

Financial support from parents to adult children: a catalyst for inequality

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Background

Parents form an important source of support for adult children (Albertini et al., 2007; Swartz, 2008). This reliance on parents has grown in recent years, as young people face increasing uncertainty, rising housing prices (Kahn et al., 2013; Schoeni & Ross, 2005), and declining welfare state provisions (Mills & Blossfeld, 2003). Because parental resources are highly stratified, parents in the higher socio-economic strata are especially able to provide financial support (Fingerman et al., 2015; Kalmijn, 2024; Swartz, 2008). This, in turn, might lead to a pattern of cumulative (dis)advantage, exacerbating inequalities between families; the children from wealthy background receive more support. Within families, the pattern is less clear cut. Research suggests that parents react to children's need, with more support to children in need (Fingerman et al., 2009; Silverstein et al., 2006), but some suggest that parents may be more likely to invest in children who are more "successful" (Brandt et al., 2008).

In the Netherlands in the late 2010s, the context of this study, the tax system encouraged financial parental support. Parents can make yearly tax-free financial transfers of up to €6700, and once in their lifetime they can make a tax-free financial transfer up to €32,000. Moreover, from 2017 to 2022, the Netherlands allowed the so-called "jubelton": a tax-free gift of up to €100,000 from parents to children for buying a house. These different measures may increase inequality, including making homeownership out of reach for lower socio-economic groups (Howard et al., 2024).

In this paper, I examine how substantial financial transfers from parents to children – transfers that have to be reported to the Dutch tax offices (minimum €2900; average €69,000) – increase inequalities. The aim of the paper is three-fold. First, I examine differences *between families* by examining how socio-economic characteristics of parents relate to the likelihood of receiving a financial transfer. This question has been addressed by previous studies, but these studies generally examine relatively small financial transfers (e.g., from €100 onwards). In this paper I examine how these differences look like for much higher financial transfer; substantial transfers that directly aid buying a house. Secondly, I examine differences *within families* by examining how characteristics of the adult child, such as education and having a permanent contract, relate to receiving a financial transfer. Thirdly, I examine financial transfers as a mediator of the effect of parental financial on adult children's homeownership. Do financial transfers result in socio-economic differences in homeownership?

Data and Methods

I use administrative data from Statistics Netherlands over the period 2017 to 2021 for individuals aged 25 to 40. I matched the data of the adult children to information of each of the parents. From the tax offices, I have data on all financial transfers that are made from parents to children that have to be reported to the tax offices – transfers of at least €2,900. Note that this does not mean that taxes had to be paid on the transfer; for 65% of the transfers no taxes had to be paid. In total, I have information on 204,546 transfers from parents to children in this period.

I pooled the transfers from 2017 to 2021, as few individuals received multiple financial transfers during this period. In the first set of analyses, the chance of receiving a financial transfer and the amount of financial support are predicted by several parental characteristics. In the second set of analyses, I examine the role of characteristics of the adult children. I add these characteristics to the between family models and additionally employ within-family models in which I compare siblings. Specifically, I examine the role of education, unemployment, permanent employment, and partner status. Finally, I employ logistic regression models with homeownership as an outcome, testing the role of financial transfers as a mediator.

Preliminary results

The initial results suggest that financial transfers are highly stratified by parental wealth and education level. Figure 1 shows that for 25 to 40-year-olds whose parents are in the lowest 80% of the wealth distribution, the chance to have received a financial transfer during the 2017-2022 period is very rare, between 1 and 3%. However, among the highest wealth quintile, this likelihood is substantially higher. Among the highest wealth group, 6% of the lower educated, 8% of the middle educated, and 13% of the higher educated received financial support during the 5-year period. This finding suggests that large financial transfers especially benefit the people with already the most resources, increasing inequalities.

Figure 2 shows the marginal effects for the amount of money transferred among those who received financial support. Adult children whose parents are in the highest wealth quintile received higher amounts than those from the other wealth quintiles. The difference is €40,000 among the middle and higher educated, and €65,000 among the lower educated. This again points to the cumulative advantage of adult children from a higher socio-economic background. Moreover, although the lower educated are less likely than higher educated to receive a financial transfer from parents in the highest wealth quintile, when they do, the amount tends to be substantially higher. This points somewhat to the theory that transfers might depend on need.

Figure 1. Percentage 25- to 40-year-olds that received a substantial financial transfer from their parents in the period 2017-2021.

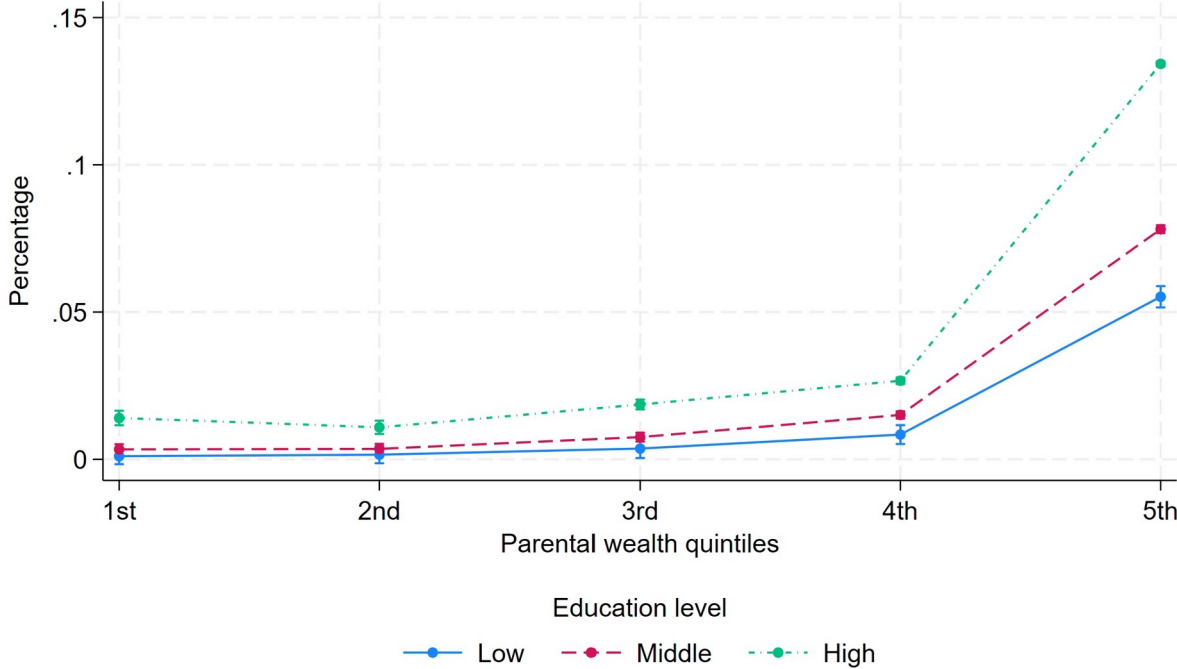
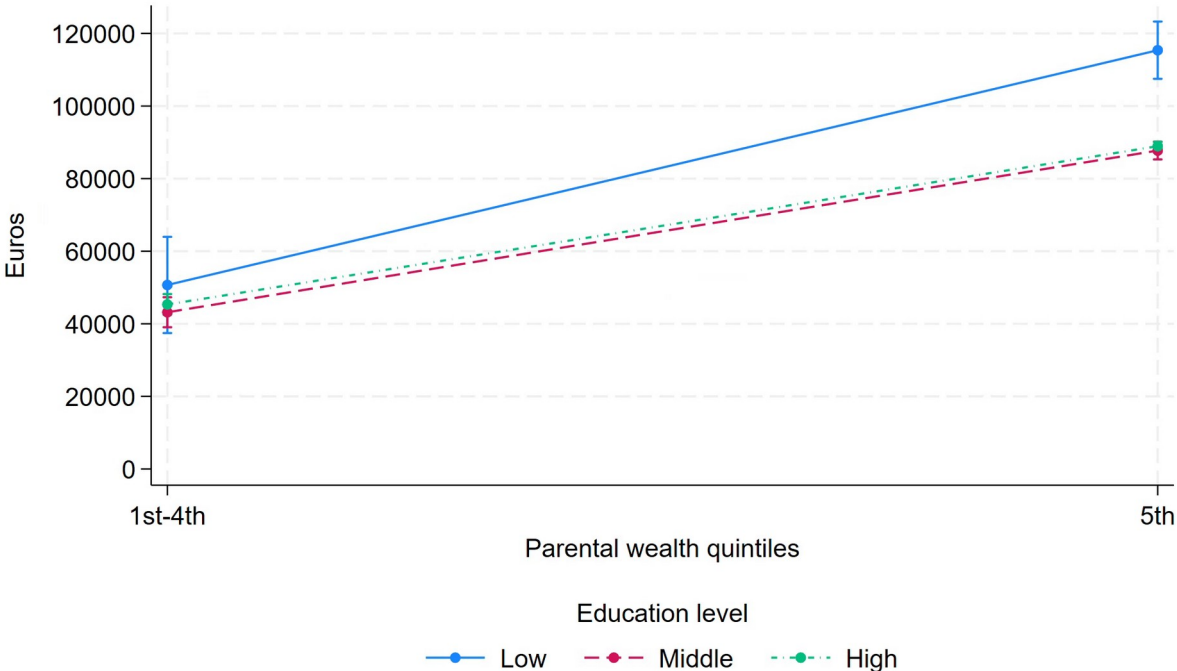


Figure 2. Amount of money received among the 25- to 40-year-olds who received a financial transfer from their parents between 2017 and 2021.



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