Taxes and Top Marginal Tax Rate, France

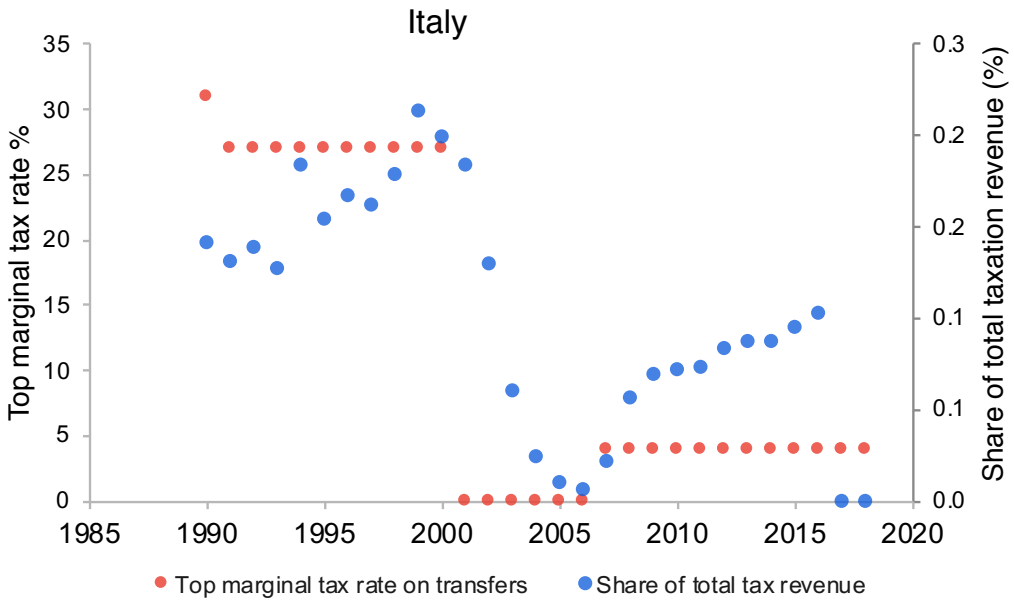

Figure 41: Revenue from Wealth Transfer Taxes and Top Marginal Tax Rate, Italy

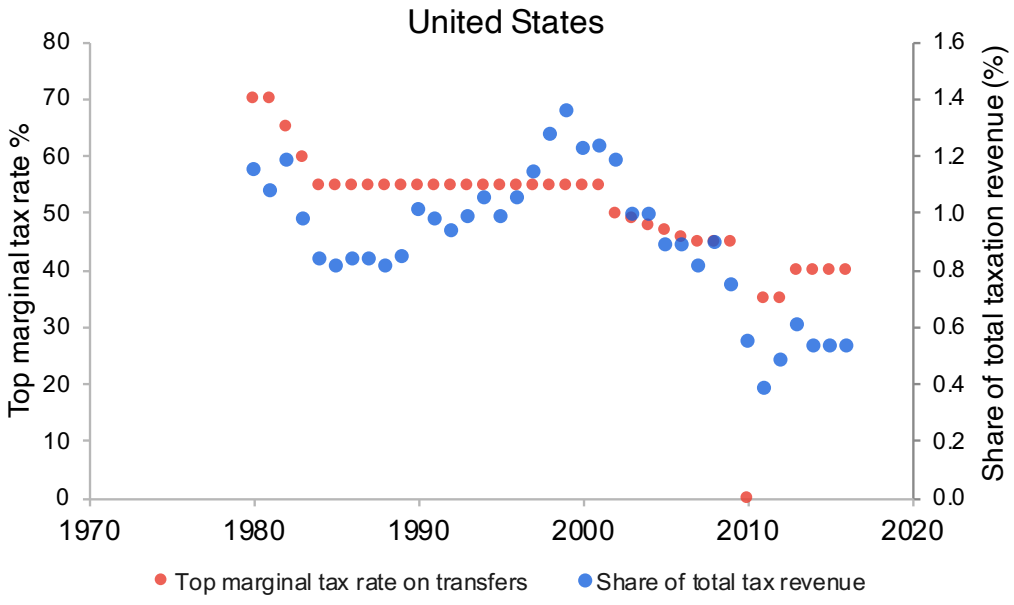

Figure 42: Revenue from Wealth Transfer Taxes and Top Marginal Tax Rate, US

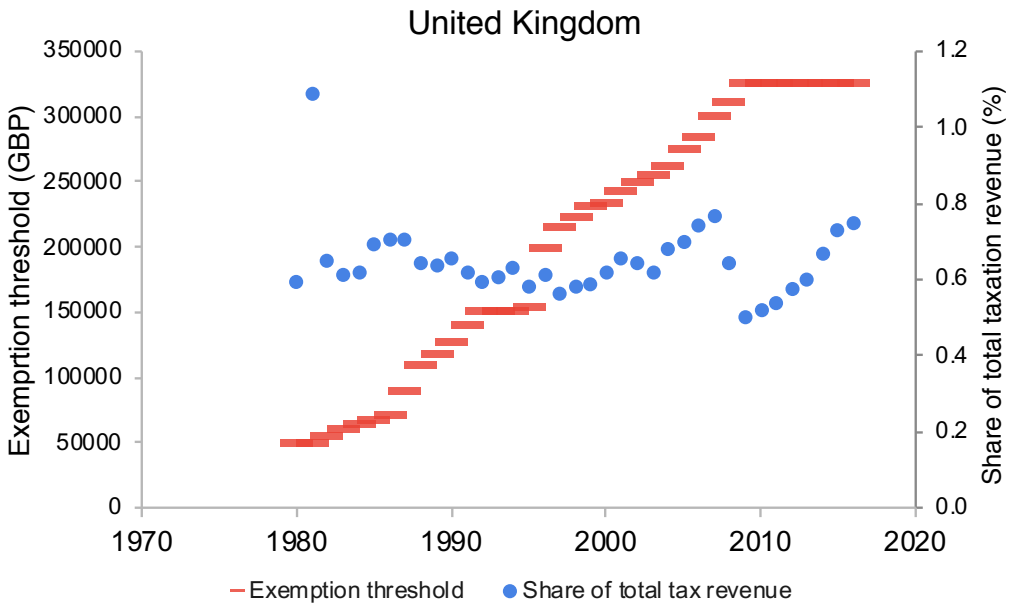

Figure 43: Revenue from Wealth Transfer Taxes and Exemption Threshold, UK

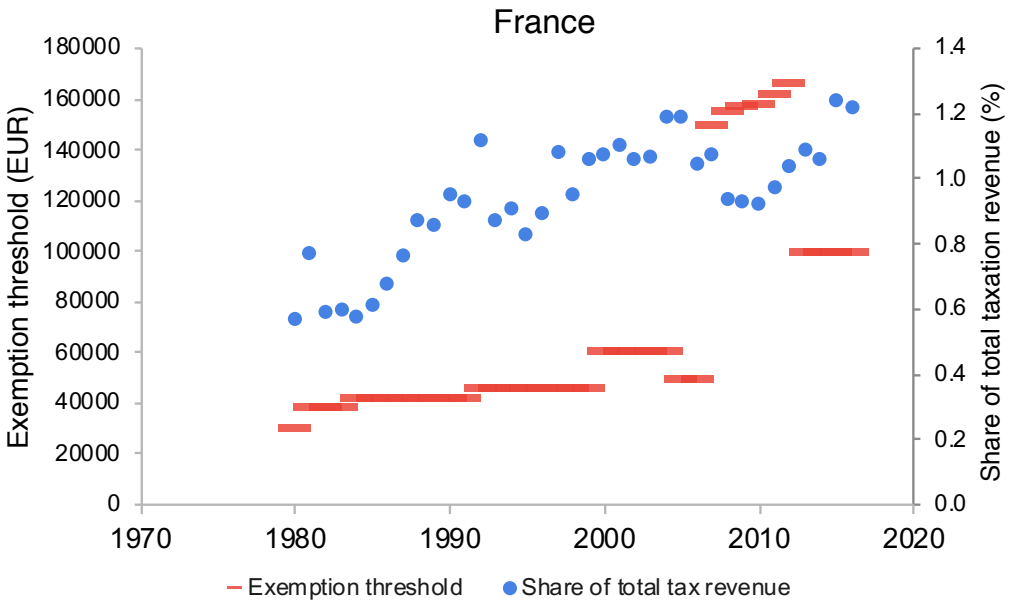

Figure 44: Revenue from Wealth Transfer Taxes and Exemption Threshold, France

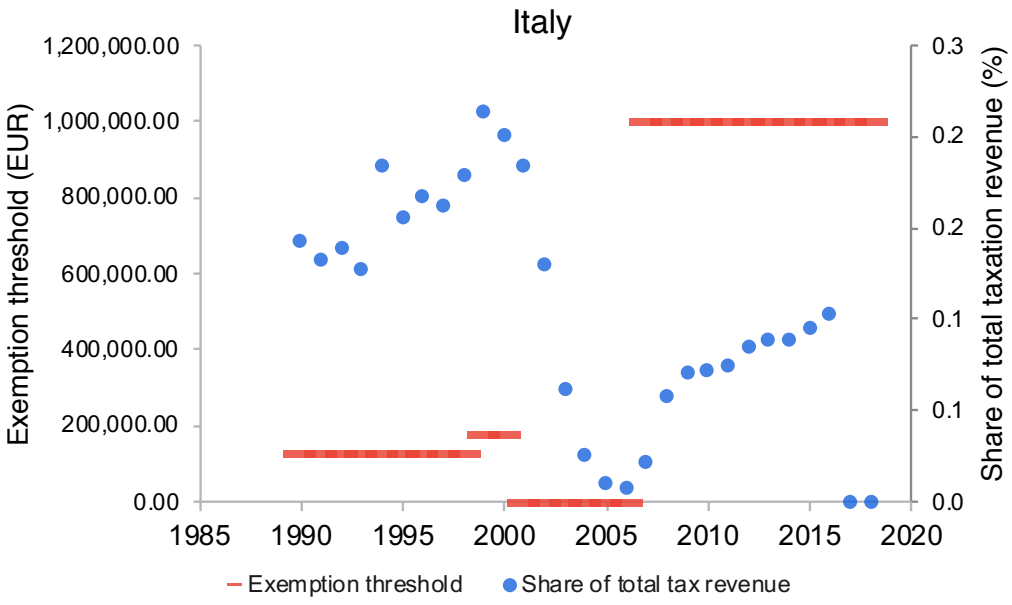

Figure 45: Revenue from Wealth Transfer Taxes and Exemption Threshold, Italy

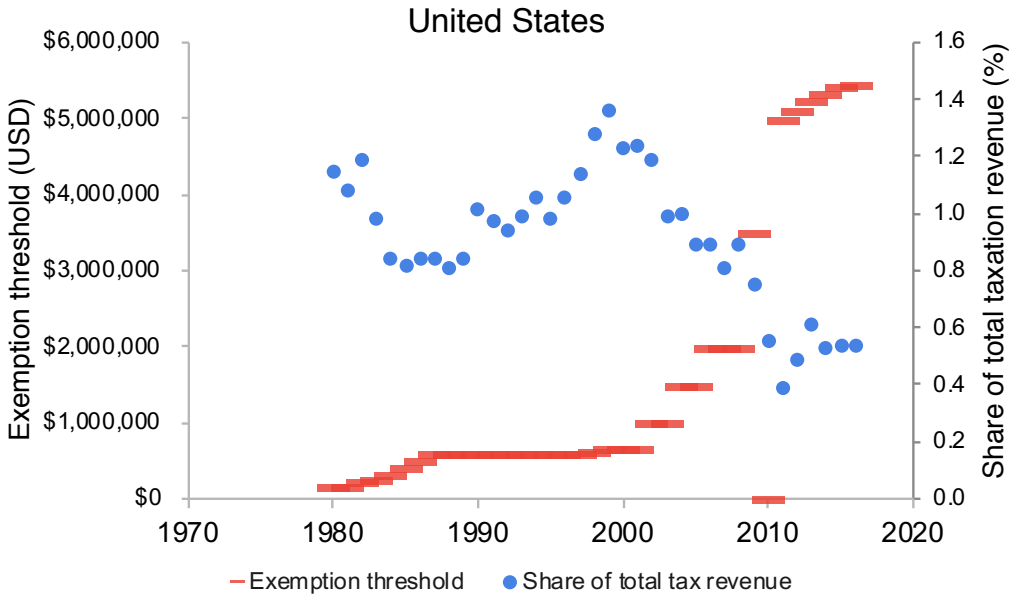

Figure 46: Revenue from Wealth Transfer Taxes and Exemption Threshold, US

9.5 Conclusions

In concluding this chapter it is worth highlighting first that, while reforming how intergenerational transfers are taxed itself clearly has the potential to reduce the role these transfers play in generating wealth inequality, this can be considerably enhanced when combined with the direct wealth transfers it could contribute to funding Atkinson (2015) for example proposed to use the proceeds from the lifetime wealth transfers tax to fund a universal inheritance payable on reaching adulthood. This idea was echoed in the UK by the Resolution Foundation targeting 25 years olds with a transfer of £10,000, and in Italy by the Forum on Inequality and Diversity proposing to an "inheritance for all" of €15,000 to all 18 years old in Italy. Similarly, Milanovic (2019) sees universal capital transfers as key to "deconcentrating capital ownership". Piketty (2019) proposes a very substantial capital endowment of approximately 60 percent of average adult wealth (about €120,000 in France) at the age of 25 to allow the bottom 50% of the wealth distribution to acquire significant assets and participate fully in economic and social life, funded by a recurrent and steeply progressive personal wealth tax in combination with highly progressive income and inheritance taxes.

Finally, it is also worth reiterating that the arguments for reforming the way intergenerational taxes are structured, notably for moving towards a lifetime capital acquisitions tax, do not have to rely on the expectation that much greater revenue can be raised in that way. Instead, that case can be convincingly made purely in terms of fairness and efficiency.

10. Conclusions

10.1 The Importance of the Topic

The point of departure for this report has been the extent to which inequalities in the distribution of wealth as well as income are now of major concern for their economic, social and political impacts. Wealth derived primarily from inheritance or gifts between generations is distinctive in many respects, not least in the normative and practical issues that arise with respect to taxation. In the current context where wealth levels of older age cohorts have generally risen relative to average incomes in recent decades, giving rise to concerns about widening intragenerational inequalities, the role of intergenerational transfers looms particularly large in current British debates.

The importance of inherited wealth versus life-cycle saving for wealth inequality has been hotly debated among researchers for many years (see the overview by Davies and Shorrocks, 2000). Some recent studies based on microdata have concluded that inheritances actually serve to reduce wealth inequality, for example Wolff and Gittleman (2014) using US data and Elinder *et al* (2018) and Boserup *et al* (2016) using Swedish and Danish data respectively. For the UK, Karagiannaki and Hills (2013) and Karagiannaki (2017) analysed inheritances and gifts reported in the British Household Panel Survey from 1996–2005, and concluded that these had only a limited impact on wealth inequality. Crawford and Hood (2016) analysed data on lifetime receipt of inheritances and gifts of older persons (aged between 65 and 79 when interviewed) from English Longitudinal Study of Ageing. They conclude that inheritances and gifts are equalising in terms of conventional measures of marketable wealth, but when the value of future entitlements to public and private pensions is also included as wealth that impact is negligible.

This report contributes to those debates by investigating patterns of wealth transmission across generations and the role this plays in wealth accumulation and the generation of wealth inequality in Britain compared with other rich countries. It is the first study to investigate the intergenerational transmission of wealth via inheritance and gifts *inter vivos* in Britain in such a comparative framework in significant depth. The research exploits the fact that data for Britain and other rich countries is now available from large-scale official household surveys on intergenerational transmission of household wealth via inheritance and

gifts across the entire distribution. There are very few comparative studies of patterns of inheritance/intergenerational transfer in surveys, exceptions being Fessler, Mooslechner and Schürz (2008) and Fessler and Schürz (2015). This study employs that perspective, bringing Britain centrally into the comparative picture. On that basis it re-assesses the role these transfers play in the accumulation of wealth and wealth inequality across the distribution as a whole. To bring the available British survey data to the point where this could be done satisfactorily, various challenges had to be addressed. As well as underpinning the findings from this study, doing so will be of significant benefit to future researchers.

10.2 Using Survey Data to Study Intergenerational Wealth Transfers

Data gathered from administration of taxes on inheritances and gifts provide one major source of information about those transfers. However, they capture only those transfers that come within the purview of the tax system, so the substantial number that do not have to be reported, in particular smaller amounts, will be missed. Furthermore, little information about those receiving the transfer will be available in such tax records, even when researchers can access them. Household surveys, on the other hand, can provide a detailed picture of those receiving wealth transfers, including how much wealth they have, and can cover the entire distribution. Surveys may struggle to fully capture the top of the distribution and large, rare transfers, although effective over-sampling of high wealth individuals/households may significantly improve their capacity to do so. Furthermore, although properly aligning survey data from one country to the next faces challenges, that is much more straightforward than for figures derived from very different underlying tax structures.

Data from household surveys specifically designed to capture wealth levels, and including information on receipt of wealth transfers, are now available for quite a wide range of rich countries. The USA led the way with the Survey of Consumer Finances (SCF), which has been carried out by the Federal Reserve every third year since 1983. The SCF is mostly a cross-section survey with a new sample drawn each wave. Crucially, it oversamples towards the top of the distribution to improve the capture of high-wealth cases, using information provided by the Internal Revenue Service from individual income tax returns on income from different types of assets. Much more recently, the Household Finances and Consumption Survey (HFCS) is now in place across European countries that are members

of the Eurozone, coordinated by the European Central Bank. The HFCS is also mostly a cross-sectional survey, with fieldwork for the first wave mostly in 2010-2011, a second wave around 2014, and a third wave around 2017. While efforts are made where possible to over-sample wealthy households, most often based on geographical location, what has been done in that respect varies across countries. In addition to in-depth information on wealth holdings, both the SCF and the HFCS seek details from respondents about the most substantial inheritances and gifts received over the lifetime, including the value and year of receipt and from whom it was received.

In this report we employed SCF data for the US together with data from the HFCS covering France, Germany, Ireland, Italy and Spain, giving a spread of rich countries in terms of features such as wealth levels and composition and institutional contexts with which Britain can be compared.

10.3 Using the Wealth and Assets Survey to Study Intergenerational Wealth Transfers for Great Britain

The Wealth and Assets Survey (WAS) is a longitudinal survey carried out by the Office for National Statistics (ONS) which began in mid-2006 covering Great Britain and is regarded by ONS as the most suitable source of data for analysis of wealth and wealth inequality for the period it covers. It seeks in-depth information from respondents about wealth held in various forms and debts, as well as income and a range of demographic and other characteristics. To increase the likelihood of including households towards the top of the wealth distribution, it employs an oversampling strategy based on geographical areas. The longitudinal nature of WAS is central to its design, to allow change over time in wealth to be tracked at household level, distinguishing it from the cross-sectional wealth surveys we used for other countries.

The first wave of WAS interviews was carried out from mid-2006 to mid-2008, Wave 2 was from mid-2008 to mid-2010, and Wave 3 mid-2010-mid-2012. To mitigate the effect of substantial attrition, a new set of additional addresses was also included in the Wave 3 sample. Three further waves have been carried out, most recently Wave 6 in 2016-2018, but here we concentrated on data from the first three waves because of the way information about wealth transfers was gathered. Wave 1 asked respondents about inheritances received

in the previous five years, and separately about inheritances received longer ago than that. Subsequent WAS waves asked only about inheritances and gifts received in the previous two years, corresponding to the period between waves. This means that later waves cannot provide a picture of lifetime receipts to place alongside the corresponding figures for other rich countries from the surveys described above. However, Wave 1 was mostly collected before the onset of the financial crisis, whereas data for other European countries is available only after the crisis struck, so relying purely on Wave 1 is not ideal either.

The strategy we adopted was to merge data from WAS Waves 1, 2 and 3 and add the transfers reported in Waves 2 and 3 to those reported in Wave 1 for those who responded in all three waves. To align survey timing across countries insofar as possible, we compare these with 2010 SCF data and HFCS (mostly) Wave 1.

This 'continuing' sample is considerably smaller than the original Wave 1 sample due to the scale of attrition but is similar to the both the full Wave 3 sample and the initial Wave 1 sample in terms of key demographic and other characteristics. For inheritances, aggregating across these waves provides a picture of total inheritances received up to the Wave 3 interview. For gifts, however, since Wave 1 respondents were only asked whether they had received a gift in the previous two years, combining information across waves only covers those received in the six years before the Wave 3 interview.

For three-quarters of Wave 1 respondents who reported received an inheritance in the past 5 years, and one-fifth reporting receipt prior to that, no value for the amount received was obtained. We applied a statistical imputation procedure for these missing values based on those for whom full information was obtained. The WAS asks about the value of inheritances received after tax and other deductions, while the surveys for other countries ask for gross values. We therefore estimated before-tax values using the tax rates and thresholds in force in the year the inheritance was received, taking into account recent evidence that the effective tax rate at the top is considerably lower than the statutory rate. Finally, SCF and HFCS respondents were asked about an inheritance or *substantial* gift, whereas in WAS no such qualifier was used and considerably more quite small amounts are reported. To bring the datasets into closer alignment, we set country-specific thresholds below which transfers are not included in our analysis.

We focus on the household as the unit of analysis, as noted earlier, since the SCF and HFCS, unlike WAS, do not seek the information on transfer receipt or wealth at the level of the individual adult. This means that differences between household members (for example by gender) cannot be probed, but much can still be learned by examining differences across households, where the gender and education level of the household reference person can be included in the analysis.

The wealth transfers included should in principle cover the full range of assets in the form of for example cash, housing, land, business, securities or shares and other financial assets, jewellery and art; housing costs, university fees or other expenses paid directly by non-resident parents or grandparents on behalf of a household member may well not be captured. The net wealth concept covered marketable real and financial assets minus debt outstanding. It does not include the value of occupational pension entitlements, which can be estimated using WAS, as this is very difficult to assess in a robust and comparable way across the countries covered.

10.4 Key Features of Wealth Transfers in Britain and Other Rich Countries

With the WAS 'data treatments' we implemented, about 35% of British households were seen to have received an intergenerational wealth transfer at some point. This figure was similar to France, Germany and Italy, somewhat higher than Spain and Ireland, and much higher than the US where only 19% of households reported having received such an inheritance or gift.

Focusing purely on inheritances, Britain had the highest level of reported receipt at 30% of households, compared with the US at the other end of the spectrum with only 17%. The corresponding British figure for receipt of substantial intergenerational gifts, at 8%, was in the middle of the range but also much higher than the US where it was only 2%. (The British figure for receipt of gifts would have been almost 20% if 'small' gifts were included, whereas this made little difference in the other countries.)

In Britain, for those receiving a transfer in the form of inheritances or gifts the average amount received in total was about £115,000 (in 2010 £ terms). The median receipt was

much lower at about £35,000, with some very large receipts boosting the average. Expressed in common currency terms, the median or typical amount received for Britain was similar to the corresponding figures for France and the US and lower than the other countries covered.

For Britain, about 96% of the total measured wealth transferred was through inheritance rather than gifts. Adjusting for the likely level of gifts 'missed' by the short observation window, about 90% of the total transfer of wealth for Britain was via inheritances, similar to Ireland, Spain and the US. For France and Germany, in contrast, about one-third of total transfers were via gifts, reflecting both the relatively high proportion of households reporting gifts and the fact that gifts were on average as large as inheritances there.

Expressed as a percentage of the stock of (net) wealth, the total intergenerational transfers receipts captured in the household surveys ranged from 12% for the US, 18% for Britain, 22/23% for Ireland and Spain, about 32% for France and Germany and over 40% for Italy. If gifts 'missed' by the short retrospective window for them in WAS had been captured that figure for Britain would still have been no more than about 20%.

Some transfer receipt was quite common across the entire age (when surveyed) distribution, with the pattern for Britain being distinctive in the relatively high proportion of younger respondents reporting receipt (which is much rarer in the US). Unsurprisingly, younger respondents had received much lower amounts on average than older ones, though, so only about 5% of the total transferred went to those under 35, compared with 40% those aged 65 or older.

About half the households in the top quarter of the income distribution in Britain reported having received some transfer, compared with 21% for the bottom quarter. The average amount received rose consistently with income, but the really marked divergence was at the very top, where the top 1% received more than 6 times the overall average.

Ranked by position in the wealth distribution, 56% of those in the top quarter received an inheritance or gift in Britain compared with 15% of those in the bottom quarter, the latter still being relatively high compared with Germany or the US. More than one-third of those at the very top of the wealth distribution in Britain had not received any inheritance or gift; that figure was considerably higher in the US. British households in the top quarter received

about two-thirds of the total amount transferred, while the bottom one-quarter received less than 5%, which was still higher than in the other countries.

10.5 Who Receives Intergenerational Transfers?

The characteristics of those who have versus have not received intergenerational transfers were probed via statistical analysis. The results showed that age was a major factor in all countries, though the steepness of that age gradient was less pronounced for Britain than the other countries. Households with a male 'reference person' were more likely than those with a female to have received a transfer in Britain and France but not elsewhere. Level of education was a strong predictor everywhere except Spain, with the relative advantage of those with tertiary education being most marked in Britain.

Statistical analysis of the variation in the transfer amounts received among those who got some revealed that age and education level are again generally powerful predictors. For Britain, France and the US that relationship with both age and education was particularly strong. For Britain, someone with a third-level qualification was 28% more likely to have received some intergenerational transfer than someone with only lower secondary education, controlling for age and gender, and among recipients would be expected to have received 68% more on average.

10.6 Intergenerational Transfers and Household Wealth

The influence of having received intergenerational transfers on the household's current level of wealth is of central importance but very difficult to assess reliably. It depends on many factors, most obviously whether the transfers received were devoted to consumption or saved, and if saved how they were invested and what return they generated. A full assessment would also need to take into account the impact of receiving such transfers on other decisions made by household members with respect to saving and earning, since receipt might reduce other savings and the incentive to earn. Here we applied several more limited but still informative analytical approaches that shed light on the relationship between intergenerational transfer receipt and current wealth, exploiting the comparative data we assembled.

The first simply looked at levels of wealth, and its composition, for those who did versus did not report having received some transfer. For Britain, transfer recipients had average wealth of £500,000 compared with only £220,000 for non-recipients, a gap that was similar to the other European countries covered but much less than in the US. Distinguishing between different components of wealth, that gap was widest for owning one's principal residence: for Britain, 84% of those who received a transfer owned their own house compared with 60% for non-recipients.

Transfer recipients also differ from non-recipients in a variety of other ways that would be expected to influence their wealth, including age and education. When we controlled statistically for those differences the wealth gap between recipients and non-recipients narrowed but remained substantial; for Britain it was still of the order of £200,000 on average. The relationship between transfer receipt and owning one's own house accounted for a substantial proportion of this difference, but for Britain (and even more so the US) financial and business wealth also played a major role.

We then sought to capture the relationship between transfer receipt and where households were located in the wealth distribution, their wealth rank. Looking again at the distinction between recipients and non-recipients, we found that among those aged 50 or over receipt is associated with being about 20 percentage points higher across much of the wealth distribution. In other words, if someone who had not received a transfer was at the mid-point of the distribution,, we would expect to see a person with the same characteristics (in terms of age and education) who had received a transfer at the 70th. percentile. That gap was less approaching the top of the distribution as the scope to move up is more limited there.

We also incorporated the size of the transfer into that analysis of wealth ranks, distinguishing transfers in the lowest half by size, medium-sized ones, and very large receipts (in the top 10%). This revealed that while receipt of any transfer is associated with a higher rank, receiving the largest transfers is associated with a much larger increase in rank. This may reflect a variety of other factors associated with receiving such a transfer, as well as the influence of the transfer itself.

10.7 Intergenerational Transfers and Household Wealth Inequality

Like the influence on wealth levels, assessing the impact of intergenerational transfers on overall wealth inequality is also extremely complex, with different studies suggesting that it is equalising or dis-equalising. Once again here we implemented several different analytical approaches to exploit from different angles the potential of the data we assembled. The first was a decomposition exercise, adapted from the research literature on decomposing income inequality. For that purpose, we distinguished 'transfer wealth' from 'non-transfer wealth', with the former being the accumulated value of transfer receipts and the latter being the difference between that and total current wealth. Where our estimate of transfer wealth exceeded total current wealth, as it did in a substantial minority of cases, transfer wealth was capped at current wealth.

Taking the amount received in transfers indexed to consumer prices since receipt as the measure of transfer wealth, that represented about 12% of the current wealth stock of households for Britain, lower than the corresponding figures for the other European countries but higher than the US. Transfer wealth was a good deal more unequally distributed than non-transfer wealth and total wealth for Britain and each of the other countries, reflecting the fact that only a minority of households received any. However, taking its correlation with non-transfer wealth into account, the contribution of transfer wealth to overall inequality indicated by the decomposition exercise was positive but relatively modest, accounting for only about 12% in the case of Britain. This was less than in the other European countries though more than the US, reflecting primarily the variation in the importance of transfer wealth in total wealth.

We then examined an alternative measure of the wealth generated by transfer receipt by applying a capitalisation factor of 3% real return per annum, a crude simplification often adopted in the relevant research literature in the absence of information about the actual returns generated. This had little impact on inequality in transfer wealth itself but increased the importance of transfer wealth in total wealth and its contribution to overall inequality. In the case of Britain both the share of transfer wealth and its contribution to overall inequality increased to about 15%, again less than in the other European countries but more than the US. These calculations implicitly assumed that transfers are saved rather than spent down,

except when estimated transfer wealth exceeds current wealth; however, assuming that a quarter of all transfers received were consumed rather than saved was seen to make little difference.

The fact that the Gini coefficient for total wealth was below that for non-transfer wealth could be taken to mean that transfers were equalising, and our results for Britain from WAS for the entire age range are consistent in that sense with Crawford and Hood's findings from ELSA for the age range 65-79 only. (In the decomposition exercise, by contrast, only if transfer wealth was negatively correlated with total wealth would it be seen to be inequality reducing.) However, the 'no transfers' counterfactual this involves is arguably not the most relevant in assessing the role of transfers. Instead, it may be more relevant to ask what the wealth distribution would look like if there were more or fewer transfers than we observe.

We did this by employing recentered influence function regressions to estimate what inequality in the wealth distribution would be expected if there was a marginal increase in the number of recipients of intergenerational transfers, controlling for age, gender and the interactions between them and transfers. The results suggested that in Britain and most of the other countries, having more transfer recipients and correspondingly fewer non-recipients would be expected to reduce wealth inequality modestly but statistically significantly. This reflected the fact that increasing the proportion of transfer recipients served to increase the frequency of households around the middle of the wealth distribution, to which the Gini coefficient is particularly (negatively) sensitive. Having marginally more recipients of small or medium-sized transfers would have a similar impact. The results were quite different when only large transfers were included in the analysis, however: increasing the proportion of those transfers generally increased overall wealth inequality.

We also investigated the role of intergenerational transfers in the context of the burgeoning recent research literature on 'inequality of opportunity', focused on assessing the extent of 'unfairness' in how advantaged versus disadvantaged background circumstances beyond a person's own control affect outcomes such as educational attainment, income rank or social class position. Here we applied the analytical framework developed in that literature to where people were in the wealth distribution as the outcome of interest, with the extent of their intergenerational transfer receipt treated as a background 'circumstance'. Distinguishing non-recipients and then recipients of transfer amounts of differing sizes and controlling for

age and gender, we found that those in receipt of large transfers (in the top quarter of transfer amounts in the country in question) were predicted to have higher wealth than others right across the wealth distribution. The results for smaller transfers were less consistent, while the impact of non-receipt was clearest towards the bottom.

Estimating what the wealth distribution would look like if transfers had no such impact on wealth led to the conclusion that inequality (adjusted for age and gender) would then be about one-third lower in the case of Britain. Incorporating other aspects of family background potentially correlated with transfers into the analysis, namely parental occupation or education, reduced the estimated contribution of transfers but that remained substantial. Britain was seen to be similar in that respect to France, Spain and the US, the other countries for which this part of the analysis could be implemented.

The findings from this approach cannot easily be aligned with those produced by the RIF-regression approach because they are asking rather different questions: the underling point of comparison or counterfactual is different. The RIF regression in essence asks how different would the wealth distribution be if there were more or fewer transfer recipients, whereas the inequality of opportunity approach asks how different would that distribution be if there was no transfer-related inequalities in the capacity to accumulate wealth.

10.8 Taxes on Intergenerational Wealth Transfers

Taxation of wealth transfers gives rise to considerable debate and contention, from both fairness and efficiency standpoints. This could be seen as disproportionate to their importance as a source of revenue: we saw that estate, inheritance and gift taxes rarely account for more than 1% of total tax revenue across the rich countries, and for a majority of OECD countries they account for 0.1% or less. The UK currently raises 0.7% of total government revenue from these taxes, about the same as the US. Of the countries included in our comparative analysis of transfer patterns, only France raises more and even there the figure is only 1.3%.

Taxes on wealth transfers have been declining in importance over time in many rich countries. Going back to the 1960s wealth transfer taxes accounted for 2.5% of total UK tax revenue, declining precipitously in the 1970s and fluctuating around their current level since

then. The average across the OECD countries began that period at about 1% but also declined in the 1970s as well as more recently. A number of countries, including Austria, Canada, New Zealand, Norway, Portugal and Sweden, abolished these taxes altogether. However, there are countries such as Belgium, France and Spain where these taxes have risen recently, though still only accounting for a very small share of total revenue.

The systems of wealth transfer taxation in operation in the countries we have included in this study were seen to vary widely, including with respect to whether they are levied on the estate of the deceased or the beneficiaries/recipients, how bequests versus gifts are treated, and how children of the deceased/donor versus more distant relatives are treated. The contrast between the current British and Irish systems was noted as particularly interesting. In Britain taxes are levied on estates over a threshold, with gifts made more than 7 years before the donor's death not liable. Ireland moved in the 1970s from taxing estates to taxing the accumulated receipts of bequests or gifts in the hands of the recipient. That type of lifetime capital acquisitions tax has been recommended as a way to reform the UK system is studies such as Atkinson (2015). The Irish experience suggests that the transition from taxing bequests to such a system can be made without a marked decline in revenue even in the shorter term. It also suggests, however, that both systems will be subject to similar political pressures to raise thresholds as more people are brought within the net by for example rising asset values, in particular house prices. With revenue currently exactly the same in Ireland and the UK as a proportion of total tax, the switch to a lifetime acquisitions framework may be more easily justified on an equity basis than as a way of promoting revenue-raising capacity.

Current policy with respect to these taxes in the UK is more focused on 'tweaking' particular technical aspects of the current structure. This includes how the 'family home' is treated when parents die; how businesses being passed on from one generation to the next should be treated; how gifts made within seven years of the donor's death should be treated; and whether allowances with respect to gifts should be simplified.

Examination of trends over time in revenue raised and in the structure and parameters of transfer tax systems in our seven countries demonstrated the importance of the way the invariably complex system of thresholds, allowances and exemptions are framed, over and above the headline marginal rates of tax. It is very difficult to detect clear impacts of

differences in tax systems across countries on intergenerational transfer behaviour, given all the other differences between them. However, some studies have identified marked changes in behaviour following system changes, notably in the case of France where an increase in gifts inter vivos followed a change in their tax treatment in the 1990s.

While reforming how intergenerational transfers are taxed has the potential to reduce the role these transfers play in generating wealth inequality, this could be considerably enhanced if combined with direct wealth 'endowments' to all young people as proposed by Atkinson (2015), the Resolution Foundation, and most ambitiously in terms of scale by Piketty (2019). The case for moving towards a lifetime capital acquisitions tax can also be convincingly made purely in terms of fairness and efficiency.

10.9 Future Priorities

As well as underpinning the analysis and findings presented in this report, the quite complex strategy and set of 'data treatments' we developed to produce a suitable dataset from WAS will be of significant value to future comparative researchers of wealth transfers. We have also highlighted that the need for the most significant of these could be avoided by adding a limited number of questions to WAS in future, specifically on inheritances and gifts received at any time in the past, to complement the question currently included on receipts in the two years since the previous wave. For respondents who have been in the survey all the way since the first wave, the extensive imputations required with respect to missing values for amounts received as inheritances could be avoided, and the observation window for gifts would not be limited to the previous two years as it is now. Respondents joining the survey after the first wave could then also be included in comparative analyses of inheritances and gifts received over their lifetime rather than being restricted to Wave 1 respondents. This has been highlighted for ONS staff working on the survey in fruitful discussions, and these options are being included in reviews of the questionnaire content.

The balance between inheritances and gifts in Britain seen in the surveys differed from that derived from external sources. The intergenerational transfers captured in the household surveys were also seen to represent a varying proportion of the current stock of wealth across countries. Many different factors, measurement-related as well as potentially arising from differences in wealth transfer behaviour and wealth stocks over time, could underpin that

variation. In-depth investigation of these factors and of other approaches to validating the survey data on transfers should be a priority for future research to underpin their use in further comparative analysis, building on the present study.

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