

# **“Cementing the Plutocracy using Stealth Tax Policy”**

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## Cementing the Plutocracy using Stealth Tax Policy

### *Abstract*

The expansion of household wealth along with its unprecedented concentration among relatively few hands has garnered much attention recently. Since 1989, household wealth has increased from \$17 to over \$139 trillion, enough if equally shared to make every American household a millionaire. Most of this bounty, almost 86 percent, has redounded to the wealthiest quintile of American households. Perhaps worse than the Gilded Age, wealth disparities are defining American society and cementing a system of economic stratification.

This paper examines a largely ignored cause – *federal income tax policies*. Specifically, I examine a dozen federal tax expenditures. Designed as stealth entitlements, most provide generous assistance *without limit* or much notice. Devised to assist households accumulate wealth, each targets households who’ve already amassed personal wealth. Since 1989, their annual assistance has increased from \$192 billion to \$1.2 billion in 2023.

Combining the Joint Committee on Taxation estimates on federal tax expenditures with the triennial Survey for Consumer Finances, this paper documents which households benefit from this federal largesse. For example, 95 percent of the reported capital gains in 2022 were realized by wealthiest quintile. Including all twelve tax expenditures, this group captured 78 percent of the offered tax benefits.

Finally, this paper estimates how much of the increased wealth can be traced to these past benefits. Assuming they yield a 3 percent real, 5 percent real, or S&P 500 indexed return over time, these benefits can explain from 29 to 42 percent of the increase in wealth of the top quintile.

## Cementing the Plutocracy using Stealth Tax Policy

Sometime during 2021, the US economy passed a momentous milestone virtually unnoticed. Buried in the Federal Reserve's *Financial Accounts of the United States – Z.1*, is the revelation that US household wealth had reached \$142 trillion by year's end.<sup>1</sup> This is one of those mind-numbing statistics that defies any real understanding. Yet, when paired with another statistic, the current number of US households is 131 million, its significance emerges. Together, they demonstrate the prodigious bounty of the US economy as they combine to reveal average household wealth now exceeds \$1 million. So much for the 1920's slogan that aspires for "a chicken in every pot". A century later, the US economy is capable of making every American household a millionaire! Consider for a moment the possibilities.

In recent decades, the US economy has been nothing short of a remarkable producer of household wealth. Since 1980, household wealth has grown at nearly twice the rate of aggregate income (Saez & Zucman, 2020). Over the same period, the concentration of household wealth has increased substantially. According to the Survey of Consumer Finances (SCF) survey data, the top wealth quintile has increased its share of net assets from 80 percent in 1983 to 88 percent in 2016 before falling back modestly in 2022 to 85 percent.<sup>2</sup> All of this gain has redounded to the top 1 percent as their share has increased from 23 percent in 1989 to 31 percent in 2025.<sup>3</sup> The primary loser has been the American middle class as their share has fallen from over 20 percent to a low of 12 percent before rebounding to 15 percent.<sup>4</sup> Both as a stock concept as well as its *raison d'être*, wealth normally resists dramatic changes like these. As has been remarked, the current wealth inequality rivals the 1920's when the heirs of the Robber Barons were so vividly described in the pages of *The Great Gatsby* (Zucman, 2016).

The growing concentration of wealth is particularly worrisome given its unique role as a source of power. Wealth, far more than income, offers its holder financial security. For most of us, our wages and salaries provide the largest source of income, by a large measure. We come to depend on the regular replenishments of income that our jobs provide. Yet, as we learned during the COVID spring of 2020, our jobs along with our regular salaries can disappear overnight and without warning. Employment income, the primary source of income for most households, is extremely tenuous. Wealth, on the other hand, is prized for its durability and reliability, particularly in times of crises. While some forms of wealth are vulnerable to theft or unexpected destruction, we've created mechanisms to limit our exposure. Federal insurance safeguards bank deposits while various forms of private insurance protect real property from various threats. Indeed, humans have long cherished wealth for its protections during periods of crises and disruption. Its durability and capacity to retain value positions wealth as the true source of financial security.

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<sup>1</sup> See the Board of Governors of the Federal Reserve System, 2022. Table B.101.h Balance Sheet of Households. Line 27.

<sup>2</sup> Given the numerous changes in the survey methodology between 1983 and 1989, one should use caution when using the SCF 1983. This seems like a safe use.

<sup>3</sup> Board of Governors of the Federal Reserve System (US), Share of Net Worth Held by the Top 1% (99th to 100th Wealth Percentiles) [WFRBST01134], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/WFRBST01134>, December 11, 2025.

<sup>4</sup> I define the middle class as the three interior wealth quintiles.

In addition to serving as a financial safety net, wealth also serves its holder as a source of power (Browne, 1972). Owning a dependable car expands one's search area for potential employment and generates income directly as a Lyft driver. Not only can savings cushion the trauma of unanticipated expenses or income loss, but also can be deployed to exploit potential opportunities. Savings can finance new training or educational opportunities that may open doors to more lucrative careers. Or households can use these funds to finance new business ventures that are too small, novel, or risky to attract outside investors. Wealth serves as collateral that can access credit much more easily and at lower cost; with such credit in hand, households can leverage investments whether in their own home or commercial ventures. Those with more wealth to dispense can impact their community visibly as they decide which charitable organizations to support or influence public policy through their political contributions. Such use of wealth has infiltrated our politics and public policy for decades. It reached its most transparent zenith in 2025 as President Trump's top campaign donor, Elon Musk, was given carte blanche access to confidential data files and free rein to dismantle disliked government programs and agencies. Often attributed to Justice Louis Brandeis is the following: "We can have a democratic society or we can have a concentration of great wealth in the hands of the few. We cannot have both"<sup>5</sup>.

This paper examines the underlying causes that have contributed to the growing concentration of wealth over the past 30 years. Initially, the paper documents the growth of household wealth over the past 60 years along the full wealth continuum. The paper reviews an extensive literature that has attempted to explain this growing concentration. One contribution provided here is the use of a stratification economics lens to examine these trends. In particular, the WP model is presented as an alternative to the orthodoxy's Life Cycle Hypothesis (LCH). Making use of the Federal Reserve's Survey of Consumer Finances (SCF) I examine the likely contribution provided by family gifts and inheritances. Most importantly, this paper reveals a little-known source of the growing wealth concentration – a dozen federal tax expenditures that function as entitlements for the wealthy. It documents their likely impact on the growing share of wealth held by the wealthiest Americans.

### *The Survey of Consumer Finances (SCF)*

To understand the changes in household wealth over recent decades, I use the Survey of Consumer Finances (SCF). The SCF is a single-wave, cross-sectional survey that queries households about their assets, debt, and wealth transfers as its primary focus. As such, the range and depth of questions asked in the survey offer a unique and nuanced appreciation of the distribution of household wealth. Its sampling design allows it to overcome a thorny issue. Two thirds of the survey sample are randomly drawn while the remaining respondents are part of an oversample of very affluent households. As the wealthiest 3 percent of households hold nearly half of the nation's wealth – a group often reluctant to disclose their holdings -, this oversample offers assurance that this group is represented in the survey (Bricker et al., 2016). To be sure, its single-wave design limits its capacity to examine how households accumulate wealth over time. Nonetheless it's considered the "gold standard of wealth data" (McKernan et al., 2014, p. 5)

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<sup>5</sup> These words were spoken by Ralph Nader on June 25, 2000 and famously attributed to Justice Brandeis. There's no clear evidence that he coined these words although they are consonant with his thinking (Campbell, 2013).

The SCF is not without its critics. As the results are based on a questionnaire, they are subject to recall and other forms of response bias along with the errors that can accompany low response rates.<sup>6</sup> However, many of its estimates are corroborated by other wealth estimates that use very different methodologies. Due to privacy concerns, the SCF intentionally excludes any on the Forbes top 400 wealth holders list. Some argue that this omission causes it to undervalue the wealth of the top 0.1 percent (Saez & Zucman, 2016). Nonetheless, the SCF can avoid many of the errors that affect other wealth estimates, including the capitalization method. This method must impute asset values based on the available income flows. Certain assets like owner-occupied housing, defined contribution pensions, and certain stock shares that receive no dividends all create challenges (Kopczuk, 2015). All of these asset values are subject to direct questions in the SCF survey. Its compilation of household balance sheets enables it to be linked to the Joint Committee on Taxation (JCT) and Treasury Department files on tax expenditures.

Although the current form of the SCF can be traced back to 1989, the Federal Reserve did sponsor two earlier household surveys, the 1983 version of the SCF and the earlier 1962 Survey of Financial Characteristics of Consumers (SFCC). As both used different sampling and questionnaire methodology, one should consider these earlier surveys with some caution. Yet, they offer us a longer-term view of how household wealth and its distribution has changed.

Figure 1 below offers two views of how household wealth has evolved over the past 60 and 33 years respectively. Both show a similar pattern although with some important differences. At the bottom of the wealth distribution, households have floundered as the average net worth of these households has fallen deeper into debt. While households in the next three wealth quintiles – what some call the Middle Class of wealth holders – have experienced growth, they have done so at substantially slower rates than those more affluent. Indeed, there’s a significant break between these and those in the top quintile. Looking within this top quintile, the evidence shows those at

<b>Figure 1    Changes in Household Wealth over Time</b>		
	<b>Annual Growth 1962-2022</b>	<b>Annual Growth 1989-2022</b>
<b>Bottom Quintile</b>	<b>-3.0</b>	<b>-4.1</b>
<b>Second Quintile</b>	<b>1.9</b>	<b>2.1</b>
<b>Middle Quintile</b>	<b>1.8</b>	<b>1.8</b>
<b>Fourth Quintile</b>	<b>2.1</b>	<b>2.0</b>
<b>Top Quintile</b>	<b>2.9</b>	<b>3.0</b>
<b>Top 10 %</b>	<b>3.0</b>	<b>3.1</b>
<b>Top 5 %</b>	<b>3.1</b>	<b>3.2</b>
<b>Top 1%</b>	<b>3.0</b>	<b>3.3</b>
<b>Median</b>	<b>1.8</b>	<b>1.9</b>

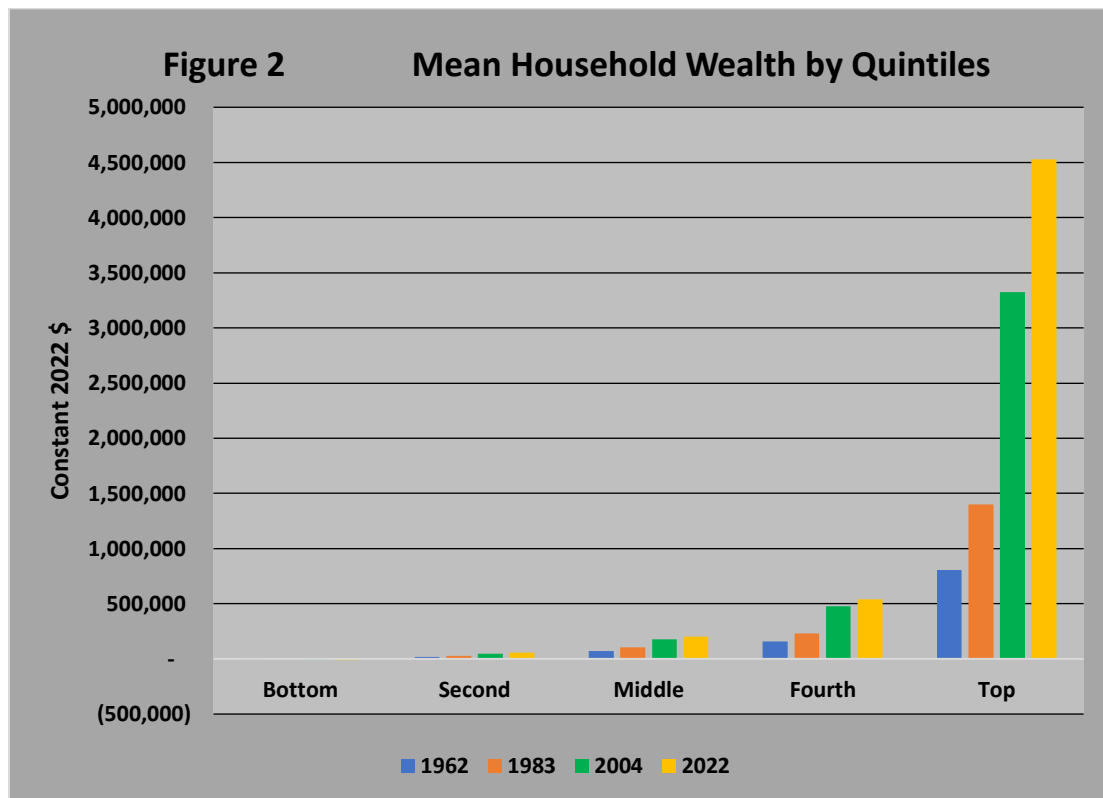
Source: SFCC 1962; SCF 1989; SCF 2022.

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<sup>6</sup> Among the very affluent, the response rates are as low as 12 percent (Kennickell, 2017)

the top have benefitted the greatest. Focusing on the more recent period, one sees the same pattern although with greater disparities between both ends of the wealth continuum. As glaring as these figures are, they don't convey fully the extent to which the wealth divide is growing.

Figure 2 below offers further evidence as it illustrates the absolute differences among the wealth quintiles. Both figures indicate that the U.S. economy is undergoing a massive shift in wealth concentration that has not been seen for over a century.



Source: SFCC 1962; SCF 1983; SCF 2004, SCF 2022.

Figure 3 offers another view of how the wealth shares have changed over the past six decades. As suggested earlier, the share of wealth held by top wealth quintile has increased sharply over the period at the expense of the middle three quintiles. Drilling down within the top quintile, it's clear that even here, the more affluent households have seen the largest increase in their shares.

Figure 3 Shares of Household Wealth by Selected Groups				
	1962	1983	2004	2022
Middle Quintiles	23%	20%	17%	15%
Top Quintile	77%	80%	83%	85%
Top 10 Percent	62%	67%	69%	73%
Top 5 Percent	51%	55%	58%	61%
Top 1 Percent	30%	31%	33%	35%

Source: SFCC 1962; SCF 1983; SCF 2004, SCF 2022.

### ***Literature Review***

Past research has offered a wide range of explanations for the rising wealth inequality. One strand of arguments focuses on the specific circumstances and responses made by households along the wealth distribution. It's no surprise that wealthier households experience higher savings rates. By one estimate, households in the bottom 90 percent on average save around 3 percent of their income while these rates rise to 15 and even 20 to 25 percent among the next 9 percent and top 1 percent of wealth holders (Saez & Zucman, 2016). DiNardi and Fella (2017) argue that rising medical expense risk along with the longer life expectancy among the affluent are one major cause of the rising inequality while others argue that earnings risks encourage higher saving rates (Castanada, 2003; Kaymak & Poschke, 2016). According to Kuhn and Rios-Rull (2025), Social Security and Medicare has encouraged declining savings, particularly among the middle and lower end of the wealth spectrum. Rising debt levels, especially non-mortgage debt, is cited as a reason for the declining share of wealth among the lower 90 percent of households (Saez & Zucman, 2016; Kuhn et al., 2020). Buera (2009) shows that entrepreneurs tend to save more before and throughout their business careers as they work to expand their operations. Quite plausibly, each of these arguments offer some slice of the truth.

Other research has pointed to the differing investment options available to households along the wealth continuum. Hubmer et al. (2021) argue that one can account for the rising inequality by modeling portfolio heterogeneity. Their findings corroborate those found in earlier studies (Benhabib et al. 2015, Cagetti & De Nardi 2006, Quadrini 2000). More specifically, Kuhn and Rios-Rull (2016) conclude that business wealth is the most important driver of the growing wealth divide. Luisani and DeVito (2024) argue that many of the current billionaires are the owners of very successful corporations that have been able to consolidate markets to limit competition and extract rents. Kuhn et al. (2020) contend that variations in asset prices particularly residential real estate or the stock market can visibly influence wealth shares given the vastly different portfolios held by the middle and upper classes.

Of course, numerous studies using a wide variety of data sources have estimated what proportion of household wealth results from family gifts and inheritances. There's broad agreement regarding the likelihood of receiving a wealth transfer. Most studies (Gale and Scholz, 1994; Brown and Weisbenner, 2004; Wolff and Gittleman, 2014; Williams, 2016) conclude that a fifth of households have received a past transfer with another 10 to 15 percent likely to receive one in the future. In contrast the literature disagrees widely over the role inherited wealth plays in generating the current wealth disparities. While some studies conclude that wealth transfers represent about one fifth to one fourth of household wealth (Modigliani 1988; Brown and Weisbenner, 2004; Wolff and Gittleman, 2014), others place the figure over half (Wilhelm, 2001; Gale and Scholz, 1994) and others, even higher, at 60 percent (Piketty and Zucman, 2014) and 80 percent (Kotlikoff and Summers, 1981). A recent study placed the figure at around 50 percent (Feiveson & Sabelhaus, 2018; Bricker et al, 2019). As some argue that family transfers play less of a role today (Kopczuk, 2015), it does suggest the need for additional investigation into this issue.

Looking beyond household circumstances and decision-making, some have focused on the role of tax changes on the rising wealth inequality. Hubmer et al, (2021) contends that the declining progressivity of the federal tax system offers the largest explanation for the rising inequality.

They argue that the changes not only widen after-tax incomes but also generate increased incentives for saving that the affluent are best able to take advantage. Two generations ago, extremely high marginal individual tax rates (91 percent), a low estate tax threshold, and higher corporate tax rate effectively capped extremely high after-tax incomes (Saez & Zucman 2020; Kuhn & Rios-Rull, 2025). Strand and Mirkay (2019) contend the rise of tax expenditures in general and the specific non-treatment of unrealized capital gains offer a compelling source of the growing wealth inequality.

### *Using the Lens of Stratification Economics*

This paper uses the lens of stratification economics, an emerging sub-discipline, to frame its analysis (Darity, 2005; 2022). In particular, it utilizes the Wealth Privilege (WP) model to understand the various opportunities and barriers households face as they accumulate wealth (Williams, 2016; 2017). Similar to the orthodox Life Cycle Hypothesis (LCH) model, the WP model argues that households accumulate wealth by saving out of current income, experiencing asset appreciation, and receiving family gifts and inheritances. In contrast, it contends that each of these avenues of wealth accumulation present vastly different circumstances to households based on their wealth status. Wealth-poor households face severe head winds as they seek to get ahead. With modest levels of human capital, households experience low pay, limited hours, and irregular employment all of which restrict any saving opportunities. Thwarted by account rules and bank fees, many remain “unbanked” requiring them to turn alternative sources for needed financial services. Any asset purchases are limited to furniture, appliances, or cars – required assets that depreciate over time. Even during good times, their need for liquidity limits any investments they might make. Frequently raised in wealth-poor households, they can expect minimal financial assistance. Those who do well become the recipient of family requests for help. Without a financial cushion, they are vulnerable to unpredictable and episodic crises like job loss and health emergencies. Given these challenges, it is unsurprising that those at the bottom of the wealth continuum struggle mightily as the evidence suggests.

The possession of wealth yields a bevy of benefits and unseen privileges. Human capital in the form of a college degree or specialized training can provide regular employment with higher pay and generous benefits. Access to an employer-sponsored retirement plan offers more substantial savings with less need for self-control. Banking services like direct deposit and automatic payments mitigate impromptu purchases or late payment fees. Wealth brings greater access to cheaper credit which can unlock rewarding investment opportunities. An expanding portfolio offers increased diversification that enables greater latitude to invest in higher-risk and higher-return assets. Homeownership and amortizing mortgages offer households the benefits of leverage as well as an additional source of systemic saving. In these ways, wealth not only reproduces itself exponentially, but enables its holder to exercise more of the benefits of wealth in an interactive fashion.

In contrast to the LCH model, the WP model doesn’t simply view wealth as a store of future consumption, but also as a source of power that is durable and transferable across generations. Generational wealth allows parents the assurance that their children will gain the full measure of the privileges of wealth even as they enter their adult world. The gift of a college degree at a respected university without the anchor of student loan debt offers the recipient substantial tail winds. Parental help with a down payment on a starter home or a budding business venture can



jump start their journey toward financial security. This family assistance can extend to the third generation as parents help their children purchase a home in select neighborhoods with well-resourced schools. Labeled “transformative assets” by Thomas Shapiro (2004, p.2), these gifts enable the recipients to take greater advantage of the benefits of wealth at an earlier age. The very rich can use family trusts to avoid taxation and assure future generations of guaranteed help, *in perpetuity* (Williams, 2025). As Dalton Conley (1999, p. 25) has noted, “wealth has the particular attribute of tending to reproduce itself in a multiplicative fashion from generation to generation.” As he suggests, wealth functions as the means by which privilege is transmitted across generations as each subsequent generation outdoes the previous.

The WP model offers a natural explanation for the varied experiences felt by households across the wealth continuum. Households in the bottom wealth quintile have very modest wealth holdings and so they experience mostly headwinds just discussed as they strive to gain financial security. Although some overcome these barriers, it’s no surprise that as a group they have suffered a decline. Those in the middle three wealth quintiles have done markedly better as they have accessed some of the privileges of wealth. As these privileges are iterative and self-reinforcing, it makes sense that the growth rates rise as one moves up the wealth distribution. Thus, the evidence over the last 60 years mirrors perfectly what the WP model would predict.

While the WP model operates without overt reference to racial status, it clearly has racialized implications. Whatever year we take, 1962, 1983, 2004, or 2022, the evidence clearly shows that Black and Latinx households hold far less wealth than Whites. Far fewer Black and Latinx households will experience the benefits of wealth-holding described above and far more will face severe headwinds as they strive for financial security. At the starting line of young adulthood, Black and Latinx households will largely glimpse the backside of their White peers. Holding less wealth throughout their lives, they will need to struggle harder to get ahead. *Twice as hard for half as much*. Over their lifetime, they will typically accumulate less wealth and therefore have less to offer their own kids. And so, it goes. In a world in which racial preferences are barred by law, wealth provides the new means for maintaining a system of racial stratification.

In addition to the usual suspects, the WP model acknowledges the existence of a fourth avenue by which households get ahead and build wealth. From its outset, the federal government has assumed major responsibility for improving the well-being of its citizens. From Constitutional protections for private property that included enslaved persons to homesteading laws to the G.I. Bill, the federal government has enacted major policies in support of private wealth-building. Of course, virtually all of this assistance has been showered on a favored group, White Americans (Lui et al., 2006; Williams, 2016; 2025). Acknowledging this role of past public policies leads to the conclusion that our racial wealth gap didn’t just happen, but was made. Moreover, although these policies were cast in very egalitarian terms, they rarely functioned that way in practice. Land speculators were able to profit handsomely from the homesteading laws while homebuyers in the poshest neighborhoods claimed the greatest benefit from the government guaranteed mortgages. In many cases, these federal programs offered a financial boost similar to a family gift that allowed the recipients to access more of the benefits of wealth. These past policies have contributed significantly to our current wealth disparities while new policies continue to do so today.

### ***Stealth Entitlements for the Rich***

Over fifty years ago, Assistant Treasury Secretary Stanley Surrey warned against the increasing use of tax expenditures as a source of federal policy. In contrast to direct, public expenditures which are measurable, generally transparent, and easily tracked, he contended that tax expenditures are opaque and easily ignored. Spending proposals carry a specific price tag and are considered among other competing demands for scarce dollars in the annual budgeting process. Program costs are pre-determined and funding disbursements are traceable. Program results and beneficiaries are easily monitored and reviewable by federal agencies and Congressional committees. In contrast, tax expenditures carry no price tag, but simply generate “lost revenues” to the Treasury causing some to think they carry no cost (Wolfman, 1985). Funds are “disbursed” as taxpayers take advantage of the tax exemption making any tracing of the funds extremely difficult. Their design as entitlements, often without any caps, makes budgeting tenuous. Once embedded in a tax code that runs thousands of pages long, they lie undisturbed until Congress gathers sufficient motivation to engage in tax reform. It should offer no surprise why Secretary Surrey viewed these tax expenditures as the “back door” to the U.S Treasury (Surrey, 1968, p. 61).

Using the tax code, particularly tax deductions as opposed to tax credits, to meet social goals generally means the wealthy will benefit disproportionately. Given progressive income tax rates, any deduction is far more valuable to those in higher tax brackets thereby creating what Surrey called an “upside down subsidy”. Even using tax credits could leave out those making too little to pay federal income taxes while “below the line” deductions are valuable only to the affluent who itemize their deductions. The absence of any limit on benefits simply skews their largesse even further toward the wealthy. While the Civil Rights Act of 1964 prohibits policies offering racial preferences, the existing racial wealth gap means that any policies that target existing wealth can function as if the tax expenditure is designated for “Whites Only”.

The twelve wealth-building expenditures examined in this paper are given in Figure 4 below. What is similar across all twelve is their design to meet the circumstances and needs of those who’ve already acquired wealth. They differ in how they help households accumulate more wealth. The first three on the list allow households to deduct certain expenses from their tax liability which provides more protected income that can then be saved.<sup>7</sup> The home mortgage interest deduction requires one to be a homeowner meaning renters need not apply.<sup>8</sup> The charitable deduction does allow for non-cash gifts which widens the opportunity for larger gifts and some interesting tax benefits. These two along with the SALT deduction are below-the-line tax deductions so they require itemizing. In the 2022 tax year, less than 10 percent of households took this option (Internal Revenue Service, 2024.)

Figure 4 Wealth-Building Tax Expenditures

1. Home Mortgage Interest Deduction
2. State and Local Tax (SALT) Deduction
3. Charitable Contributions Deduction

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<sup>7</sup> In most cases, these are cash expenses that are protected which limits somewhat the value of the deduction. However, the possibility of non-cash charitable contributions can offer substantial tax savings to the donor.

<sup>8</sup> The property tax portion of the SALT deduction requires homeownership as well. However, renters can take the deduction using their state and local income tax liabilities.

4. Health Insurance Exclusion
5. Imputed Net Rental Exclusion
6. Tax-Exempt Interest Exclusion
7. Qualified Business Income Exclusion
8. Home Sales Exclusion
9. Capital Gains Exclusion
10. Life Insurance Exclusion
11. Pension Exclusion
12. Estate Step-Up Exclusion

The next two, exclusions on employer-funded health insurance and the imputed net rental income from owner-occupied housing, permit favored households the opportunity to enjoy non-income benefits without paying federal taxes on those benefits. Employer-provided health insurance offers protection against the financial costs of illness and injury while owner-occupied housing provides consumption benefits that go untaxed.<sup>9</sup> Not all workers are provided health insurance through employment and only homeowners can take advantage of the net rental value exclusion. Each limit the household's tax bill thereby increasing after-tax income that can be saved.

The next two tax expenditures, tax-exempt bond income and qualified business income exclusion, simply make certain forms of income exempt from taxation. Tax-exempt bonds strictly appeal only to households in the highest federal tax brackets causing this exclusion to be among the most exclusive of the expenditures. To benefit from the qualified business income exclusion, not only is one required to own a business, but in such ventures that generally carry significant capital requirements. Mom and pop business owners need not apply here. Similarly, the home sales and capital gains exclusions allow certain asset holders to keep a larger share of any realized capital gains. Once again, homeownership is required for the former and owning appreciating asset for the latter, both marks of more affluent households. Further, certain life insurance and pension assets get specialized tax treatment. Any income earned by these assets gets deferred until the funds are removed, frequently when the household faces lower income tax rates. In the case of Roth IRAs, the tax deferral is without limit. These tax benefits support retirement savings, but provide no help to those households struggling to build more liquid savings.

The remaining tax expenditure is triggered by death of the property owner and the creation of their estate. Any assets that have unrealized capital gains are excluded from taxation and are simply "stepped up" to the current market value. In this way, those with sizeable asset portfolios can simply avoid any taxation on capital gains by holding these assets until death. While this higher value of the estate is subject to an inheritance tax, this only applies to truly large estates as the current (2025) tax threshold is nearly \$14 million, double that if both spouses agree. This exclusion enables families the opportunity to accumulate up to \$28 million that may never have been taxed. Given how porous the estate tax laws are, this cap is in name only.

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<sup>9</sup> This is not an intuitive argument, but a simply example can explain the rationale. Consider two households that purchase two identical homes. Instead of living in their own homes, they each rent from the other. Both earn rental income from their purchased assets that then raises their income tax liability. By living instead in their own homes, they each avoid the additional tax liability while still enjoying the value of their homes.

These twelve tax expenditures are clearly designed to target their assistance to those *already* wealthy. Only households who've attained homeownership, focused on retirement savings, or invested in other appreciating assets will benefit from their public generosity. In essence, households must demonstrate their deserving nature *before* they qualify for the benefits. Each of these tax expenditures is fabricated as a tax deduction rather than a tax credit and thereby funnels the assistance to those in the highest tax brackets. Further, all but four of the deductions have no limit to their generosity.<sup>10</sup> Wealthier households can simply take greater advantage of these deductions without limit. This creates a “virtuous cycle” in which the rich can take larger deductions and exclusions, enabling them to amass even greater fortunes all the while viewing these benefits as earned. Of course, these rich beneficiaries happen to be overwhelmingly White.

### ***Data Sources***

To conduct this study, this paper uses the following data sources. Thanks largely to the efforts of Secretary Surray, the Congressional Budget Act of 1974 requires the government to offer an accounting of the lost revenues that result from current tax expenditures. Consequently, both the Treasury Department and the Joint Committee of Taxation (JCT) provide annual estimates of the future costs assuming the prevailing economic circumstances and tax laws. Although they use slightly different methods, their estimates roughly align with each other. In this study, I make primary use of the JCT's estimates while adding the Treasury's estimates for the imputed net rental value of owner-occupied housing.<sup>11</sup> Both sources provide annual amounts for the listed tax expenditures starting in the mid 1970's and continuing with projections through the end of this decade. For the purposes of this study, I will use 1987 through 2022.

Additionally, I use the triennial SCFs for two purposes. As these surveys offer detailed information on household assets, debt, and income sources, I estimate how the federal tax benefits are distributed across households by linking the two data sets. In addition, the SCF queries households about their attitudes toward as well as their experiences with family gifts and inheritances. I'm able to make two different estimates of how much family wealth households have received. I'll turn to this next.

### ***Estimating the Impact of Family Transfers***

The SCF employs several lines of questions to capture the extent of family transfers. Late in the survey, respondents are asked whether they've ever received any gifts, inheritances, or substantial assets whether in a trust or some other form. If yes, they are offered three opportunities, if needed, to provide the year and value of the transfer(s). A final follow-up question asks them to add any remaining gifts without any date of receipt. This represents the primary, by not sole module, regarding family transfers. When asked earlier about various real assets they own, respondents are queried whether the asset was acquired as a gift or an inheritance rather than being purchased. Although most of these inherited assets are included in the later gifts module, some do get missed. These are included as well. Lastly, in the household

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<sup>10</sup> Only the home mortgage deduction, home sales exclusion, and now the state and local tax deduction and the qualified business income deduction have limits on how much a given taxpayer can benefit.

<sup>11</sup> Since about 2005, Treasury has recognized this tax expenditure while the OMB does not.

income module, respondents are asked whether they've received any gifts, inheritances, or support within the past year.

Let's start with some basic information on intergenerational giving as shown in the table below. There's a strong link between household wealth and the incidence of past gifts and inheritances. Whereas the average incidence is 23 percent, among the top 10 percent of wealth holders the incidence approaches 50 percent. There's a similar although more moderate link between current wealth and the expectation of future transfers. Curiously, there is weak relationship between wealth and the importance attached to leaving a legacy to one's descendants. In contrast, there are strong links between household wealth and the likelihood of leaving a legacy to one's heirs.

Figure 5 Experience with and Attitudes toward Inheritances				
Quintiles	Have Inherited	Expect to Inherit	Legacy Important	Legacy Likely
Bottom	11%	9%	54%	43%
Second	15%	13%	56%	56%
Middle	23%	12%	54%	61%
Fourth	28%	17%	51%	66%
Top	39%	21%	58%	82%
Top 10 %	43%	23%	63%	89%
Top 5 %	47%	24%	67%	93%
Top 1 %	49%	16%	66%	99%
Mean	23%	14%	54%	61%

Source: SCF 2022.

There are two ways that one can estimate intergenerational transfers using the SCF (Feiveson & Sabelhaus, 2018; 2019). First, I take the most recent SCF 2022 and simply estimate all of the transfers reported in the inheritance, asset, and income modules. In the first estimation, I simply add all of the reported transfers. However, this undervalues how past gifts may have been used to jumpstart efforts to build wealth over time. In the second estimate, I use both the value of the gift as well as the year of its receipt to approximate their present value in the following way. I assume the recipient takes the gift and invests it in a stock index fund the following January 1<sup>st</sup>. Using the S&P 500 Stock Price Index, I then calculate its value in 2022.<sup>12</sup> Since the chosen rate of return can have a substantial impact on the estimated present value, I think this represents a balanced way to handle this issue. Investing in a mutual fund that reflects the S&P 500 stock index requires no special expertise. It simply requires discipline and patience. Moreover, this index does allow for some consumption of the inherited asset as any past dividends are paid directly to the stockholders and not included in subsequent price evaluations. In those cases, in which transfers are reported without a reference to the year of receipt, I assume the year of the first reported gift. It is suggested that this is the largest of the reported transfers which likely makes it one of the more recent ones. I add to this any recent income that is reported as a family gift or inheritance.

<sup>12</sup> About 75 percent of the respondents are interviewed during May to December 2022. The remainder are interviewed during January through April in 2023. I use the average of May 1, 2022 and the following May 1<sup>st</sup> stock index value as the 2022 value.

One concern with the previous method is the problem of recall bias as the passage of time dims recollection of the receipt, year, or value of a long-ago transfer. To avoid this problem, a second method includes all 12 surveys from 1989 to 2022 and measures the reported transfers in the three previous years. In this case, only the most recent transfers are included. One challenge to this method is that the SCF reports past transfers in the public data set only in 5-year periods in order to protect respondent confidentiality. To remedy this problem, I assume the gifts are evenly spread over a given 5-year period and simply interpolate based on that.

The results are presented in Figure 6 below. The two methods estimate that somewhere between \$8,657 and \$10,503 billion dollars were transferred across generations over the period. If one adjusts these flows to reflect modest investment returns, these numbers range from \$33,272 to \$36,456 billion in current wealth. Due to the challenges of recall bias, it's unsurprising that the single survey estimates are below those generated by the 3-Year Recall method. The table also depicts how much of the inheritance shares are received across the wealth distribution. Again, the modest differences make sense. The 3-Year Recall method reflects some gift recipients who may have been younger and less wealthy when they received the gifts causing some modest change in the distributional shares. Both methods demonstrate the overwhelming share of family transfers went to those residing in the upper tail of the wealth distribution.

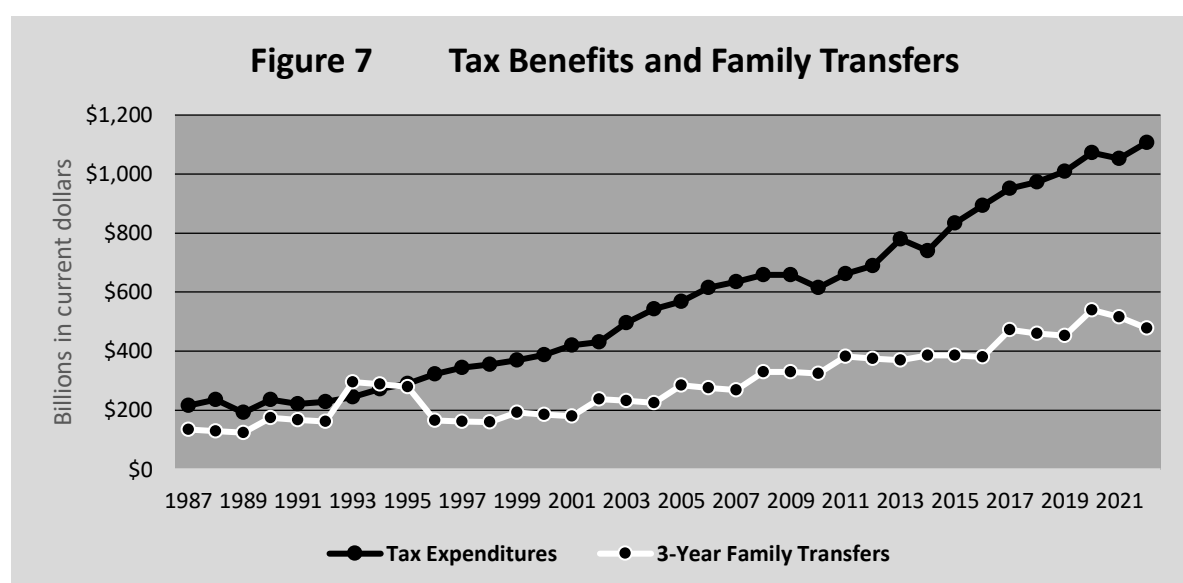
Figure 6 Gifts and Inheritances by Wealth Group (billions)						
	SCF 2022 Retrospective			Three-Year Inheritance Window		
Wealth	Raw	S&P 500	Share	Raw	S&P 500	Share
Bottom	\$66	\$237	1%	\$286	\$930	3%
Second	\$241	\$840	3%	\$431	\$1,471	4%
Middle	\$623	\$2,273	7%	\$678	\$2,377	7%
Fourth	\$1,280	\$4,853	15%	\$1,636	\$5,150	14%
Top	\$6,448	\$25,069	75%	\$7,471	\$26,527	73%
Total	\$8,657	\$33,272		\$10,503	\$36,456	
Top 10%	\$5,166	\$20,378	61%	\$5,953	\$21,310	58%
Top 5%	\$3,673	\$14,400	43%	\$4,707	\$16,974	47%
Top 1%	\$1,289	\$6,039	18%	\$1,763	\$5,631	15%

Source: SCF1989 – SCF2022.

The above results raise a vexing question: do intergenerational gifts and inheritances exacerbate or mitigate the wealth disparities? The lopsided distribution of inheritances along the wealth continuum would suggest these transfers exacerbate the disparities. However, as lopsided as they are, the inheritance shares are less unequal than the current wealth distribution. This means that households in the lower wealth quintiles on average have a larger share of their wealth that is inherited. According to Edward Wolff (2018) perhaps the most accomplished wealth scholar of our generation, this would indicate that inheritances lead to a narrowing of the wealth gap. While his argument considers how the transfers might affect the savings behaviors of both donors and recipients, he neglects to consider how inheritances might impact the investment opportunities of the more favored recipients. There is plenty of evidence to show that wealthier households hold more diverse and higher-yielding assets than their less wealthy counterparts. As such, simply considering the proportionate shares and drawing conclusions from them seems naïve.

### ***Estimating the Impact of the Federal Tax Expenditures***

The dozen tax expenditures of interest here represent a small number of the total tax expenditures,<sup>13</sup> although they comprise the major bulk of their cost to the treasury. Figure 7 below depicts their annual cost to the US Treasury in current year dollars over the years 1987 to 2022. As you can see, these 12 tax expenditures have increased significantly over the period rising nearly six-fold over their levels in the late 1980's. They currently deplete the US Treasury by over \$1.1 trillion dollars annually and these figures will certainly rise in the future.<sup>14</sup> Moreover, their annual benefit to taxpayers far exceeds the annual transfers as reported in the 3-Year Family Transfers. While the two sources of wealth were largely similar over the first decade, the growth in the tax expenditures has generated an expanding gulf in their importance size in recent years. Currently, the annual benefits derived from the tax expenditures is more than double what is transferred between families.



Source: JCT Tax Expenditures; US Treasury *Tax Expenditures*; SCF 1989 – 2022.

One can estimate how these federal tax benefits are distributed across households by pairing the tax expenditure estimates with the household survey data provided by the SCF. For example, the SCF asks households the extent of their realized, capital gains over the previous year as well as whether any resulted from the sale of their primary residence. These figures indicate which households are eligible for either the capital gains or home sale exclusions. Other questions establish household earnings from tax-exempt bonds or self-employment; each offers insight into which households benefit from the tax-exempt interest or qualified business income exclusions. Further questions regarding the size of pensions and whole life insurance assets indicate how much households profit from these deductions as well. The reported value of one's principal residence as well as their household income are used to estimate the likely property tax as well as

<sup>13</sup> The Joint Committee on Taxation estimates 164 tax expenditures that target individual taxpayers while the U.S. Treasury estimates there are 171.

<sup>14</sup> Their estimated cost to the treasury in 2025 is just shy of \$1.4 trillion.

the state and local income tax liability.<sup>15</sup> Figures on outstanding mortgage debt offer insight on who uses the home mortgage deduction while estimates of unrealized capital gains suggest who will gain from the estate step up in basis exclusion. Lastly, the surveys queried which households were covered by private health insurance, indicating whether households benefit from the health insurance deduction.

Clearly, these estimates don't capture all of the nuances. One's outstanding mortgage debt gives some idea of the value of the home mortgage deduction, but it doesn't measure precisely what interest payments they made over the previous year. Not all health insurance packages offer the same level of benefits or value nor does self-employment income qualifies for the business income exclusion. The absence of any geographical information means that any differences in state and local tax policies are neglected in the SALT deduction. Nonetheless, knowing the specific balance sheets of households provides a realistic understanding of who benefits from these tax expenditures.

Moreover, many of the estimates are subject to further adjustments. Those tax expenditures with benefit caps – like the home sales exclusion and mortgage interest deduction – have their benefits adjusted accordingly. Adjustments are made to the below-the-line deductions if the households report choosing the standard deduction. Further modifications are made to reflect the Pease Limitation that affected several deductions from the early 1990's to 2017. Lastly, based on their household income, the likely tax bracket is estimated for each household and this is used to determine the actual value of the deduction.

One can better appreciate the overall impact of this federal generosity by looking at the aggregated evidence. This is presented in Figure 8 below. The first column simply sums the estimated benefits over the 36 years both in total and according to the various wealth groups. During this period, these twelve tax deductions doled out more than \$20 trillion, about twice the level of family gifts and transfers over the same period. The second column illustrates how these benefits might increase over time as they are saved and invested by their recipients. The application of the same S&P 500 adjustment would cause these benefits to exceed \$68 trillion.

Figure 8 Tax Expenditure Benefits by Wealth Status			
Quintiles	Raw Assistance	S&P 500 Adjusted	Share of Benefits
Bottom	\$530	\$1,821	3%
Second	\$827	\$3,152	5%
Middle	\$1,585	\$6,125	9%
Fourth	\$2,783	\$10,634	16%
Top	\$14,595	\$47,037	71%
Total	\$20,320	\$68,768	
Top 10%	\$11,999	\$37,565	56%
Top 5%	\$9,546	\$29,474	44%
Top 1%	\$4,972	\$14,985	23%

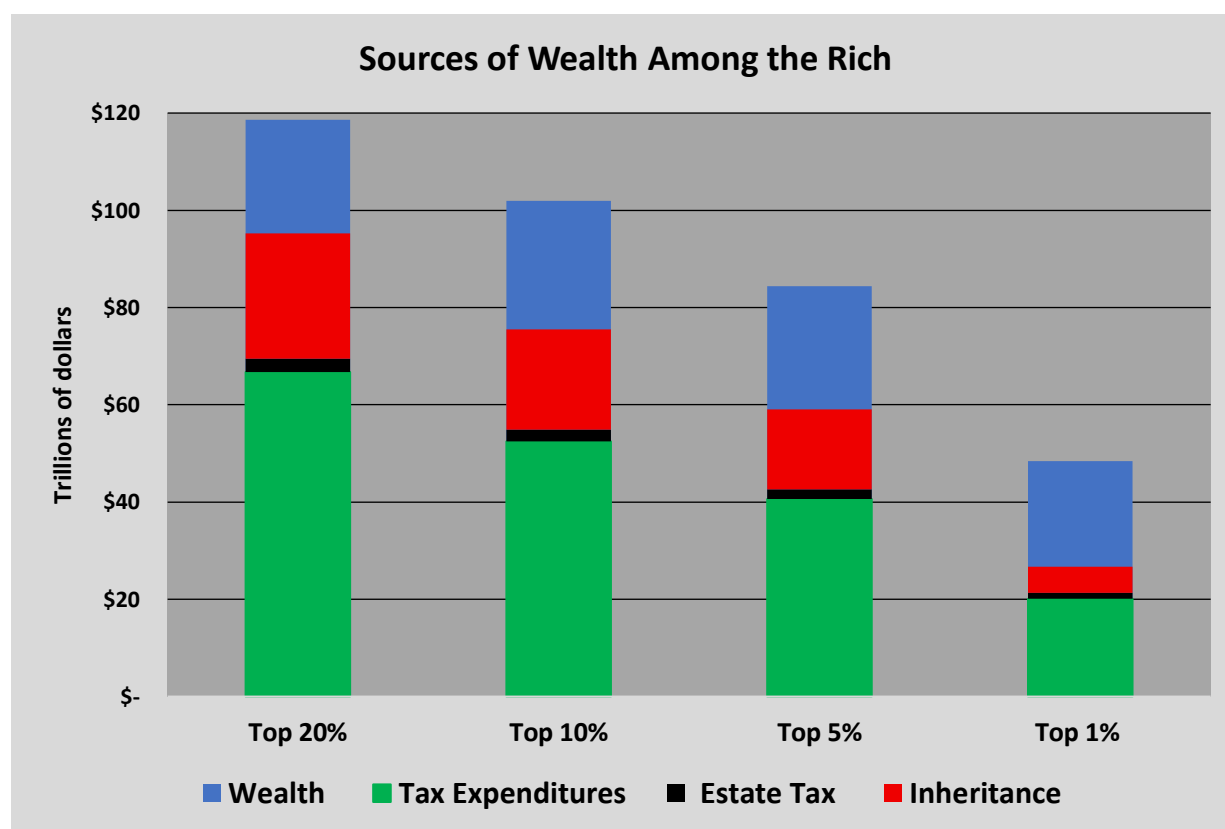
Source: SCF; JCT; US Department of Treasury.

<sup>15</sup> The SCF does not provide geographical information on household residence which precludes using state and local taxes to adjust the shares of these two federal deductions. I assume the geographical factors largely cancel out. If wealthier households disproportionately reside in the high-tax states, their share is undervalued.



This amount is more than one half of the wealth accumulated over the period. The last column considers how these benefits are distributed to recipients who reside along different parts of the wealth continuum. Nearly three quarters of the benefits are funneled to the wealthiest quintile with the top 1 percent garnering nearly a quarter alone.

One remaining issue is to examine how much of the current wealth among the very wealthy can be traced back to these generous tax expenditures. In the graph below, the current wealth holdings among the top wealth groups are depicted. In each case, the amount of wealth that can be attributed to past tax expenditure benefits using the S&P 500 adjustment is shown in green. Of course, some of the early recipients of these tax benefits have died and presumably left their estate to their heirs. To account for this, I have assumed that all of the estate and gift taxes paid to the federal Treasury over the period were borne by these households alone.<sup>16</sup> These taxes are then netted from the tax expenditure benefits. Even with this adjustment about half of the wealth held by these households can be sourced back to the tax expenditures. Interestingly, the share does fall as one moves into more select company. When the inheritance source is added, then over 75 percent of the top wealth quintile's wealth can be attributed to either source. Again, the shares fall as one moves up the wealth tail; only about half of the current wealth among the top 1 percent appears attributable to these two sources.



Sources: SCF; JCT; Department of Treasury; OMB.

<sup>16</sup> I assume the top 20 percent paid 100 percent of these taxes. I apportioned this amount among the smaller groups based on their relative share of the wealth held by the top quintile.

### ***Conclusion***

More than a half century ago, Secretary Surray warned us against ignoring the corrosive nature of federal tax expenditures. No doubt he believed that a required accounting of their drain on the Treasury would generate an effective response to rein them in. Likely, he'd be appalled if he saw how much they had grown over the years. Since that time, they have expanded at a rate that exceeds federal expenditures over the same period (Williams, 2025). In 2025, the dozen tax expenditures discussed in this paper are expected to cost the U.S. taxpayers nearly \$1.4 trillion; this level of loss rivals the program costs of Social Security and Medicare. Yet, they remain deeply under the radar buried in a mind-numbing tax code.

With great precision, these twelve tax deductions target the circumstances and needs of the wealthy. Rather than assist struggling households gain wealth to attain some measure of financial security, they focus their generosity of households who've already attained wealth. One must attain homeownership before benefitting from any of the residential property tax deductions. Households must demonstrate their capacity to invest in appreciating assets before they benefit from the generous tax treatment offered to capital gains income. Only when households have achieved a level of financial stability that enables them to save for retirement do they gain preferential tax treatment in their saving. These tax expenditures are designed as entitlements to those who have shown their capacity to attain wealth no matter the method. Moreover, most of the tax deductions come with no cap to their generosity. In these ways, the twelve tax expenditures are truly stealth entitlements to the rich.

Their explosive growth over the years means they play a major role in our nation's growing problem of increasing wealth concentration. Currently, they represent an annual gift to the wealthy that is double what these household may get from their own families. That these three key facets – wealth inequality, intergenerational family transfers, and tax expenditure benefits – are all iteratively linked means that we can only expect the expansion of wealth disparities that challenge the very foundations of our society to continue unabated and without any restraint.

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