Department of Data

How inheritance data secretly explains U.S. inequality

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Analysis by Andrew Van Dam

We hate to be the bearers of bad news, but you're probably not going to get an inheritance. Hopefully, this information doesn't surprise you as much as it did our kids — and by "kids" we mean the dog.

Department of Data

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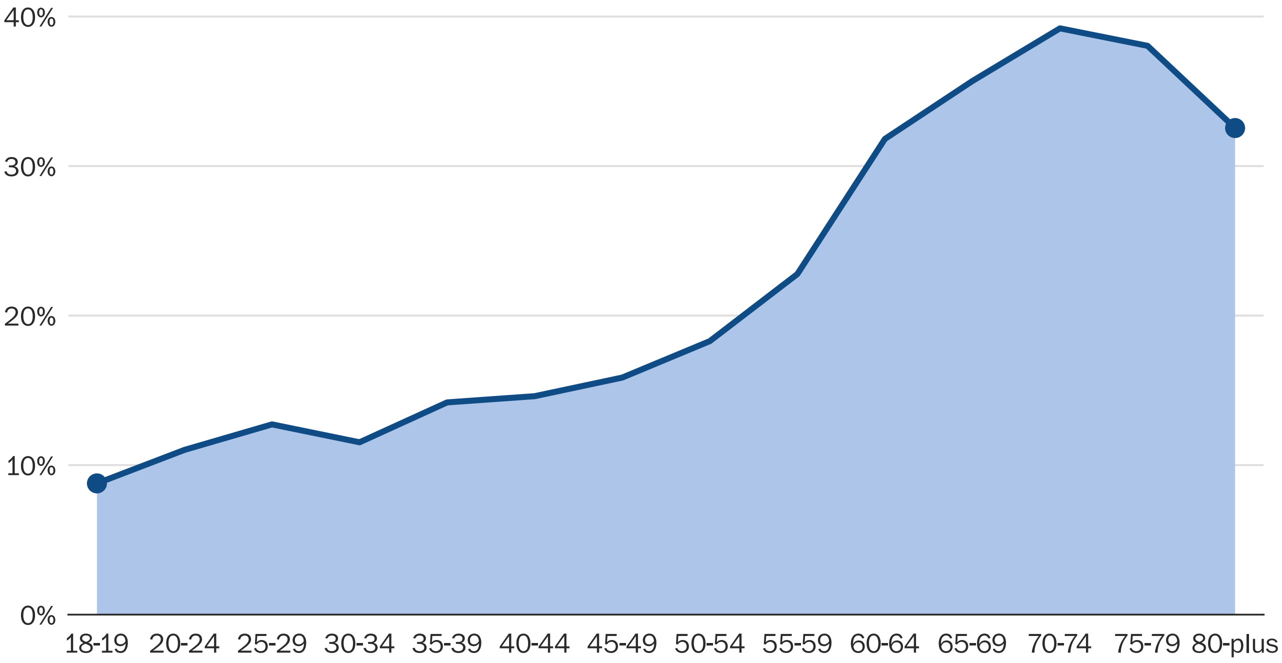
A little over 1 in 5 U.S. households had received an inheritance at some point in their lives as of 2022, according to the Federal Reserve's remarkable Survey of Consumer Finances. The inheritance rate jumps to 2 out of 5 if you look only at folks in their 70s, who have had more time for their parents and favorite aunts to meet a regrettable but timely demise. But even those folks are in the lucky minority.

By age 74, almost 2 in 5 will have inherited at least once

Share who have ever received an inheritance, by years of age, 2019-2022 average



Note: Based on age of the head of the household

Source: Federal Reserve's Survey of Consumer Finances

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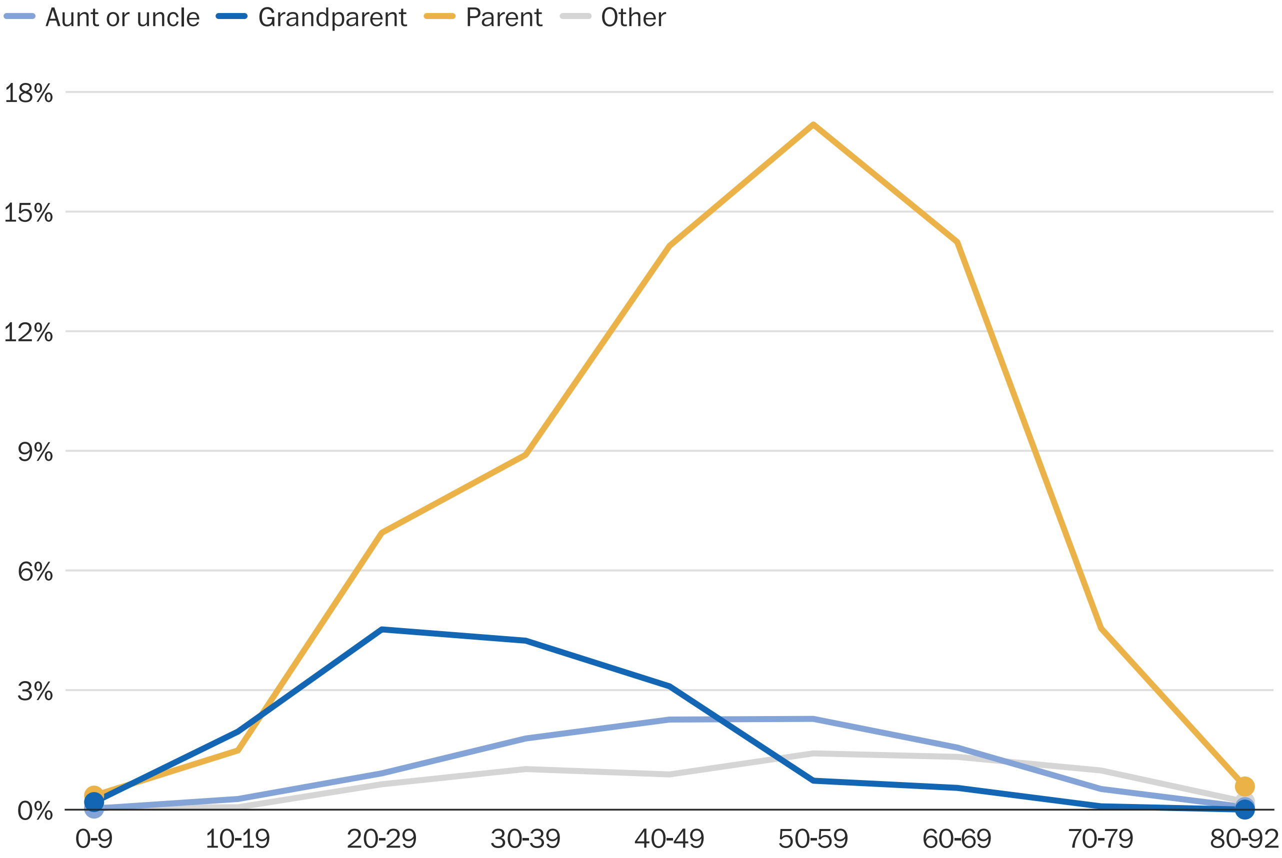
Every three years the Fed, with the help of NORC at the University of Chicago, asks at least 4,500 Americans an astonishingly exhaustive, almost two-hour battery of questions on income and assets, from savings bonds to gambling winnings to mineral rights. One of our all-time favorite sources, the survey provides our best measure of America's ghastly wealth disparities.

It also includes a deep dive on inheritance, the passing down of the family jewels (or whatnot) from parents (73 percent in 2022), grandparents (14 percent) and aunts and uncles (8 percent).

Since 1992, the number of people getting inheritances from parents has nearly doubled even as bequests from grandparents and aunts and uncles have remained flat. Your 50s will be your peak inheriting ages, which makes sense given that an average 65-year-old in the U.S. can expect to live to around age 83 and your parents are, sadly, mortal.

Inheritances from parents are most likely to hit in your 50s

Age at receipt of inheritance, based on who gave it to you, 2019-2022 average



Note: Based on age of the head of the household

Source: Federal Reserve's Survey of Consumer Finances

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These windfalls include homes and other real estate. They also include related gifts and trusts, but those go to a much smaller share of Americans. They don't include assets left to you by your spouse, unless you were divorced at the time of the gift.

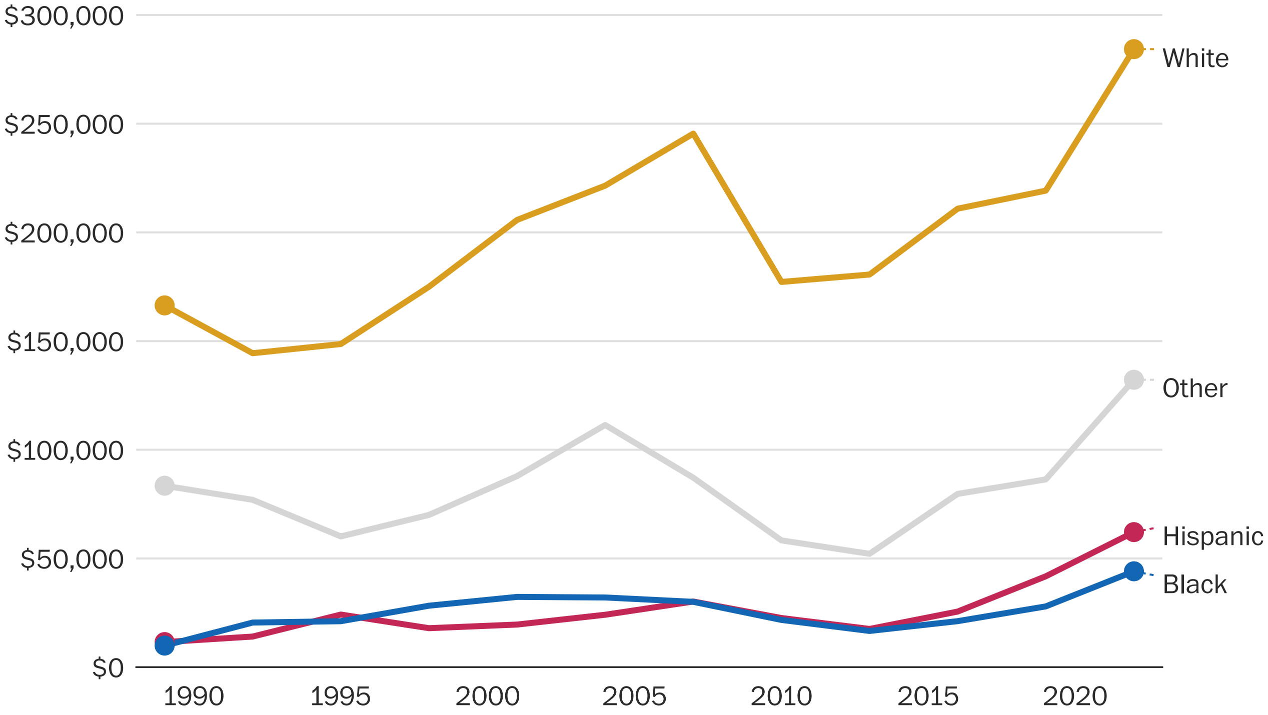
The average American has inherited about $58,000 as of 2022. But that's if you include the majority of us whose total lifetime inheritance sits at $0. If you look only at the lucky few who inherited anything, their average is $266,000. And if you look only at those in their 70s, it climbs to $344,000. Of course, that's the value at the time of the gift. Add inflation and market-level returns and many bequests are worth much more by the time you earn your septuagenarian badge.

Most of us probably grew up with a mental model of inheritances as an unexpected, random windfall, not unlike winning the lottery or striking oil. But when we ran the numbers, we found they weren't random at all.

White folks are about three times more likely to inherit than their Black, Hispanic or Asian friends. The gap closes slightly when you account for the fact that the typical White American is older than their peers, but it remains vast enough to help explain why the typical White family has more than six times the net worth of the typical Black American family.

White Americans retain a massive wealth advantage

Median household net worth, adjusted for inflation



Source: Federal Reserve's Survey of Consumer Finances

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Up and down the demographic charts, it appears to be a case of to whom much is given … much more is given. Folks in the bottom 50 percent of earners inherit at half the national rate, while those in the top 1 percent are twice as likely to inherit something.

Inheritances tend to follow the money

Share who have ever received an inheritance, 2019-2022 average

Source: Federal Reserve's Survey of Consumer Finances

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When we called John Ricco, an associate research scholar at Yale Law School who has worked with this data for years, he confirmed that inheritances make the rich richer. But a rich kid's true inheritance goes far beyond cash value: In a million less-measurable ways, elite parents give you a head start in life. By the time they die and hand you a windfall, you've already used all your advantages to accumulate wealth of your own.

“It's not just the dollar amount that you get when your parents die,” Ricco said. “It's the safety net that you had to start a business when you were younger, or the ability to put down a larger share of your savings into a down payment and a house because you know that you can save less for retirement.

“Little things like that are probably the main mechanisms through which intergenerational wealth is transmitted and are not easily captured just by the final value of what you see.”

Those myriad advantages defy measurement on their own, but inheritance reliably signals their presence. Just one variable — how much you inherit — can account for more than 60 percent of U.S. wealth inequality, according to economists Pedro Salas-Rojo at the International Inequalities Institute at the London School of Economics and Juan Gabriel Rodríguez of the Complutense University of Madrid, who applied machine learning to previous editions of the same Fed data.

So, if you had to guess someone’s economic station in life and you could peek at only one data point, inheritance would be a pretty good bet. It’s one of the clearest socioeconomic signals on the planet.

“Inheritances are able to capture a lot of information on your background,” Salas-Rojo told us. “They actually reflect many advantages, many inequalities of opportunities that we face.”

The U.S. tax system does little to temper our uneven inheritance. Consider the stepped-up basis provision, “one of the most egregious (tax loopholes) that we have,” according to Marc Goldwein, senior policy director at the nonpartisan Committee for a Responsible Federal Budget, who boasts the tax-loophole knowledge of a man with many times his net worth.

When you sell something at a profit, you typically pay capital gains tax. But you can avoid that tax by holding the asset until you expire. At your death, the cost basis of your assets gets stepped up to their current value — meaning your heirs avoid getting taxed on what might be a very substantial gain.

Say you’re a natural-soda fan who bought $1,000 of Hansen Natural Corp. stock in 2000. You watched your money grow to more than $1.15 million as sleepy Hansen became the world-eating Monster Beverage Corp. Selling the stock would force you to pay capital gains on more than $1 million in earnings, so instead, you took it to the grave. (If you needed cash, you probably borrowed against your stockpiled stock pile, a common strategy among the 1 percent.)

Now you’re dead. The taxable *basis* of your stock immediately *steps up* from $1,000 to $1.15 million. If your heirs sell it, they’ll pay no taxes. If the value of the stock rises to, say, $1.151 million, they would owe taxes only on that extra $1,000.

Now multiply that loophole by the millions of homes, businesses, equities and other assets being handed down each year. Goldwein and his colleagues estimate that closing the loophole could reap as much as $204 billion in revenue over the next decade, depending on how aggressively it was taxed.

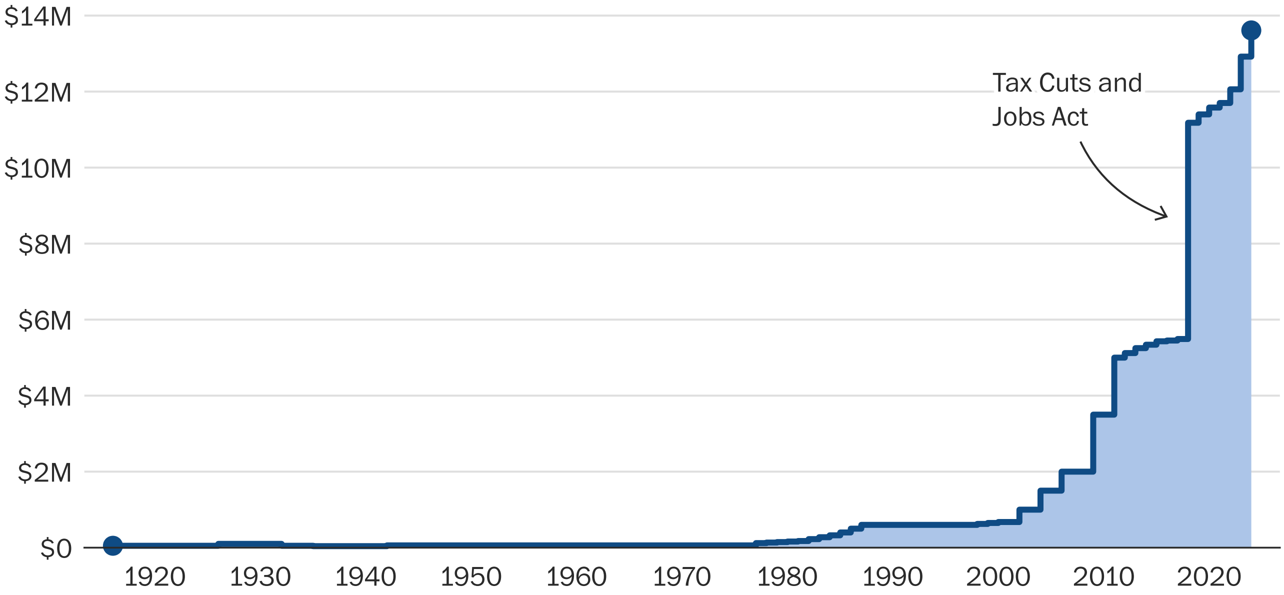
The loophole’s effect on the economy extends well beyond inheritance and inequality, Goldwein and Ricco told us. It encourages older folks to hoard homes and businesses they can no longer make full use of, assets our housing-starved millennial readers would gladly snap up.

The loophole, codified in 1921, appears to date back to British tax systems, according to Calvin Johnson at the University of Texas School of Law. Early on, Goldwein said, it may have been considered necessary because it was difficult to determine the original value of long-held property. Revenue lost to the loophole was partly offset by a simpler-to-administer levy: the estate tax.

But the threshold for paying the estate tax was raised substantially by George W. Bush, extended and indexed for inflation under Barack Obama, and raised once more in Donald Trump's Tax Cuts and Jobs Act, which expires after 2025. For now, you'll pay the federal estate tax only on the part of your fortune that exceeds $12.92 million ($25.84 million for couples), and rising to $13.61 million in 2024 — and that's only if your tax lawyers aren't smart enough to dodge it.

An estate-tax exemption explosion

U.S. estate-tax exemptions, by tax year



Note: The estate tax was temporarily repealed in 2010. Starting in 2011, the spouse who died first could pass their exemption to their partner and their heirs would benefit from the combined exemptions. We don't include those larger combined exemptions in this chart.

Source: Internal Revenue Service

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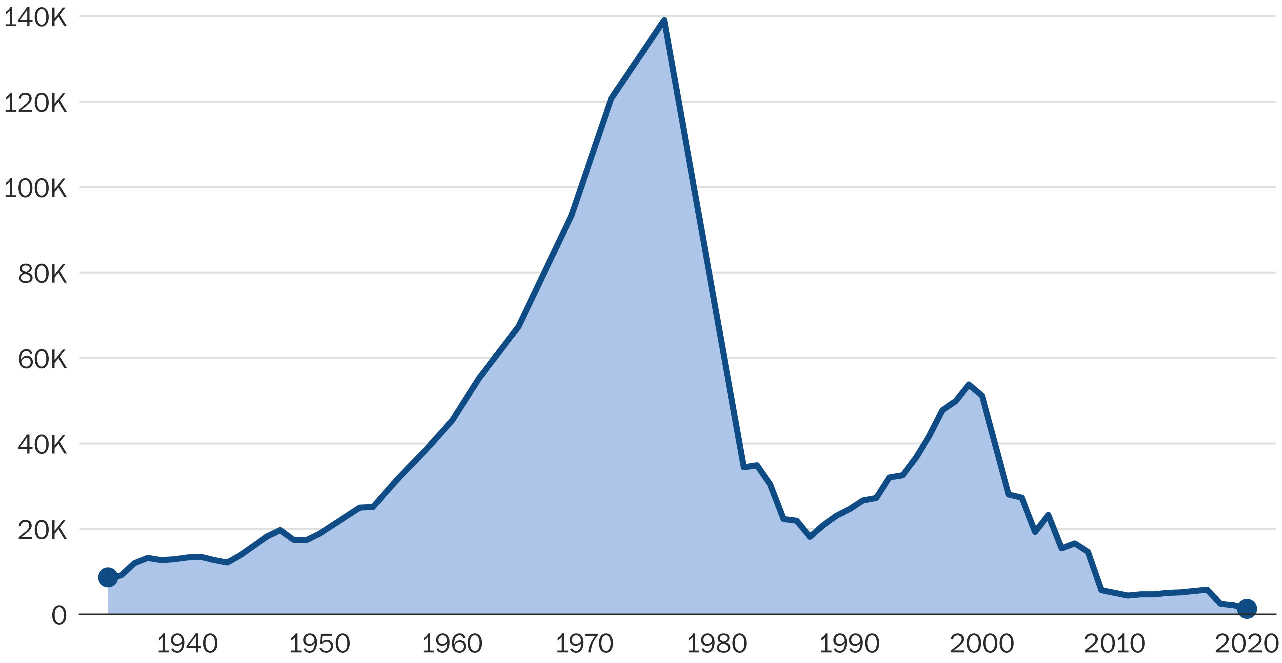
Total revenue from the estate tax, as a result, has plummeted. Just 2,192 estates were subject to the tax in 2019, down from 51,159 at the turn of the millennium, and it raised just $14.6 billion, down from more than $35 billion in 2000, adjusted for inflation. Even among the elite, most estates today go untaxed.

Almost nobody pays the estate tax

Taxable estate-tax returns in the U.S., by death year



Note: The estate tax was temporarily repealed in 2010, so we left it off this chart.

Source: Internal Revenue Service

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"Between politicians continuing to cut the estate tax and taxpayers becoming increasingly good at avoiding it, very few now pay it," Goldwein said. "That means we now have a big net tax break for most people inheriting large amounts of money."

It may feel like we've whacked pretty deep into the weeds at this point. We have! But minor inheritance rules can shape a society. Consider an analysis by Yuzuru Kumon, now a researcher at the Norwegian School of Economics. Kumon used detailed census records for 586 Japanese villages from 1640 to 1870, originally collected as part of the shogun's efforts to root out Christians, to show that Tokugawa Japan was much more equal than Western Europe at the time. Furthermore, Japanese equality remained steady while European inequality increased.

Kumon presents a convincing explanation: If you didn't produce a male heir in Japan, it was customary to adopt one. A surplus son from another family would marry into yours. That kept your property in the family.

In Europe, if an elite family didn't produce a male heir, which happened more than a quarter of the time, the default was for a daughter to marry into another well-off family and merge assets. So while Japanese family lines remained intact from generation to generation, European family lines merged, concentrating wealth into fewer and fewer hands.

This might sound familiar if you recall the plot of Jane Austen's critically acclaimed sophomore effort, "Pride and Prejudice." As other families compete to marry into the Darcys' colossal estate — spoiler for a novel from 1813! — inequality increases.

Given a few centuries, even subtle variations in inheritance patterns can produce sweeping societal differences.

Hi, friends! The Department of Data covets queries. *What are retail loyalty programs really tracking? Who's most likely to live beyond their means? Why are women leaving academia? Just ask!*

If your question inspires a column, we'll send an official Department of Data button and ID card. This week, we owe buttons to Lily C. from Sacramento and Sonya Graham in Grovetown, Ga., who asked about racial gaps in inheritances, and to Richard Macheski in Silver Spring, Md., who asked about the age at which we are most likely to inherit.

What readers are saying

The comments reflect a strong focus on wealth inequality and the role of inheritance and tax policies in perpetuating this disparity. Many commenters express concern over the concentration of wealth among the top 1% and the use of tax loopholes to avoid estate taxes, which they...

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