

Inheritances and the Structure of the Wealth Distribution in Germany

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Abstract This paper quantifies the distributional role of inheritances and gifts (transfers) in Germany using the Socio-Economic Panel (SOEP). We disentangle two mechanical channels through which transfers affect wealth inequality: changes in aggregate wealth (“size-of-cake”) and changes in absolute dispersion. We assess the distributional effect of transfers based on several counterfactual wealth distributions. First, we net out transfers from observed wealth using different capitalization and depletion rates and consider capping transfer wealth at current wealth. Second, we construct a non-additive counterfactual wealth distribution using inverse probability reweighting. We then implement stylized redistribution schemes to contextualize the resulting inequality contributions and to establish theoretical bounds for the inequality implications of transfers. We find that the reduction in inequality attributed to transfers is driven entirely by aggregate wealth effects. Patterns in the data are consistent with partial depletion of transfers rather than capitalization, which diminishes the negative association of transfers and wealth inequality. The results further indicate that the (re)distributional effects of transfers are limited by their relatively small share in total wealth.

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