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

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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 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 gifts were excluded from the British data, the household is used as the unit of analysis and marketable not pension wealth in used as 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 are 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 receipt captured in the household surveys ranged from 12% for the US to about 20% for Britain, Ireland and Spain up to about 32% for France and Germany and over 40% for Italy.

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% which received more than 6 times the overall average 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 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 ranks 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 several different analytical approaches to exploit the potential of the data assembled from different angles. The first 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 increased to about 15%.

A complementary mode of analysis allowed us in effect 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 for the most part be expected to reduce wealth inequality modestly but statistically. This reflects the fact that transfer recipients were more concentrated around the middle of the wealth distribution than non-recipients, many of the latter being towards the bottom. 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’ to apply to where households are located in the wealth distribution as the outcome of interest, taking intergenerational transfer receipt as a background ‘circumstance’ beyond someone’s control. Distinguishing non-recipients and recipients of differing transfer amounts and controlling for age and gender, those in receipt of large transfers were predicted to have higher wealth than others right 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.

**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 recent decades. 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 the headline marginal rates of tax. 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 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 also 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 the most ambitious scale by Piketty (2019).