# THE FEDERAL ESTATE AND GIFT TAX:
## Description, Profile of Taxpayers, and Economic Consequences

**by**

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Summary

The estate tax was enacted in 1916. The gift tax was enacted in 1924, repealed in 1926, and reenacted in 1932. In 1976, the gift tax was integrated with the estate tax, sharing a common tax rate schedule with a current maximum tax rate of 55 percent. Estate and gift taxes are complemented with a generation skipping transfer tax, first enacted in 1976, at a current flat rate of 55 percent.

The estate and gift tax provides for an unlimited marital deduction and an effective exemption of $625,000 in 1998, by virtue of the unified credit, which is scheduled to increase to $1,000,000 by the year 2006. The estate tax provides for a credit for state death taxes at a maximum rate of 16 percent of the federal taxable estate, which effectively reduces the Federal marginal tax rate for the wealthiest estates to a maximum of 39 percent.

Estate and gift taxes have considerable implications for economic behavior as well as for income and wealth distribution. There is overwhelming evidence that estate taxes stimulate charitable bequests, and recent evidence indicates that they influence lifetime giving as well. Recent evidence also suggests that estate taxes, by reducing the benefits of the step up in basis, also influence capital gains realizations. Because they apply primarily to the very wealthy, who tend to realize little of their income, estate and gift taxes bolster the progressivity of the total tax system.

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## 1. INTRODUCTION

As early as 1797, the Federal government experimented with a number of transfer taxes before settling on the estate tax system in 1916.[1] This tax system, which has evolved into the Unified Transfer Tax, currently consists of three components: the estate tax, the gift tax, and the generations skipping transfer tax. This tax represents the only wealth tax levied by the Federal government.

The estate tax, enacted in 1916, was chosen over an inheritance tax because it is relatively simpler to administer.[2] At the time of its enactment, it applied to the wealth of decedents with estates in excess of $50,000, with a maximum tax rate of 10 percent. Over the years, the tax underwent numerous changes, especially in 1976 and 1981, and currently applies to taxable estates in excess of $625,000 in 1998 with a maximum tax rate of 55 percent.[3]

The gift tax was first enacted in 1924, repealed in 1926, and re-enacted in 1932 in an attempt to reduce estate and income tax avoidance. In 1976, the gift tax was integrated with the estate tax under the Unified Transfer Tax, sharing a common tax rate schedule with a current maximum tax rate of 55 percent. As with the estate tax, cumulative gifts with a value below $625,000 are effectively exempt from taxation.[4] Both estate and gift taxes are complemented with a generation skipping transfer tax (GSTT), first enacted in 1976 and drastically revamped in 1986, with a flat rate of 55 percent for cumulative transfers in excess of $1,000,000.

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[1] For a historic overview, see Joint Committee on Taxation (1998), Johnson and Eller (1998), Eller (1997), Pechman (1987), Zaritsky (1980), Fiekowsky (1959), and Paul (1954).

[2] See Office of Tax Analysis (1963, 17). An estate tax is levied on the wealth held in a decedent's estate, while the inheritance tax depends on the relationship of the heir to the decedent and the size of the transfer. Because the current tax accords different treatments to some transfers depending on the relationship of the beneficiary, it can be viewed as a hybrid tax retaining some of the features of an inheritance tax.

[3] This increases in steps to $1,000,000 in 2006.

[4] This also increases in steps to $1,000,000 in 2006.

This paper is organized as follows. The next section lays out the objectives of the current Unified Transfer tax. Section 3 describes estate and gift taxes and their evolution. Section 4 provides a profile of decedents with estates subject to the estate tax and their beneficiaries. Section 5 discusses trends in revenues. Section 6 discusses the economic effects of the estate and gift tax. A concluding comment is provided in section 7.

## 2. OBJECTIVES OF THE TAX

The enactment of the estate and gift taxes, and their evolving structures over the years, serve several legislative objectives. First and foremost, the estate tax was enacted for its revenue yield. As revenues declined following the outbreak of World War I, the tax was enacted to help finance the looming deficit in fiscal year 1917 and the "war-readiness" campaign.[5] In fiscal year 1918, its first full year of enactment, the estate tax yielded $45.5 million, which accounted for 1.3 percent of the receipts of the Federal government.[6] The gift tax was re-enacted (Revenue Act of 1932) as government revenues shrank during the Great Depression. In fiscal year 1997, estate and gift taxes yielded about $20 billion and accounted for about 1.3 percent of Federal government receipts.

A second objective, which is very much related to the first, is that these taxes act as a backstop to the income tax and offset the erosion of its base. The gift tax was enacted in 1924 and re-enacted in 1932 to curb estate and income tax avoidance.[7] Much of the capital income that escapes the income tax is subject to the estate tax. Under the personal income tax, accrued capital gains are taxed only when realized, and interest income from state and local bonds and the inside build-up on life insurance policies are tax-exempt. In contrast, most assets owned by decedents are included in their gross estates. As such, these taxes bolster the progressivity of the

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[5] See Paul (1954, p. 105) and OTA (1963, p. 15-16). The projected deficit for fiscal year 1917 was $177 million.

[6] In fiscal year 1917, receipts were $6.1 million, or 0.8 percent of total receipts. Estate and gift tax revenues peaked at 9.7 percent of total receipts, at $379 million, in fiscal year 1936.

[7] See OTA(1963, p. 26).

tax system.[8]

A reduction in wealth concentration is a third objective. By taxing the wealth holdings of the wealthiest estates, estate and gift taxes are expected to reduce the size of bequests, which reduces the wealth accumulated over several generations. This is also accomplished by subjecting to estate taxation capital income that has escaped the personal income tax. When the estate tax was enacted, large concentrations of wealth were viewed as a danger to a democracy, and large inheritances were considered inconsistent with democratic ideals of equal opportunity.[9]

Ensuring that the wealth of each generation is taxed is another objective. When the GSTT was enacted in 1976 and expanded in 1986, Congress was concerned that estate and gift taxes were avoided by the wealthy through generation skipping arrangements, such as gifts to grandchildren. Because of the emphasis on taxing each generation, an additional tax, the GSTT, is also levied on these transfers. The rationale for the GSTT is that a tax should be levied on wealth transfers to children, coupled with another tax when they, in turn, transfer wealth to their children. The GSTT applies as if transfers to grandchildren were transferred initially to the children, who in turn transfer them to their children. As such, the GSTT weakens the incentives to make tax-motivated transfers to grandchildren.

The states viewed estate taxation as their preserve,[10] and, thus, to minimize objection by the states to the enactment of death taxes by the Federal government, the estate tax provides a tax credit for state death taxes, thereby keeping the state tax base intact (Revenue Acts of 1924, 1926). The credit was first set at 25 percent of the federal estate tax in effect in 1924 and later changed to 80 percent of the statutory tax rates that were in effect in 1926, equivalent to a maximum credit rate of 16 percent which is part of the tax code today. For the largest estates, the credit reduces Federal tax liability by about 29 percent. Effectively, the Federal estate tax minimizes the interstate competition for the wealthy, as the state death tax credit essentially offsets taxes levied by states on the wealthiest of estates.

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[8] See Graetz (1983).

[9] See Fisher (1916, p. 711), Carnegie (1933, p. 10), and Paul (1954, p. 63).

[10] See Bullock (1907), and Mellon (1924, p. 111).

## 3. DESCRIPTION OF THE TAX

Since their inception, estate and gift taxes have undergone a number of changes affecting the assets taxed, allowable deductions, exemptions, tax rate schedule, and credits.

### 3.1. The Tax Base

The current estate tax base has not changed much since the Act of 1954. The base includes the value of real estate, cash, stocks, bonds, businesses, pensions, and proceeds from life insurance policies owned by the decedent. Together, these assets form the gross estate. Cumulative taxable lifetime gifts are added back to the taxable estate in computing the estate tax, with a credit provided for previously paid gift taxes.[11]

Although the gift tax was not enacted until 1924, from its enactment in 1916 the estate tax treated gifts made within two years of the date of death as transfers made in contemplation of death, and required such gifts to be included in the taxable estate. The Tax Reform Act of 1976 (TRA76), which integrated the gift and estate taxes, required the inclusion in the taxable estate of all gifts made within three years of the date of death. Beginning in 1982, and following the Economic Recovery Tax Act (ERTA) of 1981, generally only transfers of ownership of life insurance policies and the gift tax on transfers made within three years of the date of death are included in the estate.[12]

The gift tax applies to lifetime transfers of assets just as transfers at death are taxed under the estate tax. Cumulative lifetime taxable gifts are added to the current year's taxable gifts in computing the gift tax, with a credit provided for previously paid gift taxes.[13] One major distinction between the estate tax and the gift tax is that the latter applies on a tax exclusive basis. In other words, the gift tax is based on the amount received by the donee and not the total

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[11] This treatment is especially relevant in the presence of progressive tax rates.

[12] Internal Revenue Code, Section 2035. Other assets that must be added back to the estate include transfers of future interests and revocable trusts.

[13] Again, this treatment is relevant to the extent that progressive tax rates apply.

amount, including tax, transferred by the donor.[14]

When transfers, either testamentary (at death) or inter-vivos (between living persons), skip a generation, as in the case of a grandchild, the underlying assets become subject to the GSTT, in addition to the estate and gift tax. Beginning with the Tax Reform Act of 1986 (TRA86), the GSTT applies regardless of whether the transfer is made directly to a grandchild, or through a trust as provided for in TRA76.

### 3.1.1. Valuation

In determining the value of the gross estate, assets are generally valued at their market value (or appraised value in the absence of a publicly tradeable market) on the date of death. Because market values can fall between the date of death and the date the estate tax is due, the tax code provides an alternative valuation date.[15] The alternative valuation date, first introduced in 1935, was one year from the date of death. Under current law, estates may elect to value their assets at six months after the date of death if the election would reduce both the value of the gross estate and the estate tax due.

The tax code also provides an alternative valuation method for real property used on farms or in businesses.[16] Under this special use valuation method, the value of an asset is based on its value as used in an ongoing business[17] when that is less than its market value. The excess of the

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[14] For an illustration, assume a parent wishing to make a total transfer of $100 faces a gift or estate tax rate of 50 percent. Under the estate tax, the estate pays a tax of $50, and the heirs receive $50. Under the gift tax, the tax is $33.33 and the beneficiaries receive $66.67, for a savings of $16.33. The tax advantages of making gifts, however, are in part offset by the income tax treatment of capital gains. Assets are accorded a step-up in basis in the case of bequests, and a partial basis carry-over in the case of gifts; the basis of the donee in the case of a gift is the donor's basis increased by the gift tax multiplied by the share of appreciation in the property transferred -- Section 1015(d)(6).

[15] Section 2032.

[16] Section 2032A.

[17] Assets may be valued based on capitalized income or the values of properties employed in similar enterprises.

market value over the special use value is excluded from the gross estate. This exclusion was first introduced in 1976, and limited to a maximum of $500,000. The maximum exclusion was increased to $750,000 in 1983, and is indexed for inflation beginning in 1999 (see Table 1). The heir to such property is required to actively manage it. Failure to materially participate in its operations or disposal of the property within 10 years of its inheritance will subject the heirs to recapture taxes.[18]

In principle, assets are supposed to be valued at their fair market value. In certain circumstances, however, the reported value may be less than the market value. For example, if a decedent, or donor, owned a large block of publicly traded stock, the market value reported for estate or gift tax purposes would likely be discounted. The discounted value may reflect the reduction in the expected trading price of such stock if a large block were to be sold. This "blockage" rule is one of many valuation methods employed by estate planners.

Minority discounts are another valuation method commonly used to value inter-vivos gifts, especially transfers of closely held businesses. This valuation discount is also extended to estates when a minority position is maintained at death. The value of the interest transferred may be less than the pro-rata share of the value of the corporation or entity transferred due to the lack of control or marketability by the new owner.[19]

### 3.1.2. Life Insurance

Some life insurance proceeds are included in the gross estate, depending on the form of ownership of the policy.[20] Life insurance proceeds first became taxable under the Act of 1918. Under the Act, proceeds from policies owned by the decedent, plus proceeds in excess of $40,000 from life insurance policies owned by others, were included in the gross estate. In the Act of

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[18] Prior to ERTA in 1981, the waiting period was 15 years.

[19] This valuation method may seem reasonable in the case of active businesses, but the potential for abuse is significant in the case of passive businesses. A growing practice in recent years is for investors to bundle their stocks, bonds, or personal residences, into partnerships and make fractional transfers to their heirs.

[20] Section 2042.

1942, all proceeds from policies where the decedent paid the premiums or had an incidence of ownership were also made taxable. The Act of 1954 dropped the "premium paid" test, and since then only proceeds from policies owned by the insured are taxable to the estate.

### 3.1.3. Family Owned Business

The Taxpayer Relief Act of 1997 (TRA97), as amended in the Internal Revenue Service Restructuring and Reform Act of 1998, introduced a new provision benefitting family-owned businesses. Beginning in 1998, estates may deduct up to $675,000 of the interest in a family business in computing the taxable estate.[21] For those who claim the maximum deduction, however, the maximum exemption available by virtue of the unified credit is limited to $625,000, for a combined value of $1.3 million. To qualify for this treatment, the value of the business must exceed 50 percent of the adjusted gross estate. Furthermore, the heirs are required to materially participate in running the business.

### 3.1.4. Pension Assets

Prior to 1982, assets held in qualified pension plans, individual retirement accounts (IRAs), and similar plans were generally excluded from the gross estate; this exclusion was limited to $100,000 by the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). Beginning with the Deficit Reduction Act of 1984, these assets are fully included in the gross estate.[22] To avoid double taxation, however, an income tax deduction for estate tax paid on such assets is provided for distributions from qualified plans to the heirs.

## 3.2. Exemptions and Exclusions

When first enacted, the estate tax provided for an exemption of $50,000, or about $752,000 in 1998 dollars, in computing the taxable estate. Over the years, as Table 1 illustrates, the exemption fluctuated within a narrow band through 1976 when it was $60,000. TRA76

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[21] Section 2057.

[22] Section 2039.

repealed this exemption and replaced it with the Unified Credit of $30,000 in 1977, which is equivalent to an exemption of $120,667, or $326,000 in 1998 dollars (see Section 3.5.1 below).

Beginning in 1998, permanent conservation easements may benefit from a 40 percent exclusion of the value of land, up to a maximum of $100,000, depending on the location of the property (TRA97).[23] The exclusion rises to $200,000 in 1999, $300,000 in 2000, $400,000 in 2001, and $500,000 in 2002 and thereafter.

The gift tax provides for an annual exclusion of $10,000, or $20,000 in split gifts by husband and wife, per donee.[24] Prior to ERTA in 1981, the exclusion was limited to $3,000 (see Table 2). When first enacted, the gift tax provided a specific, or lifetime, exemption of $40,000, above and beyond the annual exclusion. The exemption fluctuated very little over the years through 1976 when it was $30,000, as shown in Table 2. TRA76 also repealed this exemption and replaced it with the Unified Credit as it integrated the estate and gift tax.

The GSTT allows an exemption of $1,000,000 for cumulative generation skipping transfers per donor, as provided for by TRA86 and shown in Table 3.[25] The exemption was $250,000 when the GSTT was first enacted in 1976 (TRA76). TRA86 also provided for an additional temporary $2 million exemption per grandchild for the period October 23, 1986, through 1989. The GSTT exemption, as provided for in TRA97, is indexed for inflation effective for transfers in 1999.

### 3.3. Deductions

A number of transfers and expenses are deductible in computing the taxable estate. These include spousal bequests (marital deduction), bequests to charity, debts of the decedent, and expenses incurred by the estate.

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[23] Section 2031(c).

[24] Section 2503(b).

[25] Section 2631(a).

### 3.3.1. Marital Deduction

All transfers of property to a U.S. citizen spouse are deductible in computing the taxable estate and gifts.[26] Prior to ERTA in 1981, the deduction for spousal bequests was limited to the greater of $250,000 or one-half the Adjusted Gross Estate. The latter is defined as the gross estate less funeral expenses, estate administrative expenses, and debts. Prior to TRA76, estates could deduct only 50 percent of the gross estate (see Table 1), and prior to the Act of 1948 only community property was excluded from the estate. Limiting the deduction to one-half of the estate was motivated by a desire to equalize the tax treatment of transfers to spouses in common law states with those in community property law states.[27] The motivation for the unlimited marital deduction in the 1981 act was that husband and wife ought to be treated as one unit, and that estate taxes would be paid eventually at the death of the surviving spouse. The act continued to provide the step up in basis on assets transferred to the spouse at death, however, and treat the two as distinct economic units.

As under the estate tax, all transfers of property to a U.S. citizen spouse are also deductible from the gift tax base. Prior to 1982, the deduction for spousal gifts was limited to 50 percent of the lifetime gifts in excess of $200,000. However, the first $100,000 of spousal gifts was fully deductible and the next $100,000 was fully taxable. Prior to 1977, the deduction was limited to only 50 percent of the gift (see Table 2).

### 3.3.2. Charitable Bequests

Amounts donated to qualifying charitable organizations and federal, state and local governments are deductible in computing the taxable estate and gifts.[28] The deduction was first introduced by the 1918 Act for the estate tax. Lifetime charitable contributions are also deductible in computing the taxable income of the donor. The 1969 Tax Reform Act tightened the rules governing bequests to foundations, especially those engaged in dealings with the heirs.

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[26] Section 2056.

[27] See Pechman (1987, p. 241) and Shoup (1966).

[28] Section 2055.

### 3.3.3. Other Deductions

The gross estate is reduced by the amount of outstanding debts held at death and by estate expenses.[29] These debts include mortgages and outstanding medical expenses, among others. Expenses such as funeral expenses and expenses involving the settlement of the decedent's estate, such as attorney and executor commissions, are also deductible under the estate tax.[30] Alternatively, rather than being deducted against the taxable estate, some of these expenses may be deducted against the estate's (fiduciary) income tax. Attorney fees, for instance, may offset the taxable income derived from assets in the period from the date of death to the settlement of the estate.[31]

Prior to ERTA in 1981, bequests to orphan children could also be deducted. This deduction was limited to $5,000 for each year the orphan child was under age 21. Another deduction, introduced by TRA86, was for the sale of employer securities to employee stock ownership plans (ESOPs). This deduction was repealed for decedents dying after July 12, 1989 (Omnibus Budget Reconciliation Act of 1989).

## 3.4. Rate Structure

The tax rate schedule ranges from 18 percent on the first $10,000 of taxable estate and gifts to 55 percent for the excess over $3,000,000 of taxable estate and gifts. The current rate schedule is shown in the left panel of Table 4. This rate schedule applies to the gross estate less allowable deductions plus lifetime taxable gifts. When the estate tax was first enacted, the tax rates ranged from 1 percent to 10 percent. As shown in Table 1, these rates have changed considerably over the intervening years.

From 1987 through 1997, the benefit of the graduated tax rate schedule, along with the unified credit described below, was phased out by a 5% surtax for taxable estates between

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[29] Section 2053(a).

[30] Section 2053.

[31] For the tax minimizing estate, the choice of whether to claim the expenses against the income tax or the estate tax depends on the respective tax rates.

$10,000,000 and $21,040,000, creating a marginal tax rate of 60 percent (OBRA87). Beginning in 1998, as provided for in TRA97, the graduated rates are phased out completely at taxable estates of $17,184,000.

Gift tax rates, beginning in 1977, share a common rate schedule with the estate tax. Like the estate tax rates, gift tax rates have fluctuated considerably over the years (see Table 2). Prior to 1977, the gift tax rates were set at 75 percent of the estate tax rates. The GSTT rate is equal to the maximum statutory estate and gift tax rate, currently 55 percent (see Table 3). Table 5 provides an example of how the GSTT works through the estate and gift tax.

### 3.5. Tax Credits

Several tax credits are available under the estate and gift tax. These credits include the unified credit, the state death tax credit, the estate tax credit for gift taxes paid, and the credit for previously paid death taxes.

#### 3.5.1. The Unified Credit

The largest of the available credits is the unified credit.[32] The Act of 1976 provided for a tax credit of $30,000 in 1977, which is equivalent to an exemption of $120,667. As Table 1 illustrates, the value of this credit increased over time, especially with the enactment of ERTA in 1981. From 1987 through 1997, the value of the unified credit was fixed at $192,800, equivalent to an exemption of $600,000, for combined estate and gift taxes. Thus, the first $600,000 of a taxable estate was taxed at a zero rate. Consequently, the marginal tax rate for estates in excess of $600,000 began at 37 percent. Taxable estates over $21,040,000 faced a flat tax rate of 55 percent. The unified credit, along with the progressive rate structure, was phased out between $10,000,000 and $21,040,000, which created an effective marginal tax rate of 60 percent (see bottom of Table 6). The unified credit is set at $202,050 in 1998, and increases in steps to

[32] Section 2010.

$345,800 in 2006, as provided for in TRA97.[33] These credit levels are equivalent to exemptions of $625,000 and $1,000,000 respectively, as shown in Tables 1 and 2. Due to a technical error in drafting TRA97, the unified credit is no longer phased out.[34]

A tax credit operates differently from an exemption as it provides the same reduction in tax liability regardless of the size of an estate. More specifically, the benefit of an exemption to the wealthiest estates reflects the top statutory tax rate, whereas the benefit of a credit reflects the lower tail of the tax rate schedule as well. In 1998, for example, an exemption of $10,000 is worth $5,500 in the case of a taxable estate of $5 million, but is worth $3,700 to a taxable estate of $700,000. On the other hand, a tax credit of $3,700 is worth the same to both.

### 3.5.2. The State Death Tax Credit

The second largest credit is for state death taxes. Currently, and as provided for in the 1954 Act, the maximum credit is set by a rate schedule for a given "adjusted taxable estate," defined as the Federal taxable estate less $60,000.[35] The credit rate schedule ranges from zero to 16 percent, as shown in the right panel of Table 4. The credit acts to reduce the maximum federal statutory tax rate to 39 percent, down from 55 percent, for the wealthiest estates (see bottom of Table 6).

This credit was first enacted by the Revenue Act of 1924 in response to the criticism that the federal government had encroached upon state domain of death taxes. It was limited to 25 percent of the federal estate tax liability. In 1926, the maximum credit rate was further raised while the estate tax rate was lowered. The maximum credit rate was set at 80 percent of the 20 percent maximum federal marginal tax rate applicable in 1926, or effectively 16 percent, which has remained part of the estate tax code since. Prior to the 1954 Act, it was necessary for estates

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[33] A husband and wife can effectively transfer up to $1.25 million free of tax in 1998.

[34] If the phase-out of the credit were reinstated, along with the progressive tax rate schedule, the upper limit would be set at $21,225,000 in 1998, $21,410,000 in 1999, $21,595,000 in 2000 and 2001, $21,780,000 in 2002 and 2003, $22,930,000 in 2004, $23,710,000 in 2005, and $24,100,000 in 2006 and thereafter.

[35] Section 2011.

to calculate the federal tax liability under the 1926 law to compute the maximum credit available for state death taxes.

A similar credit is not allowed for state gift taxes. But because state taxes are not considered as part of the gift tax base, they are effectively treated as a deduction or an exclusion in computing federal gift and estate taxes. Under the GSTT, a credit of up to 5 percent of the federal tax is available for state GST taxes.

### 3.5.3. Estate Tax Credit for Gift Tax

Because estate and gift taxes apply to cumulative transfers, cumulative lifetime gifts are added back to the taxable estate in computing the estate tax. Because lifetime gifts have already been taxed, the estate tax provides a tax credit for previously paid gift taxes to avoid double taxation.[36] In general, this treatment is relevant when progressive effective tax rates apply.

### 3.5.4. The Credit for Prior Federal Tax Paid

To minimize excessive taxation of recently inherited wealth, the estate tax also provides a credit for previously paid estate taxes.[37] In computing the estate tax, a credit is set equal to the estate tax previously paid on inherited wealth. This credit is phased out over ten years, in two year intervals, from the date of death. This credit, introduced in 1954, has its roots in the Act of 1918 which allowed a deduction for taxes paid on property inherited within five years from the transferor's date of death.

## 3.6. Due Dates

The estate tax, reported on Form 706, is due within 9 months from the date of death. When first enacted, the estate tax was due one year after the date of death; estates with payments within the year were granted a discount of five percent. The gift tax on transfers in a given calendar year, reported on Form 709, is due on April 15 of the following calendar year. Prior to

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[36] Section 2012.

[37] Section 2013.

1981, the gift tax was also due on April 15 of the following year, except for gifts made in the first three quarters of the calendar year on which the tax was due on the 15th of the second month of the fourth quarter of the year. The GSTT is due on the date the applicable estate or gift tax is due.

### 3.7. Tax Deferral

Estates with closely held businesses and farms may defer a fraction of the estate tax attributable to the business, and pay the tax under the installment method.[38] This provision was first introduced by the Small Business Tax Revision Act of 1958. The tax is deferred for up to 14 years from the otherwise due date (9 months from the date of death), with no principal payable during the first 5 years. Through 1997, interest payments were deductible against the estate tax. Calculating these interest payments was a cumbersome task that required the recalculation of the estate tax liability and the filing of tax returns in each year of the deferral period. No similar provision is available for the gift tax.

The fraction of taxes deferred is equal to the ratio of the value of the qualifying interest in a closely held business to the adjusted gross estate, provided that this ratio is in excess of 35 percent. Qualifying interest includes the value of proprietorships, and corporate stock or partnership interests if at least 20 percent of the voting stock or partnership assets is included in the estate, or if the corporation or partnership has no more than 15 shareholders or partners. A less generous deferral is also available to certain estates, such as those with severe liquidity constraints, at the discretion of the Commissioner of the Internal Revenue Service.[39]

Through 1997, and for qualifying estates, the tax was paid in installments at an interest rate equal to the applicable federal short term interest rate (AFR) plus 3 percentage points. The tax on the first $1 million of the taxable estate (including the amount sheltered by the unified credit), however, is deferred at a preferential interest rate of 4 percent. Due to the deductibility of interest expenses, the effective interest rate charged, for those in the 55 percent tax bracket, was

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[38] Section 6166.

[39] Section 6161.

1.8 percent on the tax liability on the first million of taxable estate, 4*(1-0.55), and 4.05 percent for the tax liability on the taxable estate in excess of $1 million, assuming a 9 percent interest rate (or a 6 percent AFR).

Beginning in 1998, the interest rate charged on the tax on the first $1 million of taxable estate (in excess of the amount sheltered by the unified credit) is set at 2 percent (TRA97). The interest rate charged on the tax liability on the taxable estate in excess of $1 million is set at 45 percent of the AFR. Interest charges are no longer deductible, which offsets the benefit of the lower interest rates. These changes significantly improve the administration of the tax because future re-calculation of the tax liability and the filing of tax returns are eliminated.[40]

## 4. A PROFILE OF ESTATE TAXPAYERS AND BENEFICIARIES

### 4.1. A Profile of Estate Tax Decedents

Approximately 2.2 million adults die in a given year in the United States. Of these individuals, only about 1.3 percent leave behind taxable estates. Of the 2.2 million decedents in 1992, for instance, only 27,243, or about 1.3 percent, left behind taxable estates, as shown in Table 7.[41] Table 8 provides tabulations on the profile of estate tax decedents in 1992, by size of the gross estate. It shows 60,082 estate tax returns were filed for decedents with gross estates in excess of $600,000, the filing threshold in 1992. These estates reported total assets of $104.5 billion and net worth of $99.9 billion. More than half of the decedents (31,724) have estates valued between $600,000 and $1,000,000, and 263 decedents have gross estates over $20 million.

About half, or 27,751, of the decedents filing estate tax returns provided for spousal transfers totaling $32.1 billion. These transfers account for about one-third of net worth. The average spousal transfer ranges from 21.5 percent for estates under $1 million to 39.7 percent for those over $20 million. Total estate expenses, such as those for funeral expenses and attorney

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[40] The benefit of the installment method, with the applicable low interest rates, reduces the effective tax rate by about one half, and much more for the smaller estates.

[41] See Internal Revenue Service, Statistics of Income Bulletin, Fall 1997, Washington, DC 1997, page 217, for historic trends.

fees, are about $2.7 billion. These expenses account for 2.7 percent of net worth, and range from 2.8 percent for the least wealthy to 2.1 percent for the wealthiest.

Less than half the estates (27,243) were taxable and reported federal estate tax liability of $10.5 billion. Total estate taxes were $13.2 billion before the credit for state death taxes. An additional $89.4 million in GSTT were also incurred by these estates. Taxes, before the credit for state taxes, represent about 13.7 percent of terminal wealth (net worth less estate expenses), and range from 3.5 percent for the least wealthy to a high of 18 percent. The tax liability as percent of net worth, less estate expenses, charitable and spousal bequests, essentially the effective tax rate on bequests to non-spouse heirs, is about 23.3 percent and ranges from a low of 4.7 percent to 54.3 percent for the wealthiest estates.

Bequests to non-spouse heirs (net worth less estate expenses, spousal and charitable bequests), were $57.1 billion in 1992. This accounts for 58.8 percent of the reported terminal wealth, with 74.4 percent for the least wealthy and 33.1 percent for the wealthiest. After-tax bequests stood at $43.8 billion, or 45 percent of terminal wealth. After accounting for charitable and spousal bequests, and estate taxes, the heirs of the least wealthy received 71 percent of terminal wealth, while those of the wealthiest group received only 15.1 percent.

About 33,000 estates reported life insurance policy proceeds, net of policy loans, of $3.4 billion, as shown in Table 9. When compared to the figures in Table 8, these proceeds are reported by a third of the estates regardless of the estate size. They represent 3 percent of the gross estate, with slightly over 3 percent for the least wealthy and 0.5 percent for the wealthiest estates. Some 3,400 estates, or 6 percent of all estates, report an additional $1.3 billion in life insurance proceeds which are excluded from the estate. In contrast to the included proceeds, only 3 percent of the least wealthy report such proceeds compared to over 20 percent of the wealthiest group.

In 1992, only 305 estates took advantage of the special use valuation method, as shown in Table 10. The fair market value of the property was $300.8 million with reported value for estate tax purposes of $128.5 million, for an effective exclusion of 57 percent. In addition, Table 10 also shows that only 716 estates elected to defer taxes under the installment method; about $519

million in taxes were deferred.[39]

### 4.2. The Heirs

The most recent information available on bequests to heirs is from the 1982 Collation data, conducted by the Statistics of Income Division of the Internal Revenue Service, which links the income tax returns of heirs to the estate tax returns of decedents in 1982.[40] Summary statistics from this data are reported in Tables 11A-C. For each heir, the amount of inheritance and the relationship to the decedent is reported on the estate tax return (Form 706, page 3). The collation data classifies heirs along 11 categories of relationships. These are: (1) spouse, (2) son, (3) daughter, (4) grandchild, (5) sibling, (6) niece or nephew, (7) aunt or uncle, (8) parent, (9) other, (10) estate or trust, and (11) not ascertainable. Category 9 includes sons- and daughters-in-law, great grandchildren, and cousins, as well as unrelated individuals. Category 10 includes bequests not immediately distributed to heirs. Spousal trusts are classified under spousal bequests.

Tables 11A and 11B provide a breakdown of bequests and number of heirs by relationship to the decedent, and size of the estate. The total number of beneficiaries is estimated to be 237,064, with $34.2 billion in total bequests.[42] The results show that, after payment of estate taxes and charitable bequests,[43] about one-half of the distributable estate (net worth less estate expenses, estate taxes, and charitable bequests), or $16.7 billion, is bequeathed to surviving spouses, 24 percent to children, 11.5 percent to trusts, 3.8 percent to siblings, 4.1 percent to nieces and nephews, 3.2 percent to grandchildren, with the remaining 4.6 percent distributed to

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[39] See Eller (1997, p. 15).

[40] A detailed description of the data is provided in Joulfaian (1994).

[42] Bequests are about $35.7 billion when constructed from estate tax information instead of beneficiary information in the collation study. The difference is in part due to differences in asset valuation.

[43] Estate taxes, charitable bequests, and other expenses are $5.9 billion ($5.1 billion federal), $2.7 billion, and $1.5 billion, respectively. Combined, they account for about 22 percent of terminal wealth.

parents, aunts and uncles, among others.[44]

Table 11C shows that, on average, a child received an inheritance equal to 22 percent of that received by the surviving spouse, or about $122,000 ($113,910 for sons and $130,242 for daughters). There were 33,010 sons and 34,020 daughters with total inheritances of $3.8 billion and $4.43 billion, respectively. Grandchildren, 32,478 of them with $1.1 billion in inheritances, received much smaller inheritances, or about 25 percent of the average inheritance received by a child.

Siblings, comprising 14,012 heirs, received $1.3 billion, with an average inheritance of $91,649 or about 75 percent of that of the average child. Nieces and nephews, with 29,576 beneficiaries, inherited $1.4 billion or an average of $46,982. Bequests to older generations seldom occur.[45] Only 42 aunts and uncles were reported with an average inheritance of $62,138. Parents, with 885 beneficiaries, inherited much more. The average inheritance was $127,581, slightly higher than that of the average child.

Other heirs include 41,500 individuals with $1.3 billion in inheritances or an average of $31,290. These include great grandchildren, in-laws, and friends, among others. Bequests to trusts (other than spousal trusts) and estates--16,499 of them--are about $3.5 billion for an average transfer of $239,242.

### 4.2.1. A Profile of the Children

The most recent data available on child heirs is also from the 1982 Collation study. Using the matched beneficiary income tax records and decedents estate tax returns, Tables 12A and 12B provide statistics on the distribution of inheritance received by size of the pre-inheritance income of the children and the parent's gross estate; the wealth of the children is not observed.

Tables 12A and 12B provide summary statistics on the adjusted gross income (AGI) in

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[44] As a share of terminal wealth (net worth less estate expenses), spousal bequests account for 38.1 percent of wealth, children 18.7 percent, trusts 9.0 percent, siblings 3.0 percent, nieces and nephews 3.2 percent, grandchildren 2.5 percent, and parents, aunts, among others, account for 3.6 percent. Charitable bequests and estate taxes account for the remainder.

[45] From a tax planning point of view, it is generally unwise to make such transfers.

1981 of the children along with the inheritance received. The results in Table 12A show that 54,237 children received inheritances from estate tax decedents in 1982. Their total AGI in 1981 is about $2.6 billion and the inheritance received is $8.3 billion, or about three times their income. The top panel shows that wealthy parents are more likely to have high income children. Less than one percent of the children of the least wealthy, or 220 out of 28,483 individuals, have incomes in excess of $200,000. In contrast, 34.9 percent of the children of the wealthiest parents, or 84 out of 241 observations, have incomes in excess of $200,000. The reverse pattern is observed for children with positive AGI under $10,000. About 12 percent (3,409 out of 28,483) of the children of the least wealthy compared to 5 percent of those of the wealthiest fall in this income group.

The top two panels of Table 12B report mean values for AGI and inheritance received. The average AGI is $47,433, and ranges from a positive mean AGI of $5,376 to a high of $352,427. In addition, the average income of children increases with the wealth of the parent. The average income of children of the least wealthy group of parents is $34,960, compared to $271,254 for the average income of children of the wealthiest group. This large difference is perhaps due to greater human capital and other intangible transfers to children of the wealthiest group, and little should be attributed to inter-vivos gifts.[46]

In contrast to AGI, the mean inheritance received seems to be invariant to the size of income of the heirs. The average inheritance ranges from about $115,000 in the lowest positive AGI class to $265,000 in the top AGI class, and from $131,000 for the heirs of the least wealthy to about $630,000 for the heirs of the wealthiest. On average, the inheritance received is about three-fold the average income. This multiple ranges from a high of 21 in the lowest positive AGI class to a low of 0.75 times the average income in the top bracket, partially reflecting income mobility.[47]

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[46] Post-1977 cumulative taxable gifts were $294 million compared to terminal wealth of $45.9 billion in 1982, or only about 0.5 percent. Even by 1992, such gifts are only 4.4 percent of reported wealth, as shown below.

[47] Note these statistics do not account for age differences, nor do they control for between/within group (siblings) variations.

### 4.2.2. Charitable Giving

Table 13 provides statistics on the pattern of charitable bequests for decedents in 1992. About 19 percent (11,230) of the returns reported charitable bequests; about 55 percent (145) of the wealthiest compared to 16.5 percent (5,221) of the least wealthy giving. Total charitable bequests were $8 billion, or about 8 percent of wealth, with the wealthiest giving about 26 percent of their wealth and the least wealthy 3.5 percent. On an after tax basis, these bequests represent only about 5 percent of after-tax wealth, however, with the wealthiest giving about 17 percent of their wealth.[48]

The wealthiest estates not only bequeath more to charity, but they also seem to give more during life. Again using data for decedents in 1982, Table 14 provides statistics on the pattern of giving in 1981, the year prior to death, and bequests at death in 1982. Of the 59,692 decedents with estate tax returns, 41,614, or 69.7 percent, reported charitable contributions in the year prior to death, while 10527, or 17.6 percent, reported charitable bequests. The relative frequency of giving during life rises with the size of the estate. About 62 percent of the least wealthy contribute during life, while only 15.2 percent contribute at death. Similarly, 88.6 percent of the wealthiest contribute during life, while only 55 percent provide for charitable bequests.

While the relative frequency of giving during life exceeds that at death, the reverse is true for the size of gifts made. For decedents subject to the estate tax, charitable contributions reported in 1981 were $204 million, compared to bequests of $3.4 billion in 1982, as shown in the middle panel of Table 13. In the aggregate, these lifetime contributions are equivalent to 6 percent of charitable bequests. This ratio ranges from about 10 percent for the least wealthy to about 3 percent for the wealthiest.

The bottom panel of Table 14 shows that lifetime contributions are about 5 percent of income, and range from less than 4 percent for the least wealthy to 16 percent for the wealthiest group. However, contributions represent less than one-half of one percent of net worth. The least wealthy contribute one-third of one percent compared to 0.8 percent for the top group.

Charitable bequests are also about 8 percent of wealth, with mean values of $56,946 and

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[48] For those in the top tax bracket, a bequest of $1 million to charity costs only $450,000.

$738,855, respectively. The reported pattern of charitable bequests in 1982, relative to net worth, is similar to that using 1992 data. In contrast, charitable bequests represent about 88 percent of income, and range from 28 percent for the least wealthy to well over 500 percent for the wealthiest group.

### 4.3. A Profile of Gift Donors

Table 15 provides figures on cumulative taxable gifts reported for decedents in 1992, by size of gross estate. These figures represent cumulative taxable gifts, after the annual exclusion, for the 1977 through 1992 period. Of the 1992 estates, 6,722 estates, or about 11 percent of all estates (see Table 8), reported $1.9 billion in taxable gifts, or an average of $288,000. For estates under $1 million, 1,867 taxpayers, or 5.9 percent of the estates, reported gifts of $220 million, or an average of $118,000. In contrast, 174 taxpayers, or 66.2 percent, with gross estates in excess of $20 million reported taxable gifts of $269 million, or an average of $1.5 million. These gifts are equivalent to about 2 percent of terminal wealth as reported in Table 8, and range from about one percent for the least wealthy percent to 2 percent for the wealthiest. When compared to non-spousal, non-charitable, after tax bequests, which represents transfers comparable to gifts, the share of wealth transferred during life becomes 4.4 percent, or about 13 percent for the wealthiest.

## 5. THE FISCAL CONTRIBUTION OF FEDERAL ESTATE AND GIFT TAXES

Table 16 provides a historical trend of estate and gift tax revenues, and their contribution to total government receipts, for the fiscal years 1917 through 1997. In fiscal year 1917, the year of enactment, estate tax receipts were $6.1 million, or 0.8 percent of total receipts. In fiscal year 1997, estate and gift tax receipts stood at about $20 billion, or 1.3 percent of total receipts. Estate and gift tax revenues peaked at 9.7 percent of total receipts, at $379 million, in fiscal year 1936.

The contribution of estate and gift tax revenues to federal receipts grew rapidly in the first decade of enactment. As its scope narrowed, with attempts to repeal these taxes altogether in the 1920s, tax revenues from this source diminished considerably. This trend was reversed in the

1930s, following the great depression, when estate and gift taxes contributed nearly 10 percent of total receipts. In the aftermath of WWII and the broadening of the income tax base, the relative contribution of estate and gift taxes diminished greatly.

Not only has the contribution of estate and gift taxes varied over time, but the contribution of each of these two sources of revenue varied as well. Table 17, which provides a breakdown of revenues by source, shows that on average, gift tax receipts account for about 9.4 percent of the combined estate and gift tax revenues. Often, however, the share of gift tax receipts diverged from its mean, especially in anticipation of changes in the tax laws.

### 5.1. Trends in Estate Tax Revenues

Revenues from the estate tax reflect the tax structure in effect, the performance of the economy, and who dies in a given year and how their estates are settled.[49] Table 17 and Figure 1 show, in nominal and real terms, the trend of estate tax revenues from its inception to fiscal year 1997. The reduction of revenues in the late 1920s reflects lower estate tax rates, and the increase in the exemption (Table 18, Figure 2), as well as a provision in the Act of 1926 that required all estate tax revenues attributable to provisions instituted by the 1924 Act be refunded to the taxpayers; about $250 million was refunded.[50]

Despite the absence of any major tax increase, estate tax revenues grew rapidly in the post World War II period through the mid-1970s, as shown in Table 17 and Figure 1. The emerging pattern is even more dramatic when revenues are adjusted for inflation. Strong economic growth in this period is certainly a major contributor to the revenue yield. Another major contributor, however, is the inflationary expansion in wealth. As inflation eroded the value of the exemption, as shown in Table 18 and Figure 2, more estates became subject to the estate tax. When compared to its value in 1955, for example, the exemption remained unchanged at $60,000 but

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[49] To a lesser extent, they may also reflect changes in income tax laws. Define terminal wealth as the difference between cumulative lifetime after-tax income and consumption. If income tax rates are reduced, then wealth will increase, as long as the marginal propensity to save is positive, thereby expanding the estate tax base.

[50] See Warren and Surrey (1952, p. 24).

lost half of its value in real terms.

Reductions in revenues in the late 1970s reflect lower tax rates and an expanded exemption (unified credit) brought about by the TRA76. The maximum tax rate was reduced from 77 percent to 70 percent, and the exemption was effectively tripled in nominal terms and doubled in real terms (Table 18, Figure 2), between 1976 and 1981.

Reductions in revenues in the early 1980s reflect the tax rate reductions, the increase in the unified credit and, most importantly, the unlimited marital deduction brought about by ERTA in 1981. The maximum tax rate was gradually reduced from 70 to 55 percent. Similarly, the unified credit was gradually increased from $47,000 to $192,800, with equivalent exemptions of $175,625 and $600,000, respectively. The unlimited marital deduction took effect in 1982, up from one-half the estate.

Increases in revenues in the late 1980s and early 1990s in part reflect the deferral of estate taxes in the early 1980s due to the enactment of the unlimited marital deduction in 1981. The timing of this, of course, reflects the surviving spouse's life expectancy (see Table 19). Through the early 1980s, returns for women, usually the surviving spouse, represented about one-third of the returns filed for estates in excess of $600,000; this fraction increased to about 44 percent beginning in the late 1980s. In part, the increase in revenues is also explained by the strong economic growth.

### 5.2. Trends in Gift Tax Revenues

As with the estate tax, revenues from the gift tax reflect the tax structure in effect, and the performance of the economy. In addition, gift tax revenues depend on the expectation of tax law changes. Table 17 and Figure 3 provide figures on the gift tax yield since its inception.

In fiscal year 1925, its first year in effect, gift tax receipts were $8 million. In fiscal year 1996, gift tax receipts were $2.2 billion. Gift tax revenues grew rapidly in the late 1980s and the 1990s, and constitute about 13 percent of the share of estate and gift tax receipts.

In fiscal year 1977, which reflects calendar year 1976 transfers, gift tax receipts soared to $2 billion, about five times the receipts in the previous year, an all time high in real terms. Gift taxes accounted for 24 percent of the combined yield of estate and gift tax revenues, well above

its historic trend. This surge in receipts reflects the speed up in gifts made in anticipation of the higher gift tax rates in 1977 brought about by TRA76. This surge may have resulted in lower gift tax receipts in the late 1970s when perhaps these transfers would have taken place absent the changes made by TRA76.

This is not the first time that top wealth holders accelerated inter-vivos transfers. In 1935, estate tax rates were increased mid-year, while corresponding gift tax increases were delayed to the end of the calendar year. The maximum estate tax rate, for instance, was increased from 60 to 70 percent on August 31, 1935. The same legislation, however, increased the maximum gift tax rate from 45 to 52.5 percent (75 percent of the applicable estate tax rate), effective January 1, 1936, four months later. In both fiscal years 1935 and 1936, gift tax receipts stood well above the trend. A similar pattern is also observed in fiscal year 1942, as gift tax rate increases lagged behind estate tax rate increases.

The strong growth in gift tax receipts in the late 1980s may reflect the deferral of gifts in the early 1980s as tax rates were scheduled to decline gradually from 70 percent down to 50 percent. Increases in revenues in fiscal year 1990 (calendar year 1989 gifts) may also reflect the expiration of the $2 million GSTT exemption per grandchild at the end of calendar year 1989; transfers accelerated to take advantage of the exemption are fully taxable under the gift tax.

## 6. ECONOMIC EFFECTS OF THE ESTATE AND GIFT TAX

Estate and gift taxes may influence the behavior of parents and children, and have implications for the distribution of income and wealth.

### 6.1. Behavioral Effects

Estate and gift taxes have incentive effects for both parents and heirs. Higher estate taxes, for instance, may reduce the work effort and savings of parents motivated to leave large bequests to their children.[51] This is because a large fraction of their bequest-motivated savings may be taxed away, with relatively little left for their children. This substitution effect is the result of the

[51] See Poterba (1997) and Shoven and Wise (1996) for a discussion of the savings incentives of the estate tax.

tax raising the price of bequests. An offsetting effect is the income effect, whereby parents may increase their work effort and savings to make up for the higher taxes. It is not clear which effect dominates, and there is no empirical evidence.

### 6.1.1. Charitable Giving

The estate tax lowers the price of charitable bequests relative to bequests to heirs, while raising the price of transfers to heirs relative to consumption. More specifically, for every additional bequest of $1 to charity, a nonprofit organization receives $1. In contrast, and in the case of the wealthy, for every additional bequests of $1 to children, these heirs receive $0.45 ($1 less the marginal tax rate of 0.55). That is, the price of charitable bequests is simply 0.45. Alternatively stated, for additional $1 received by an heir, the parent would have to save $2.22, or 1/(1-0.55).

Table 20 provides a summary of the findings of studies on the effects of the estate tax reported in the literature. Most researchers find that the estate tax encourages charitable bequests (Joulfaian, 1998; Auten and Joulfaian, 1996; Joulfaian, 1991; Clotfelter, 1985; Feldstein, 1977; Boskin, 1976).[52] There is also evidence that the tax price effects vary by type of charity (Joulfaian, 1991; Boskin, 1976). Table 21 reports findings on the tax price effects by type of donee. The evidence suggests that giving to religious organizations and education/medical research institutions is most responsive to the tax price.

Table 22A provides a tabulation of charitable bequests, tax prices, and wealth. We observe bequests to rise as the tax price decreases. But bequests also rise with wealth. Consequently, it is difficult to separate the effects of the tax price from those of wealth. The tax price is also likely to depend on wealth which makes it difficult to separately identify the effects of the price from those of wealth.[53] Fortunately, the treatment of spousal transfers presents opportunities (and challenges) in modeling charitable bequests. Because of the unlimited marital deduction, married individuals leave behind smaller taxable estates and, consequently, face

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[52] See Barthold and Plotnick (1984) for a contrarian view.

[53] See Feenberg (1987) and Poterba (1987).

relatively lower tax rates. In light of the latter, the tax price of charitable bequests for such estates is usually higher than for their "not-married" counterparts, as shown in tables 22B and 22C. The latter are mostly widowed, but also include never-married singles and divorced individuals.

In Table 22B, estates of married individuals with after-tax wealth between $10 million and $20 million face a tax price of charitable bequests of 0.70 compared to 0.45 for the other estates with comparable wealth reported in Table 22C.[54] While both report the same wealth levels, the latter, who face a lower tax price, contribute over 10 times the amount reported by the estates of married individuals. The same pattern is observed for every other wealth class where the latter group faces a lower tax price and report greater levels of charitable bequests. Tables 22B and 21C strongly suggest that taxes are an important consideration in making charitable bequests. However, one may overstate the effects of taxes, as spousal transfers are eventually taxed at the death of the surviving spouse unless, of course, they are consumed in the intervening years.

Estate taxes may also affect lifetime charitable contributions, as they raise the cost of bequests and inter-vivos gifts. A parent may consume $1, give it to charity, or transfer it to the children. In the case of a charitable contribution of $1, a charity receives $1. Because it reduces taxable income as an itemized deduction, it costs the donor only $1 less the marginal income tax rate, or 1-0.396 for those facing the maximum Federal marginal tax rate. In contrast, a transfer of $1 to the children costs the parent 1+t in case of a gift, or 1/(1-t) in case of bequests, where t is the estate/gift tax rate. An individual compares the price of charitable giving to the price of transfers to his children in deciding on the size of contributions to make. Auten and Joulfaian (1996), using the 1982 Collation data, find that estate taxes are an important consideration in determining lifetime contributions.[55] This study estimates a positive price elasticity of 0.6 for giving with respect to the tax price of bequests. This suggests that in the absence of estate taxes, lifetime contributions may decline by as much as 12 percent.

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[54] Wealth is defined as net worth less estate expenses and taxes, computed in the absence of charitable bequests. Charitable bequests are reduced by the tax benefits from the deduction in computing the share of wealth transferred.

[55] Also see Steuerle (1987) on the pattern of giving of the wealthy.

### 6.1.2. Capital Gains Realizations

Economists have long argued that in the presence of capital gains taxes, the step up in basis (whereby accrued capital gains escape income taxation at death) creates a lock-in effect because individuals have incentives to hold assets until death and bequeath them to their heirs. In effect, the taxation of capital gains may influence the choice between consumption and bequests. If gains are realized to finance consumption, then the investor would have to forego 20 percent of these gains in taxes, the current maximum tax rate. Alternatively, the individual may hold on to the assets and bequeath them to the heirs, thereby avoiding the capital gains tax. These capital gains taxes can also be treated as a transaction cost encountered in asset trading and portfolio adjustments (Kiefer, 1990). Thus, even when wealth is planned to be held until death, capital gains taxes may discourage the trading of assets.

While it is true that gains accrued during life avoid capital gains taxes at death, they do not escape taxation, as they are taxed under the estate tax. Individuals holding assets until death, and not consuming accrued gains, may save a maximum of 20 percent tax on the capital gains from assets stepped up and transferred to the heirs. However, these assets become taxable under the estate tax at the maximum rate of 55 percent. In the case of portfolio adjustments, the difference between the tax rates on gains from assets traded and those not traded, but both held until death, is not 20 percent, but more likely to be 9 percent when the estate tax is accounted for; i.e., 0.20*(1-0.55)+0.55 compared to 0.55, ignoring differences in rates of return and discounting. The estate tax reduces the incentives to hold onto assets and partially offsets the benefits from the step-up in basis, thereby reducing the lock-in effect.

Given the high marginal tax rates, the wealthy are particularly responsive to the estate tax. Minimizing estate taxes, while maximizing transfers to the heirs, is one of the primary objectives of estate planning. Valuation discounts is one of the means to this end. Such discounts, however, while minimizing the value of the taxable estate, are usually claimed at the expense of the step up in basis. By reporting lower values for estate tax purposes, individuals reduce their estate tax liabilities. In the process, however, they also lower the basis of the assets inherited by the heirs, thereby increasing future capital gains taxes. With the maximum estate tax rate at 55 percent, being significantly larger than the maximum future capital gains tax rate of 20 percent faced by the

heirs, the fact that valuation discounts are used should not be surprising.

Evidence reported in Auten and Joulfaian (1997), using the 1982 Collation data and examining the effects of ERTA law changes, suggests that estate taxes may have significant effects on the pattern of capital gains realizations, especially for taxpayers between the age of 65 and 85. They estimate an elasticity coefficient of realizations with respect to the tax rate of about 0.4, evaluated at an estate tax rate of 50 percent. In the absence of the estate tax, this finding suggests that realizations might decline by 25 percent.

### 6.1.3. Labor Supply and Saving of the Heirs

Estate taxes, as they potentially reduce the size of inheritances, may also affect the heirs' work effort and saving. Evidence from the 1982 Collation study suggests that large inheritances speed up retirement. Tables 23A and 23B provide statistics on the labor force transitions for a sample of single and joint filers between 1982 and 1985 and the potential effect of inheritances. These tables classify individuals based on their employment status in the respective years and the size of inheritance received from decedents in 1982.

Table 23A shows that singles who dropped out of the labor force by 1985 had received greater inheritances than those who remained employed. Of those employed in 1982, about 9 percent dropped out; they inherited an average of $167,060 compared to $83,846 for the others. The pre-inheritance earnings of the individuals who remained employed also represented a larger multiple of their inheritances. A similar pattern is observed when we examine individuals in each of the three inheritance size categories. Even when comparing individuals across categories, a similar pattern emerges. Individuals in the highest category are about four times more likely to drop out of the labor force than those in the lowest inheritance group; 18.2 percent vs. 4.6 percent.

Table 23B replicates the above results for joint filers. In contrast to the singles, we may observe up to two individuals employed per tax return. The results are virtually consistent with those observed for single individuals; in each inheritance category, the labor force participation drops with the size of inheritance, in absolute value or relative to earnings. Comparing filers in the largest inheritance group to those in the lowest, and focusing on the case where both spouses

are employed for instance, the likelihood of both husband and wife dropping out of the labor force is over three-fold greater, and the likelihood that one will drop out is over 1.5 times as large.

The evidence gleaned from these tables is corroborated by further examination of the Collation study data in Holtz-Eakin, Joulfaian, and Rosen (1993, 1994a, 1994b). Even for those who remain in the labor force, one may also observe a reduction in labor supply or earnings. These labor supply reductions, however, are generally small as shown in Holtz-Eakin, Joulfaian, and Rosen (1993) and Joulfaian and Wilhelm (1994), the latter using Panel Study of Income Dynamics (PSID) data.[56]

Some economists argue that the estate tax leads to a reduction in savings and capital formation (Wagner, 1993). It is reasonable to assume that the estate tax may have effects on saving similar to those of the taxation of capital income. In general, however, there is little consensus on the effects of taxes on savings. In the PSID data, consumption is observed to rise in the aftermath of inheritance, suggesting a reduction in savings. But, again, these effects are small as demonstrated in Joulfaian and Wilhelm (1994).[57]

### 6.1.4. *Inter-vivos* Gifts

Estate taxes are argued to cause substantial inter-vivos transfers in an attempt to reduce the tax burden or avoid taxation all together.[58] High estate tax rates, combined with high marginal income tax rates, especially in the absence of gift taxes, may create incentives for parents to make lifetime transfers of assets to their children, who are generally in lower income tax brackets (Shoup, 1966 p. 67). Consequently, as argued by Bernheim (1987) losses in income tax revenues to the government may exceed the revenue collected from taxing transfers.

While there is little evidence that estate and gift taxes lead to an increase in gifts from parents with high income tax rates to children with low income tax rates, there is evidence that the

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[56] One shortcoming of the PSID data is that we do not observe many individuals leaving the labor force after the receipt of an inheritance. Perhaps this can be attributed to the fact that few individuals receive large inheritances in the sample.

[57] Unfortunately, consumption information in the PSID is very limited.

[58] See Bernheim (1987) and Cooper (1979).

wealthy are very responsive to differences between estate and gift tax rates, or expectations of tax rate changes (Poterba, 1998). One may easily point to the record surge in gift tax revenues in the aftermath of the enactment of TRA76 to highlight the sensitivity of the wealthy to tax rate changes. As described earlier, and shown in Table 17 and Figure 2, gift tax receipts increased five-fold in fiscal year 1977 over receipts in 1976. In the absence of estate and gift taxes, however, transfers, both lifetime and testamentary, would probably increase given the reduction in the price of bequests (gifts).

### 6.1.5. Interstate Competition

The estate tax credit for state death taxes discourages interstate competition for the wealthy. Around the time of its enactment, in November 1924, Florida amended its constitution to forbid the enactment of an inheritance tax in addition to the income tax. This was an obvious attempt to attract the wealthy and encourage their migration to the state (Aronson and Hilley, 1986, p. 117). Nevada followed suit and enacted its own constitutional amendment in July 1925. The federal tax credit, enacted in 1924 and modified in 1926, equalizes or at least reduces the gap in the death taxes levied by states. It reduces the incentives for wealthy taxpayers to consider relocating to another state to avoid estate and inheritance taxes.

## 6.2. Distributional Effects

One of the rationales for estate and gift taxes is redistribution of income and wealth. Estate and gift taxes are levied on wealth, and typically apply only to the most wealthy. The revenue obtained from the estate and gifts taxes reduces the concentration of wealth in the hands of few people. And, when redistributed, it may make the overall distribution of income more progressive as well.

Wealthy individuals generally report relatively little of the income they earn, as demonstrated in Steuerle (1985) using 1976 estate Collation data. This is because much of their income is in the form of accrued but unrealized capital gains, or derived from other tax preferred investments. Consequently, the estate tax, as a back-stop to the income tax, bolsters the progressivity of the tax system. This is further verified by examining the relative size of capital

income reported by the wealthy. Table 24, once again using data from the 1982 Collation study, provides figures on the ratio of capital income, as measured by AGI less wages in 1981, to the gross estate. This is a crude measure of the return to capital reported for income tax purposes. What is noteworthy are the reported figures in the last column which show the ratio falling with the size of the estate; the realized rate of income for those with estates under $500,000 is about twice as large as that of the wealthiest group.[59]

An alternative to studying income flows is to compare the income tax liabilities of the wealthy to their estate tax liabilities. This is more meaningful, as it embodies all the features of the tax Code, and not just the reported income. Using the 1982 Collation data, Table 25 tabulates the reported 1981 income tax liability and the reported 1982 estate tax liability of decedents with taxable estates. Overall, the income tax liability is about one sixth that of the estate tax. For the least wealthy group, the income tax is about a third of the estate tax liability. For the wealthiest group, this ratio is about 13 percent. Conversely, the estate tax liability for the wealthiest group is well over seven times their pre-death income tax liability.[60] The estate tax significantly contributes to the overall tax burden on the wealthy.

It is theoretically possible that the estate and gift tax might cause greater inequality. If the estate tax, for instance, were to reduce savings, it would lead to lower levels of capital and lower the real rate of return to labor. By lowering labor income, this reduction may exacerbate existing inequalities between those who receive income from capital and those who receive income from labor.[61] However, this argument in principle also applies to other forms of taxation of capital.

In addition, if the tax were designed such that it stimulated inter-vivos gifts and bequests to a wider number of recipients, including charity, then it can be thought of as a tool that can be

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[59] Note that in the case of married individuals, the wealth measure reflects assets attributable to the decedent while the income measure is for both husband and wife. Hence, the reported rate of return is potentially overstated for these individuals.

[60] These figures are remarkable considering that the estate tax liability is understated in the case of married individuals; the spouse's share of jointly held property is excluded from the estate and a deduction is accorded for spousal bequests, in contrast to the income tax which is based on the combined reported income of husband and wife.

[61] See Stiglitz (1978).

used to discourage the concentration of wealth. The findings in the current literature, as reported earlier, suggest that estate and gift taxes have significant stimulative effects on charitable giving.

The distributional implications of estate and gift taxes are perhaps most significant when considering a switch from the current income tax to a consumption tax. Many argue that the tax burden on the wealthy will decline under this alternative tax regime. Any reduction in the tax burden on the very wealthy, however, is likely to broaden the tax base for the estate tax, thereby recouping some of the tax savings and mitigating some of the redistribution effects of the alternative regime, provided that the estate tax is not repealed as some proposals envision.

## 7. CONCLUDING COMMENT

The current transfer tax system has been criticized on several grounds. Despite, or because of, the high tax rates, critics argue that the estate tax raises very little revenue once its effect on the entire tax system is accounted for (Bernheim, 1987). The high rates are argued to create incentives for parents in high income tax brackets to gift assets to their children who are in lower income tax brackets. The resulting loss in income tax revenues is suggested to offset the revenue collected from the estate tax. A more plausible scenario, however, is that in the absence of estate and gift taxes, the government risks losing more than this specific source of revenues. The step-up in basis on assets with capital gains, for instance, becomes far more attractive as the underlying assets are no longer subject to the estate tax. Thus, if these taxes are repealed, the government will also lose some of the existing income tax as well.

Furthermore, the current tax, especially in the case of the very wealthy, weakens the incentives to make tax motivated transfers to grandchildren and great grandchildren who are likely to be in low income tax brackets as in Bernheim (1987). The GSTT applies in addition to the applicable gift or estate tax, as discussed in Section 3 and shown in Table 5, and more than offsets differentials in income tax rates, if any, between the donor and the beneficiary. In the absence of the current transfer tax, especially the gift tax, differences in marginal income tax rates alone may create incentives for making intergenerational transfers. Indeed the protection of the tax base, for both income and death taxes, was the primary motivation for the re-enactment of the gift tax in

1932 and its drastic revamping in 1976.[62] "By checking avoidance of death and income taxes [the gift tax] may indirectly increase the revenues by a far greater amount than its own revenue yield" (Harriss, 1940, p. 1).

Some have criticized the estate tax on the grounds that it violates the ability to pay principle. Assuming that the heirs bear the burden of the estate tax, then large families may face a greater burden of the tax than smaller families. Consider an estate worth $2 million with four beneficiaries compared to an estate worth $500,000 with one heir. In the absence of the estate tax, and assuming equal division of estates, each heir of both estates would receive $500,000. In 1998, the larger estate would face a tax liability of $578,750, and each of the heirs would receive $355,312.5, i.e., ($2,000,000-$578,750)/4. In contrast, because of the $625,000 exemption, the heir of the smaller estate would receive the entire estate of $500,000. The critics would argue that while the heirs of the two estates have the same ability to pay ($500,000 each), they pay different amounts of taxes; each would receive the same amount in after-tax transfers under the inheritance tax. This criticism of the estate tax, however, rests on the assumption that the incidence of the estate tax rests with the heirs. In essence, it assumes that the estate tax neither acts as a backstop to the income tax nor bolsters its progressivity, and that it has little behavioral effects on the parents' labor supply and their consumption and savings decisions. A more plausible argument is that the incidence of the estate tax primarily rests with the latter and not the heirs.[63]

Critics also point out that the estate tax can be avoided with careful planning (Cooper, 1979), and argue for its replacement with another form of wealth tax and expanding the role of transfer taxation (Aaron and Munnell, 1992). Alternative tax systems, however, such as the inheritance tax or the accession tax, where all inheritances received by a beneficiary are considered as part of his taxable income, are likely to be quite complex and would involve a larger number of taxpayers. Others have recommended that the reach of wealth taxation can be

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[62] The expansion of the reach of the gift tax (TRA76) and the enactment of the GSTT (TRA76 and TRA86), along with the kiddie tax provision of TRA86, go a long way in reducing transfers motivated by the taxation of income at progressive rates.

[63] See Holtz-Eakin (1996) for a discussion on the incidence of these taxes.

expanded by replacing the current transfer tax altogether with a progressive consumption tax (McCaffery, 1994). Short of having very high tax rates, a consumption tax may not replicate the incidence of the current transfer tax system.

Notwithstanding the criticisms, estate and gift taxes serve a number of objectives. These taxes, perhaps imperfectly, act as a backstop to the income tax. They generate about $20 billion annually mostly paid by the very wealthy. The current tax thus enhances the progressivity of the entire tax system (Graetz, 1983). It discourages interstate competition for the wealthy. Its effects on wealth concentration, however, appear to be modest.

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Table 1

Historical Features of the Estate Tax

| Year | Tax Rate Range | Exemption or Equivalent Amount | Unified Credit | Maximum Marital Deduction | Special Use Exclusion for Closely Held Business |
|---|---|---|---|---|---|
| 1916 | 1 - 10% | $50,000 | N.A. | N.A. | N.A. |
| 1917 | 1 - 15 | 50,000 | N.A. | N.A. | N.A. |
| 1917 | 2 - 25 | 50,000 | N.A. | N.A. | N.A. |
| 1919 | 1 - 25 | 50,000 | N.A. | N.A. | N.A. |
| 1924 | 1 - 40 | 50,000 | N.A. | N.A. | N.A. |
| 1926 | 1 - 20 | 100,000 | N.A. | N.A. | N.A. |
| 1932 | 1 - 45 | 50,000 | N.A. | N.A. | N.A. |
| 1934 | 1 - 60 | 50,000 | N.A. | N.A. | N.A. |
| 1935 | 2 - 70 | 40,000 | N.A. | N.A. | N.A. |
| 1941 | 3 - 77 | 40,000 | N.A. | N.A. | N.A. |
| 1942 | 3 - 77 | 60,000 | N.A. | N.A. | N.A. |
| 1949 | 3 - 77 | 60,000 | N.A. | 50 % of Adj. Gross Estate | N.A. |
| 1955 | 3 - 77 | 60,000 | N.A. | 50 % of Adj. Gross Estate | N.A. |
| 1977 | 18 - 70 | 120,667 | $30,000 | 50% or $250,000 | $500,000 |
| 1978 | 18 - 70 | 134,000 | 34,000 | 50% or $250,000 | 500,000 |
| 1979 | 18 - 70 | 147,333 | 38,000 | 50% or $250,000 | 500,000 |
| 1980 | 18 - 70 | 161,563 | 42,000 | 50% or $250,000 | 500,000 |
| 1981 | 18 - 70 | 175,625 | 47,000 | 50% or $250,000 | 600,000 |
| 1982 | 18 - 65 | 225,000 | 62,800 | 100 % | 700,000 |
| 1983 | 18 - 60 | 275,000 | 79,300 | 100 % | 750,000 |
| 1984 | 18 - 55 | 325,000 | 96,300 | 100 % | 750,000 |
| 1985 | 18 - 55 | 400,000 | 121,800 | 100 % | 750,000 |
| 1986 | 18 - 55 | 500,000 | 155,800 | 100 % | 750,000 |
| 1987 | 18 - 55 | 600,000 | 192,800 | 100 % | 750,000 |
| 1996 | 18 - 55 | 600,000 | 192,800 | 100 % | 750,000 |
| 1998 | 18 - 55 | 625,000 | 202,050 | 100 % | 750,000 |
| 1999 | 18 - 55 | 650,000 | 211,300 | 100 % | indexed |
| 2000 | 18 - 55 | 675,000 | 220,550 | 100 % | indexed |
| 2001 | 18 - 55 | 675,000 | 220,550 | 100 % | indexed |
| 2002 | 18 - 55 | 700,000 | 229,800 | 100 % | indexed |
| 2003 | 18 - 55 | 700,000 | 229,800 | 100 % | indexed |
| 2004 | 18 - 55 | 850,000 | 287,300 | 100 % | indexed |
| 2005 | 18 - 55 | 950,000 | 326,300 | 100 % | indexed |
| 2006 | 18 - 55 | 1,000,000 | 345,800 | 100 % | indexed |

Note: Year reflects period when feature took effect.

Table 2

Historical Features of The Gift Tax

| Year | Tax Rate Range | Annual Exclusion per donee | Exemption or Equivalent Amount | Unified Credit | Maximum Marital Deduction |
|---|---|---|---|---|---|
| 1924 | 1 - 40% | $500 | $50,000 | N.A. | N.A. |
| 1926 | N.A. | N.A. | N.A. | N.A. | N.A. |
| 1932 | 0.75 - 33.5 | 5,000 | 50,000 | N.A. | N.A. |
| 1934 | 0.75 - 45 | 5,000 | 50,000 | N.A. | N.A. |
| 1936 | 1.5 - 52.5 | 5,000 | 40,000 | N.A. | N.A. |
| 1942 | 2.25 - 57.75 | 4,000 | 40,000 | N.A. | N.A. |
| 1943 | 2.25 - 57.75 | 3,000 | 30,000 | N.A. | N.A. |
| 1949 | 2.25 - 57.75 | 3,000 | 30,000 | N.A. | 50 % of Gift |
| 1955 | 2.25 - 57.75 | 3,000 | 30,000 | N.A. | 50 % of Gift |
| 1977 | 18 - 70 | 3,000 | 120,667 | $30,000 | 50 % of Gift |
| 1978 | 18 - 70 | 3,000 | 134,000 | 34,000 | 50 % of Gift |
| 1979 | 18 - 70 | 3,000 | 147,333 | 38,000 | 50 % of Gift |
| 1980 | 18 - 70 | 3,000 | 161,563 | 42,000 | 50 % of Gift |
| 1981 | 18 - 70 | 3,000 | 175,625 | 47,000 | 50 % of Gift |
| 1982 | 18 - 65 | 10,000 | 225,000 | 62,800 | 100 % |
| 1983 | 18 - 60 | 10,000 | 275,000 | 79,300 | 100 % |
| 1984 | 18 - 55 | 10,000 | 325,000 | 96,300 | 100 % |
| 1985 | 18 - 55 | 10,000 | 400,000 | 121,800 | 100 % |
| 1986 | 18 - 55 | 10,000 | 500,000 | 155,800 | 100 % |
| 1987 | 18 - 55 | 10,000 | 600,000 | 192,800 | 100 % |
| 1996 | 18 - 55 | 10,000 | 600,000 | 192,800 | 100 % |
| 1998 | 18 - 55 | indexed | 625,000 | 202,050 | 100 % |
| 1999 | 18 - 55 | indexed | 650,000 | 211,300 | 100 % |
| 2000 | 18 - 55 | indexed | 675,000 | 220,550 | 100 % |
| 2001 | 18 - 55 | indexed | 675,000 | 220,550 | 100 % |
| 2002 | 18 - 55 | indexed | 700,000 | 229,800 | 100 % |
| 2003 | 18 - 55 | indexed | 700,000 | 229,800 | 100 % |
| 2004 | 18 - 55 | indexed | 850,000 | 287,300 | 100 % |
| 2005 | 18 - 55 | indexed | 950,000 | 326,300 | 100 % |
| 2006 | 18 - 55 | indexed | 1,000,000 | 345,800 | 100 % |

Note: Year reflects period when feature took effect. See text for pre-1982 and post 1976 allowable marital deduction, Section 3.3.1.

Table 3

Historical Features of The Generation Skipping Transfer Tax

| Year | Tax Rate (%) | Exemption per donor | Exemption per donee |
|---|---|---|---|
| 1916 | N.A. | N.A. | N.A. |
| 1977 | 70 | $250,000 | N.A. |
| 1982 | 65 | 1,000,000 | N.A. |
| 1983 | 60 | 1,000,000 | N.A. |
| 1984 | 55 | 1,000,000 | N.A. |
| 1985 | 55 | 1,000,000 | N.A. |
| 1986 | 55 | 1,000,000 | N.A. |
| 1987 | 55 | 1,000,000 | $2,000,000 |
| 1990 | 55 | 1,000,000 | N.A. |
| 1999 | 55 | indexed | N.A. |

Note: Year reflects period when feature took effect.

Table 4

Estate Tax and State Death Tax Credit Rate Schedules

| ESTATE TAX - Rate Schedule | | | | | | STATE DEATH TAX CREDIT - Rate Schedule | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| If the amount of Taxable Estate ($1,000s) | | then for the tentative tax | | | | If the Adjusted Taxable Estate* ($1,000s) | | then for the maximum tax credit | | | |
| is over | but not over | enter | | | the amount over | is over | but not over | enter | | | the amount over |
| 0 | 10 | $0 | + | 18.0% | $0 | 0 | 40 | $0 | + | 0.0% | $0 |
| 10 | 20 | 1,800 | + | 20.0% | 10 | 40 | 90 | 0 | + | 0.8% | 40 |
| 20 | 40 | 3,800 | + | 22.0% | 20 | 90 | 140 | 400 | + | 1.6% | 90 |
| 40 | 60 | 8,200 | + | 24.0% | 40 | 140 | 240 | 1,200 | + | 2.4% | 140 |
| 60 | 80 | 13,000 | + | 26.0% | 60 | 240 | 440 | 3,600 | + | 3.2% | 240 |
| 80 | 100 | 18,200 | + | 28.0% | 80 | 440 | 640 | 10,000 | + | 4.0% | 440 |
| 100 | 150 | 23,800 | + | 30.0% | 100 | 640 | 840 | 18,000 | + | 4.8% | 640 |
| 150 | 250 | 38,800 | + | 32.0% | 150 | 840 | 1,040 | 27,600 | + | 5.6% | 840 |
| 250 | 500 | 70,800 | + | 34.0% | 250 | 1,040 | 1,540 | 38,800 | + | 6.4% | 1,040 |
| 500 | 750 | 155,800 | + | 37.0% | 500 | 1,540 | 2,040 | 70,800 | + | 7.2% | 1,540 |
| 750 | 1,000 | 248,300 | + | 39.0% | 750 | 2,040 | 2,540 | 106,800 | + | 8.0% | 2,040 |
| 1,000 | 1,250 | 345,800 | + | 41.0% | 1,000 | 2,540 | 3,040 | 146,800 | + | 8.8% | 2,540 |
| 1,250 | 1,500 | 448,300 | + | 43.0% | 1,250 | 3,040 | 3,540 | 190,800 | + | 9.6% | 3,040 |
| 1,500 | 2,000 | 555,800 | + | 45.0% | 1,500 | 3,540 | 4,040 | 238,800 | + | 10.4% | 3,540 |
| 2,000 | 2,500 | 780,800 | + | 49.0% | 2,000 | 4,040 | 5,040 | 290,800 | + | 11.2% | 4,040 |
| 2,500 | 3,000 | 1,025,800 | + | 53.0% | 2,500 | 5,040 | 6,040 | 402,800 | + | 12.0% | 5,040 |
| 3,000 | | 1,290,800 | + | 55.0% | 3,000 | 6,040 | 7,040 | 522,800 | + | 12.8% | 6,040 |
| | | | | | | 7,040 | 8,040 | 650,800 | + | 13.6% | 7,040 |
| | | | | | | 8,040 | 9,040 | 786,800 | + | 14.4% | 8,040 |
| | | | | | | 9,040 | 10,040 | 930,800 | + | 15.2% | 9,040 |
| | | | | | | 10,040 | | 1,082,800 | + | 16.0% | 10,040 |

* The adjusted taxable estate is equal to the taxable estate less $60,000.

Table 5

An Illustration of the Taxation of Transfers Under Estate, Gift, and GST Taxes

| | Estate Tax | Gift Tax |
|---|---|---|
| Wealth transferred ($millions) | 100.00 | 100.00 |
| After-tax transfer ($millions) | 45.00 | 64.52 |
| Tax liability ($millions) | 55.00 | 35.48 |
| Statutory tax rate (percent) | 55.00 | 55.00 |
| Effective tax rate (percent) | 55.00 | 36.00 |
| Additional Generation Skipping Transfer Tax (direct skip) | | |
| Statutory tax rate (percent) | 55.00 | 55.00 |
| Tax liability ($millions) | 15.61 | 22.54 |
| Effective tax rate (percent) | 35.00 | 35.00 |
| Cumulative Net Effect | | |
| After-tax transfer ($millions) | 29.39 | 41.98 |
| Tax liability ($millions) | 70.61 | 58.02 |
| Effective tax rate (percent) | 71.00 | 58.00 |

Note: Estimates assume one donee, exclusions of $10,000 under the gift tax and $1,000,000 under the GSTT. The estate tax is computed on a tax inclusive basis, while the gift tax and GSTT on direct skip are computed on a tax exclusive basis. Note that under the estate tax, assets get a step up in basis, while under the gift tax they receive a partial basis carry over.

Table 6

Federal Marginal Tax Rates After Unified And State Death Tax Credits, 1997

| Taxable Estate ($000's) | | Tax Rate after Unified Credit (%) | State Death Tax Credit Rate (%) | Net tax rate (%) |
|---|---|---|---|---|
| over | but not over | | | |
| 0 | 600 | 0.0 | 0.0 | 0.0 |
| 600 | 700 | 37.0 | 4.0 | 33.0 |
| 700 | 750 | 37.0 | 4.8 | 32.2 |
| 750 | 900 | 39.0 | 4.8 | 34.2 |
| 900 | 1000 | 39.0 | 5.6 | 33.4 |
| 1000 | 1100 | 41.0 | 5.6 | 35.4 |
| 1100 | 1250 | 41.0 | 6.4 | 34.6 |
| 1250 | 1500 | 43.0 | 6.4 | 36.6 |
| 1500 | 1600 | 45.0 | 6.4 | 38.6 |
| 1600 | 2000 | 45.0 | 7.2 | 37.8 |
| 2000 | 2100 | 49.0 | 7.2 | 41.8 |
| 2100 | 2500 | 49.0 | 8.0 | 41.0 |
| 2500 | 2600 | 53.0 | 8.0 | 45.0 |
| 2600 | 3000 | 53.0 | 8.8 | 44.2 |
| 3000 | 3100 | 55.0 | 8.8 | 46.2 |
| 3100 | 3600 | 55.0 | 9.6 | 45.4 |
| 3600 | 4100 | 55.0 | 10.4 | 44.6 |
| 4100 | 5100 | 55.0 | 11.2 | 43.8 |
| 5100 | 6100 | 55.0 | 12.0 | 43.0 |
| 6100 | 7100 | 55.0 | 12.8 | 42.2 |
| 7100 | 8100 | 55.0 | 13.6 | 41.4 |
| 8100 | 9100 | 55.0 | 14.4 | 40.6 |
| 9100 | 10000 | 55.0 | 15.2 | 39.8 |
| 10000 | 10100 | 60.0 | 15.2 | 44.8 |
| 10100 | 21040* | 60.0 | 16.0 | 44.0 |
| 21040* | and over | 55.0 | 16.0 | 39.0 |

* Beginning in 1998, the rates are phased out completely at taxable estates of $17,184,000.

Table 7

Number of Adult Deaths and Taxable Estates of Decedents in 1992

| Gross Estate | | Number of Deaths | Estate Tax | |
|---|---|---|---|---|
| | | | Taxable Estates | Estate Tax ($mil.) |
| Under | $600,000 | 2,051,535 | 0 | 0.0 |
| $600,000 | $1,000,000 | 31,724 | 11,659 | 527.8 |
| $1,000,000 | $2,500,000 | 21,489 | 11,244 | 2,664.6 |
| $2,500,000 | $5,000,000 | 4,469 | 2,667 | 2,245.3 |
| $5,000,000 | $10,000,000 | 1,608 | 1,083 | 1,902.4 |
| $10,000,000 | $20,000,000 | 529 | 382 | 1,298.3 |
| $20,000,000 | Over | 263 | 208 | 1,869.4 |
| Total | | 2,111,617 | 27,243 | 10,507.8 |

Source: Martha Britton Eller. "Federal Taxation of Wealth Transfers, 1992-1995," SOI Bulletin, Internal Revenue Service, Statistics of Income, Winter 1996-97, Washington, DC 1997, and

Internal Revenue Service, Statistics of Income Bulletin, Fall 1997, Washington, DC 1997, page 217.

Table 8

Estate Tax Profile of Decedents in 1992 (Amounts in $1,000s)

| Size of Gross Estate | | Gross Estate | | Net Worth | | Debts | Expenses | Spousal bequests | |
|---|---|---|---|---|---|---|---|---|---|
| Over | Under | Number | Amount | Number | Amount | | | Number | Amount |
| 600,000 | 1,000,000 | 31,724 | 24,329,330 | 31,724 | 23,611,487 | 717,843 | 655,945 | 13,145 | 5,067,924 |
| 1,000,000 | 2,500,000 | 21,489 | 31,600,054 | 21,489 | 30,244,772 | 1,355,282 | 864,071 | 10,975 | 9,332,842 |
| 2,500,000 | 5,000,000 | 4,469 | 15,276,723 | 4,469 | 14,485,726 | 790,997 | 420,532 | 2,326 | 5,306,255 |
| 5,000,000 | 10,000,000 | 1,608 | 10,925,991 | 1,608 | 10,255,073 | 670,918 | 287,495 | 867 | 3,991,499 |
| 10,000,000 | 20,000,000 | 529 | 7,155,584 | 529 | 6,779,976 | 375,608 | 196,560 | 288 | 2,608,460 |
| 20,000,000 | | 263 | 15,166,045 | 263 | 14,529,082 | 636,963 | 307,858 | 150 | 5,768,765 |
| Total | | 60,082 | 104,453,727 | 60,082 | 99,906,116 | 4,547,611 | 2,732,461 | 27,751 | 32,075,747 |

| Size of Gross Estate | | Charitable Deduction | | Allowable Unified Credit | | State Death Tax Credit | | Federal Estate Tax | |
|---|---|---|---|---|---|---|---|---|---|
| Over | Under | Number | Amount | Number | Amount | Number | Amount | Number | Amount |
| 600,000 | 1,000,000 | 5,221 | 802,609 | 31,081 | 5,979,971 | 14,733 | 267,840 | 11,659 | 527,801 |
| 1,000,000 | 2,500,000 | 4,004 | 1,301,836 | 21,084 | 4,059,436 | 12,243 | 585,034 | 11,244 | 2,664,578 |
| 2,500,000 | 5,000,000 | 1,134 | 739,576 | 4,436 | 854,033 | 2,962 | 440,846 | 2,667 | 2,245,325 |
| 5,000,000 | 10,000,000 | 518 | 721,525 | 1,591 | 306,395 | 1,124 | 415,800 | 1,083 | 1,902,446 |
| 10,000,000 | 20,000,000 | 207 | 664,949 | 528 | 101,651 | 400 | 352,648 | 382 | 1,298,254 |
| 20,000,000 | | 145 | 3,751,611 | 263 | 50,643 | 215 | 642,331 | 208 | 1,869,364 |
| Total | | 11,229 | 7,982,106 | 58,983 | 11,352,129 | 31,677 | 2,704,499 | 27,243 | 10,507,768 |

| Size of Gross Estate | | GSTT | | All Taxes as Percent of | | Bequests to (non-spousal) Heirs | | After -Tax Bequests | |
|---|---|---|---|---|---|---|---|---|---|
| Over | Under | Number | Amount | Net worth * | Net worth ** | Amount** | % of NW* | Amount** | % of NW* |
| 600,000 | 1,000,000 | 24 | 650 | 3.5% | 4.7% | 17,085,009 | 74.4% | 16,288,718 | 71.0% |
| 1,000,000 | 2,500,000 | 38 | 2,691 | 11.1% | 17.3% | 18,746,023 | 63.8% | 15,493,720 | 52.7% |
| 2,500,000 | 5,000,000 | 114 | 15,848 | 19.2% | 33.7% | 8,019,363 | 57.0% | 5,317,344 | 37.8% |
| 5,000,000 | 10,000,000 | 46 | 11,424 | 23.4% | 44.3% | 5,254,554 | 52.7% | 2,924,884 | 29.3% |
| 10,000,000 | 20,000,000 | 40 | 16,924 | 25.3% | 50.4% | 3,310,007 | 50.3% | 1,642,181 | 24.9% |
| 20,000,000 | | 27 | 41,904 | 18.0% | 54.3% | 4,700,848 | 33.1% | 2,147,249 | 15.1% |
| Total | | 289 | 89,441 | 13.7% | 23.3% | 57,115,804 | 58.8% | 43,814,096 | 45.1% |

* Net worth less estate expenses

** Net worth less estate expenses, spousal, and charitable bequests

Source: Martha Britton Eller. “Federal Taxation of Wealth Transfers, 1992-1995,” SOI Bulletin, Internal Revenue Service, Statistics of Income, Winter 1996-97, Washington, DC 1997, and author’s calculations using the estate tax file for decedents in 1992 with returns filed in 1992 through 1994.

Table 9

Life Insurance Ownership by Size of Estate, Marital Status, and Type
(Amounts in $millions)

| Size of Gross Estate | | Married | | | | Not Married | | | | All | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Proceeds Included in Estate | | Proceeds Excluded from Estate | | Proceeds Included in Estate | | Proceeds Excluded from Estate | | Proceeds Included in Estate | | Proceeds Excluded from Estate | |
| Over | Under | Number | Amount | Number | Amount | Number | Amount | Number | Amount | Number | Amount | Number | Amount |
| 600,000 | 1,000,000 | 9,571 | 793 | 712 | 96 | 7,467 | 301 | 266 | 45 | 17,037 | 1,093 | 978 | 140 |
| 1,000,000 | 2,500,000 | 7,596 | 1,181 | 1,085 | 304 | 4,328 | 281 | 358 | 100 | 11,924 | 1,462 | 1,443 | 404 |
| 2,500,000 | 5,000,000 | 1,599 | 413 | 391 | 220 | 776 | 84 | 134 | 50 | 2,374 | 497 | 525 | 270 |
| 5,000,000 | 10,000,000 | 590 | 218 | 227 | 181 | 235 | 28 | 58 | 37 | 825 | 246 | 285 | 217 |
| 10,000,000 | 20,000,000 | 208 | 81 | 91 | 118 | 84 | 10 | 22 | 19 | 292 | 92 | 113 | 137 |
| 20,000,000 | | 97 | 58 | 49 | 126 | 45 | 12 | 8 | 21 | 142 | 70 | 57 | 147 |
| | Total | 19,660 | 2,744 | 2,555 | 1,045 | 12,935 | 716 | 846 | 271 | 32,595 | 3,460 | 3,401 | 1,315 |

Note: Life insurance proceeds are net of policy loans.

Source: Computed from the estate tax file for decedents in 1992 with returns filed in 1992 through 1994

Table 10

Estates Electing Special Use Valuation, 1992
(Amounts in $millions)

| Size of Gross Estate | | Number | Value | | |
|---|---|---|---|---|---|
| Over | Under | | Fair Market | Adjusted | Reduction in |
| 600,000 | 1,000,000 | 175 | 135 | 45 | 90 |
| 1,000,000 | and over | 130 | 166 | 84 | 82 |
| Total | | 305 | 301 | 128 | 172 |

Estates Electing Tax Deferral, 1992
(Amounts in $millions)

| Size of Gross estate | | Number | Tax Deferred | Estate Tax | Percent of Tax Deferred |
|---|---|---|---|---|---|
| Over | Under | | | | |
| 600,000 | 1,000,000 | 119 | 9 | 13 | 67.15% |
| 1,000,000 | 5,000,000 | 462 | 166 | 261 | 63.78% |
| 5,000,000 | and over | 135 | 344 | 571 | 60.30% |
| Total | | 716 | 519 | 844 | 61.48% |

Source: Martha Britton Eller. “Federal Taxation of Wealth Transfers, 1992-1995,” SOI Bulletin, Internal Revenue Service, Statistics of Income, Winter 1996-97, Washington, DC 1997.

## Table 11A

### Number of Heirs by Type of Relation and Size of Estate

| Gross Estate | | Spouse | Son | Daughter | Grandchild | Sibling | Niece / Nephew | Aunt / Uncle | Parent | Other | Trust / Estate |
|---|---|---|---|---|---|---|---|---|---|---|---|
| $300,000 | $500,000 | 15,941 | 18,234 | 17,798 | 12,666 | 7,862 | 18,671 | 0 | 546 | 16,815 | 4,695 |
| 500,000 | 1,000,000 | 9,143 | 9,856 | 11,162 | 13,893 | 4,275 | 5,106 | 0 | 237 | 11,755 | 7,006 |
| 1,000,000 | 2,500,000 | 3,758 | 3,693 | 3,778 | 4,139 | 1,387 | 4,342 | 32 | 87 | 8,582 | 3,155 |
| 2,500,000 | 10,000,000 | 1,088 | 1,083 | 1,148 | 1,532 | 455 | 1,303 | 9 | 11 | 3,546 | 1,405 |
| 10,000,000 | | 130 | 144 | 135 | 248 | 33 | 154 | 1 | 3 | 801 | 239 |
| Total | | 30,061 | 33,010 | 34,020 | 32,478 | 14,012 | 29,576 | 42 | 885 | 41,500 | 16,499 |
| | | | | | | | | | | | |
| Gross Estate | | NA | Total | | | | | | | | |
| $300,000 | $500,000 | 2,839 | 116,067 | | | | | | | | |
| 500,000 | 1,000,000 | 1,187 | 73,620 | | | | | | | | |
| 1,000,000 | 2,500,000 | 717 | 33,673 | | | | | | | | |
| 2,500,000 | 10,000,000 | 176 | 11,756 | | | | | | | | |
| 10,000,000 | | 60 | 1,948 | | | | | | | | |
| Total | | 4,981 | 237,064 | | | | | | | | |

Source: Computed from the 1982 Collation File.

## Table 11B

### Amount of Inheritance by Type of Relation and Size of Estate ($000)

| Gross Estate | | Spouse | Son | Daughter | Grandchild | Sibling | Niece / Nephew | Aunt / Uncle | Parent | Other | Trust / Estate |
|---|---|---|---|---|---|---|---|---|---|---|---|
| $300,000 | $500,000 | 3,926,071 | 1,529,153 | 1,735,046 | 323,263 | 589,332 | 592,828 | 0 | 31,668 | 360,467 | 777,818 |
| 500,000 | 1,000,000 | 4,120,104 | 995,438 | 1,461,548 | 354,223 | 468,199 | 353,115 | 0 | 77,069 | 418,150 | 1,293,393 |
| 1,000,000 | 2,500,000 | 3,405,539 | 742,180 | 763,310 | 200,969 | 157,741 | 292,655 | 2,392 | 12,760 | 304,867 | 955,033 |
| 2,500,000 | 10,000,000 | 2,745,338 | 394,187 | 384,516 | 155,674 | 63,560 | 141,172 | 176 | 4,192 | 153,543 | 685,974 |
| 10,000,000 | | 2,511,222 | 99,240 | 86,438 | 50,751 | 5,338 | 9,774 | 57 | 1,892 | 61,501 | 235,048 |
| Total | | 16,708,274 | 3,760,200 | 4,430,857 | 1,084,880 | 1,284,169 | 1,389,544 | 2,625 | 127,581 | 1,298,527 | 3,947,266 |
| | | | | | | | | | | | |
| Gross Estate | | NA | Total | | | | | | | | |
| $300,000 | $500,000 | 92,173 | 9,957,835 | | | | | | | | |
| 500,000 | 1,000,000 | 21,770 | 9,563,011 | | | | | | | | |
| 1,000,000 | 2,500,000 | 29,815 | 6,867,253 | | | | | | | | |
| 2,500,000 | 10,000,000 | 8,782 | 4,737,113 | | | | | | | | |
| 10,000,000 | | 1,838 | 3,063,100 | | | | | | | | |
| Total | | 154,379 | 34,188,313 | | | | | | | | |

Source: Computed from the 1982 Collation File.

## Table 11C

### Average Inheritance by Type of Relation and Size of Estate

| Gross Estate | | Spouse | Son | Daughter | Grandchild | Sibling | Niece / Nephew | Aunt / Uncle | Parent | Other | Trust / Estate |
|---|---|---|---|---|---|---|---|---|---|---|---|
| $300,000 | $500,000 | $246,281 | $83,861 | $97,487 | $25,523 | $74,964 | $31,751 | $0 | $58,006 | $21,437 | $165,667 |
| 500,000 | 1,000,000 | 450,623 | 101,003 | 130,943 | 25,497 | 109,528 | 69,158 | 0 | 324,521 | 35,571 | 184,618 |
| 1,000,000 | 2,500,000 | 906,096 | 200,951 | 202,022 | 48,551 | 113,688 | 67,395 | 74,738 | 146,331 | 35,523 | 302,734 |
| 2,500,000 | 10,000,000 | 2,524,249 | 363,965 | 334,979 | 101,588 | 139,675 | 108,377 | 19,342 | 368,505 | 43,300 | 488,242 |
| 10,000,000 | | 19,299,988 | 690,073 | 641,803 | 204,910 | 161,279 | 63,436 | 57,000 | 552,699 | 76,757 | 985,342 |
| Total | | 555,817 | 113,910 | 130,242 | 33,404 | 91,649 | 46,982 | 62,138 | 144,090 | 31,290 | 239,242 |
| | | | | | | | | | | | |
| Gross Estate | | NA | Total | | | | | | | | |
| $300,000 | $500,000 | $32,468 | $85,794 | | | | | | | | |
| 500,000 | 1,000,000 | 18,334 | 129,897 | | | | | | | | |
| 1,000,000 | 2,500,000 | 41,556 | 203,940 | | | | | | | | |
| 2,500,000 | 10,000,000 | 49,803 | 402,939 | | | | | | | | |
| 10,000,000 | | 30,385 | 1,572,188 | | | | | | | | |
| Total | | 30,996 | 144,215 | | | | | | | | |

Source: Computed from the 1982 Collation File.

## Table 12A

## Number of Children, Total Income, And Inheritance Received

Number of Children by Parent's Gross Estate and Child's AGI

| Gross Estate | | No AGI | $1 - $10,000 | $10,000- $20,000 | $20,000- $30,000 | $30,000- $50,000 | $50,000- $75,000 | $75,000- $100,000 | $100,000- $200,000 | $200,000- ******* | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| $300,000 | $500,000 | 1,100 | 3,409 | 4,729 | 6,708 | 5,938 | 3,739 | 1,100 | 1,540 | 220 | 28,483 |
| 500,000 | 1,000,000 | 251 | 1,506 | 2,134 | 3,138 | 5,147 | 1,632 | 1,130 | 1,757 | 251 | 16,946 |
| 1,000,000 | 2,500,000 | 191 | 614 | 731 | 816 | 1,263 | 933 | 605 | 1,025 | 431 | 6,609 |
| 2,500,000 | 10,000,000 | 61 | 127 | 165 | 181 | 302 | 231 | 196 | 362 | 333 | 1,958 |
| 10,000,000 | | 8 | 13 | 14 | 11 | 23 | 19 | 26 | 44 | 84 | 241 |
| Total | | 1,610 | 5,670 | 7,772 | 10,855 | 12,673 | 6,554 | 3,056 | 4,728 | 1,320 | 54,237 |

Children's 1981 AGI by Parent's Gross Estate and Child's AGI ($000)

| Gross Estate | | NO AGI | $1 - $10,000 | $10,000- $20,000 | $20,000- $30,000 | $30,000- $50,000 | $50,000- $75,000 | $75,000- $100,000 | $100,000- $200,000 | $200,000- ******* | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| $300,000 | $500,000 | $-50,187 | $19,260 | $72,992 | $164,152 | $226,528 | $227,916 | $93,492 | $193,720 | $47,888 | $995,760 |
| 500,000 | 1,000,000 | -7,203 | 7,126 | 30,310 | 78,292 | 193,633 | 99,298 | 99,054 | 230,026 | 66,270 | 796,806 |
| 1,000,000 | 2,500,000 | -13,345 | 3,324 | 10,979 | 20,620 | 49,415 | 57,099 | 52,413 | 140,279 | 152,150 | 472,933 |
| 2,500,000 | 10,000,000 | -5,372 | 692 | 2,450 | 4,508 | 11,946 | 14,211 | 17,181 | 52,196 | 143,926 | 241,739 |
| 10,000,000 | | -491 | 76 | 198 | 279 | 867 | 1,113 | 2,289 | 6,259 | 54,800 | 65,390 |
| Total | | -76,597 | 30,478 | 116,929 | 267,850 | 482,389 | 399,636 | 264,430 | 622,479 | 465,034 | 2,572,628 |

Inheritance by Parent's Gross Estate And Child's AGI ($000)

| Gross Estate | | No AGI | $1 - $10,000 | $10,000- $20,000 | $20,000- $30,000 | $30,000- $50,000 | $50,000- $75,000 | $75,000- $100,000 | $100,000- $200,000 | $200,000- ******* | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| $300,000 | $500,000 | $122,837 | $367,531 | $421,454 | $739,337 | $1,189,707 | $507,011 | $103,254 | $259,654 | $13,012 | $3,723,794 |
| 500,000 | 1,000,000 | 66,547 | 144,845 | 188,604 | 450,243 | 659,454 | 378,175 | 136,201 | 263,232 | 47,692 | 2,334,993 |
| 1,000,000 | 2,500,000 | 38,500 | 99,436 | 137,598 | 142,637 | 260,291 | 228,667 | 141,807 | 253,678 | 108,281 | 1,410,889 |
| 2,500,000 | 10,000,000 | 15,331 | 32,849 | 49,469 | 49,512 | 100,288 | 84,843 | 76,288 | 137,504 | 125,844 | 671,929 |
| 10,000,000 | | 2,407 | 4,910 | 8,237 | 4,703 | 11,242 | 12,378 | 17,723 | 35,353 | 54,853 | 151,807 |
| Total | | 245,623 | 649,571 | 805,362 | 1,386,432 | 2,220,983 | 1,211,074 | 475,274 | 949,421 | 349,682 | 8,293,413 |

Source: Computed from the 1982 Collation File.

## Table 12B

## Average Income and Inheritance Received by the Children

| Average Child AGI in 1981 by Parent's Gross Estate and Child's AGI | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Gross Estate | | No AGI | $1 - $10,000 | $10,000- $20,000 | $20,000- $30,000 | $30,000- $50,000 | $50,000- $75,000 | $75,000- $100,000 | $100,000- $200,000 | $200,000- ******* | Total |
| $300,000 | $500,000 | 0 | $5,650 | $15,436 | $24,470 | $38,146 | $60,956 | $85,015 | $125,825 | $217,729 | $34,960 |
| 500,000 | 1,000,000 | 0 | 4,731 | 14,203 | 24,948 | 37,623 | 60,849 | 87,677 | 130,890 | 263,966 | 47,019 |
| 1,000,000 | 2,500,000 | 0 | 5,409 | 15,029 | 25,276 | 39,115 | 61,199 | 86,629 | 136,811 | 353,038 | 71,555 |
| 2,500,000 | 10,000,000 | 0 | 5,438 | 14,856 | 24,847 | 39,608 | 61,539 | 87,848 | 144,305 | 431,660 | 123,452 |
| 10,000,000 | | 0 | 6,042 | 14,347 | 24,657 | 38,374 | 59,088 | 86,827 | 142,431 | 651,429 | 271,254 |
| Total | | 0 | 5,376 | 15,045 | 24,675 | 38,065 | 60,979 | 86,516 | 131,658 | 352,427 | 47,433 |

| Average Inheritance by Parent's Gross Estate and Child's AGI | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Gross Estate | | No AGI | $1 - $10,000 | $10,000- $20,000 | $20,000- $30,000 | $30,000- $50,000 | $50,000- $75,000 | $75,000- $100,000 | $100,000- $200,000 | $200,000- ******* | Total |
| $300,000 | $500,000 | 0 | $107,809 | $89,126 | $110,213 | $200,340 | $135,600 | $93,892 | $168,651 | $59,161 | $130,740 |
| 500,000 | 1,000,000 | 0 | 96,157 | 88,381 | 143,471 | 128,132 | 231,743 | 120,558 | 149,785 | 189,965 | 137,787 |
| 1,000,000 | 2,500,000 | 0 | 161,817 | 188,354 | 174,848 | 206,037 | 245,089 | 234,384 | 247,406 | 251,247 | 213,468 |
| 2,500,000 | 10,000,000 | 0 | 258,155 | 299,913 | 272,883 | 332,504 | 367,407 | 390,066 | 380,159 | 377,426 | 343,142 |
| 10,000,000 | | 0 | 391,045 | 596,416 | 416,221 | 497,441 | 657,237 | 672,188 | 804,497 | 652,065 | 629,733 |
| Total | | 0 | 114,568 | 103,623 | 127,723 | 175,258 | 184,794 | 155,499 | 200,809 | 265,007 | 152,909 |

| Average Inheritance as Percent of Average AGI by Parent's Gross Estate and Child's AGI (%) | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Gross Estate | | No AGI | $1 - $10,000 | $10,000- $20,000 | $20,000- $30,000 | $30,000- $50,000 | $50,000- $75,000 | $75,000- $100,000 | $100,000- $200,000 | $200,000- ******* | Total |
| $300,000 | $500,000 | 0 | 1,908 | 577 | 450 | 525 | 222 | 110 | 134 | 27 | 374 |
| 500,000 | 1,000,000 | 0 | 2,033 | 622 | 575 | 341 | 381 | 138 | 114 | 72 | 293 |
| 1,000,000 | 2,500,000 | 0 | 2,992 | 1,253 | 692 | 527 | 400 | 271 | 181 | 71 | 298 |
| 2,500,000 | 10,000,000 | 0 | 4,747 | 2,019 | 1,098 | 839 | 597 | 444 | 263 | 87 | 278 |
| 10,000,000 | | 0 | 6,472 | 4,157 | 1,688 | 1,296 | 1,112 | 774 | 565 | 100 | 232 |
| Total | | 0 | 2,131 | 689 | 518 | 460 | 303 | 180 | 153 | 75 | 322 |

Source: Computed from the 1982 Collation File.

Table 13

Charitable Bequests by Size of Estate, 1992

| Gross Estate | | Charitable Bequests | | Percent Giving | Bequests as Percent of Wealth* | Bequests as Percent of Wealth** |
|---|---|---|---|---|---|---|
| Over | Under | Number | Amount ($1000s) | | | |
| 600,000 | 1,000,000 | 5,221 | 802,609 | 16.46% | 3.5% | 3.1% |
| 1,000,000 | 2,500,000 | 4,004 | 1,301,836 | 18.63% | 4.4% | 3.5% |
| 2,500,000 | 5,000,000 | 1,134 | 739,576 | 25.37% | 5.3% | 3.6% |
| 5,000,000 | 10,000,000 | 518 | 721,525 | 32.21% | 7.2% | 4.7% |
| 10,000,000 | 20,000,000 | 207 | 664,949 | 39.13% | 10.1% | 6.4% |
| 20,000,000 | | 145 | 3,751,611 | 55.13% | 26.4% | 17.2% |
| Total | | 11,229 | 7,982,106 | 18.69% | 8.2% | 5.3% |

* Net worth less estate expenses.
** Net worth less estate expenses and taxes, computed in the absence of charitable bequests. The ratio of charitable bequests to wealth is computed after reducing bequests by the tax savings from the deduction.

Source: Martha Britton Eller. “Federal Taxation of Wealth Transfers, 1992-1995,” SOI Bulletin, Internal Revenue Service, Statistics of Income, Winter 1996-97, Washington, DC 1997, and author’s calculations from the SOI estate tax file for decedents in 1992.

Table 14

Charitable Gifts in Life and at Death
(1981 Levels of Income and 1982 Levels of Wealth)

| Gross Estate | | Number of Decedents | Number with Charitable Contributions | Percent Contributing | Number with Charitable Bequests | Percent with Bequests |
|---|---|---|---|---|---|---|
| Over | Under | | | | | |
| $300,000 | 500,000 | 32,384 | 20,047 | 61.90% | 4,935 | 15.24% |
| 500,000 | 1,000,000 | 18,405 | 14,084 | 76.52% | 2,881 | 15.65% |
| 1,000,000 | 2,500,000 | 6,836 | 5,665 | 82.87% | 1,897 | 27.75% |
| 2,500,000 | 10,000,000 | 1,859 | 1,633 | 87.84% | 699 | 37.60% |
| 10,000,000 | and over | 209 | 185 | 88.52% | 115 | 55.02% |
| Total | | 59,693 | 41,614 | 69.71% | 10,527 | 17.64% |
| | | | | | | |
| Gross Estate | | Total Charitable Contributions | Mean Charitable Contribution | Total Charitable Bequests | Mean Charitable Bequests | Contributions as percent of Bequests |
| Over | Under | | | | | |
| 300,000 | 500,000 | 36,364 | 1,123 | 353,429 | 10,914 | 10.29% |
| 500,000 | 1,000,000 | 41,917 | 2,277 | 318,096 | 17,283 | 13.18% |
| 1,000,000 | 2,500,000 | 36,926 | 5,402 | 548,048 | 80,171 | 6.74% |
| 2,500,000 | 10,000,000 | 45,529 | 24,491 | 706,656 | 380,127 | 6.44% |
| 10,000,000 | and over | 43,028 | 205,876 | 1,473,076 | 7,048,211 | 2.92% |
| Total | | 203,764 | 3,414 | 3,399,305 | 56,946 | 5.99% |
| | | | | | | |
| Gross Estate | | Mean AGI | Contributions as percent of Income | Bequests as percent of Income | Mean Wealth | Contributions as percent of Wealth |
| Over | Under | | | | | |
| 300,000 | 500,000 | 38,762 | 2.90% | 28.16% | 348,293 | 0.32% |
| 500,000 | 1,000,000 | 61,597 | 3.70% | 28.06% | 630,914 | 0.36% |
| 1,000,000 | 2,500,000 | 104,801 | 5.15% | 76.50% | 1,330,166 | 0.41% |
| 2,500,000 | 10,000,000 | 261,025 | 9.38% | 145.63% | 3,646,204 | 0.67% |
| 10,000,000 | and over | 1,265,719 | 16.27% | 556.85% | 25,557,882 | 0.81% |
| Total | | 64,583 | 5.29% | 88.18% | 738,855 | 0.46% |

Total contributions in 1981 levels, and bequests and wealth in 1982 levels, both in $1000s.
Wealth is defined as net worth less estate expenses.

Source: Computed from the 1982 Estate Collation File.

Table 15

Cumulative Adjusted Taxable Gifts Made during 1977-1992 for Decedents in 1992

| Size of Gross estate | | Number of Estates | Percent of Estates | Gifts ($1000s) | Average Gift | Gifts/ Wealth* | Gifts/ Wealth** |
|---|---|---|---|---|---|---|---|
| Over | Under | | | | | | |
| $600,000 | 1,000,000 | 1,867 | 5.89% | 220,267 | $117,979 | 0.96% | 1.35% |
| 1,000,000 | 2,500,000 | 2,622 | 12.20% | 508,095 | 193,781 | 1.73% | 3.28% |
| 2,500,000 | 5,000,000 | 1,159 | 25.93% | 335,067 | 289,100 | 2.38% | 6.30% |
| 5,000,000 | 10,000,000 | 632 | 39.30% | 348,989 | 552,198 | 3.50% | 11.93% |
| 10,000,000 | 20,000,000 | 268 | 50.66% | 251,785 | 939,496 | 3.82% | 15.33% |
| 20,000,000 | ******** | 174 | 66.16% | 269,238 | 1,547,345 | 1.89% | 12.54% |
| Total | | 6,722 | 11.19% | 1,933,441 | 287,629 | 1.99% | 4.41% |

* Net worth less estate expenses
** Net worth less estate expenses, spousal and charitable bequests, and taxes.

Source: Martha Britton Eller. “Federal Taxation of Wealth Transfers, 1992-1995,” SOI Bulletin, Internal Revenue Service, Statistics of Income, Winter 1996-97, Washington, DC 1997, and author’s calculations.

Table 16

Estate and Gift Tax Receipts Compared to Total Federal Government Receipts, 1917-1997

| Fiscal Year | Receipts ($millions) | Percent of Total Receipts | Fiscal Year | Receipts ($millions) | Percent of Total Receipts |
|---|---|---|---|---|---|
| 1917 | 6 | 0.55% | 1957 | 1,365 | 1.71% |
| 1918 | 48 | 1.30% | 1958 | 1,393 | 1.75% |
| 1919 | 82 | 1.60% | 1959 | 1,333 | 1.68% |
| 1920 | 104 | 1.56% | 1960 | 1,606 | 1.74% |
| 1921 | 154 | 2.76% | 1961 | 1,896 | 2.01% |
| 1922 | 139 | 3.46% | 1962 | 2,016 | 2.02% |
| 1923 | 127 | 3.29% | 1963 | 2,167 | 2.03% |
| 1924 | 103 | 2.66% | 1964 | 2,394 | 2.13% |
| 1925 | 108 | 2.98% | 1965 | 2,716 | 2.33% |
| 1926 | 109 | 2.87% | 1966 | 3,066 | 2.34% |
| 1927 | 100 | 2.50% | 1967 | 2,978 | 2.00% |
| 1928 | 60 | 1.54% | 1968 | 3,051 | 1.99% |
| 1929 | 62 | 1.60% | 1969 | 3,491 | 1.87% |
| 1930 | 65 | 1.60% | 1970 | 3,644 | 1.89% |
| 1931 | 48 | 1.55% | 1971 | 3,735 | 2.00% |
| 1932 | 47 | 2.46% | 1972 | 5,436 | 2.62% |
| 1933 | 34 | 1.72% | 1973 | 4,917 | 2.13% |
| 1934 | 113 | 3.77% | 1974 | 5,035 | 1.91% |
| 1935 | 212 | 5.89% | 1975 | 4,611 | 1.65% |
| 1936 | 379 | 9.71% | 1976 | 5,216 | 1.75% |
| 1937 | 306 | 5.66% | 1977 | 7,327 | 2.06% |
| 1938 | 417 | 6.13% | 1978 | 5,285 | 1.32% |
| 1939 | 361 | 5.73% | 1979 | 5,411 | 1.17% |
| 1940 | 353 | 5.43% | 1980 | 6,389 | 1.24% |
| 1941 | 403 | 4.63% | 1981 | 6,787 | 1.13% |
| 1942 | 420 | 2.88% | 1982 | 7,991 | 1.29% |
| 1943 | 441 | 1.84% | 1983 | 6,053 | 1.01% |
| 1944 | 507 | 1.16% | 1984 | 6,010 | 0.90% |
| 1945 | 637 | 1.41% | 1985 | 6,422 | 0.87% |
| 1946 | 668 | 1.70% | 1986 | 6,958 | 0.90% |
| 1947 | 771 | 2.00% | 1987 | 7,493 | 0.88% |
| 1948 | 890 | 2.14% | 1988 | 7,594 | 0.84% |
| 1949 | 780 | 1.98% | 1989 | 8,745 | 0.88% |
| 1950 | 698 | 1.77% | 1990 | 11,500 | 1.11% |
| 1951 | 708 | 1.37% | 1991 | 11,139 | 1.06% |
| 1952 | 818 | 1.24% | 1992 | 11,143 | 1.02% |
| 1953 | 881 | 1.27% | 1993 | 12,577 | 1.09% |
| 1954 | 934 | 1.34% | 1994 | 15,225 | 1.21% |
| 1955 | 924 | 1.41% | 1995 | 14,763 | 1.09% |
| 1956 | 1,161 | 1.56% | 1996 | 17,189 | 1.18% |
| | | | 1997 | 19,845 | 1.26% |

Source: Annual Report of the Secretary of the Treasury (various years) and the Budget of the United States Government, Historical Tables.

Table 17

Estate and Gift Tax Receipts by Source, 1917-1997

| Fiscal Year | Nominal ($ millions) | Real ($ millions) | Estate Share | Gift Share | Fiscal Year | Nominal ($ millions) | Real ($ millions) | Estate Share | Gift Share |
|---|---|---|---|---|---|---|---|---|---|
| 1917 | 6 | 88 | 1.00 | 0.00 | 1957 | 1,365 | 7,874 | 0.91 | 0.09 |
| 1918 | 48 | 582 | 1.00 | 0.00 | 1958 | 1,393 | 7,778 | 0.90 | 0.10 |
| 1919 | 82 | 852 | 1.00 | 0.00 | 1959 | 1,333 | 7,237 | 0.91 | 0.09 |
| 1920 | 104 | 940 | 1.00 | 0.00 | 1960 | 1,606 | 8,659 | 0.88 | 0.12 |
| 1921 | 154 | 1,208 | 1.00 | 0.00 | 1961 | 1,896 | 10,050 | 0.91 | 0.09 |
| 1922 | 139 | 1,222 | 1.00 | 0.00 | 1962 | 2,016 | 10,579 | 0.88 | 0.12 |
| 1923 | 127 | 1,183 | 1.00 | 0.00 | 1963 | 2,167 | 11,258 | 0.90 | 0.10 |
| 1924 | 103 | 945 | 1.00 | 0.00 | 1964 | 2,394 | 12,275 | 0.87 | 0.13 |
| 1925 | 108 | 995 | 0.93 | 0.07 | 1965 | 2,716 | 13,746 | 0.89 | 0.11 |
| 1926 | 109 | 977 | 0.97 | 0.03 | 1966 | 3,066 | 15,272 | 0.85 | 0.15 |
| 1927 | 100 | 889 | 1.00 | 0.00 | 1967 | 2,978 | 14,421 | 0.90 | 0.10 |
| 1928 | 60 | 542 | 1.00 | 0.00 | 1968 | 3,051 | 14,332 | 0.88 | 0.12 |
| 1929 | 62 | 568 | 1.00 | 0.00 | 1969 | 3,491 | 15,740 | 0.89 | 0.11 |
| 1930 | 65 | 595 | 1.00 | 0.00 | 1970 | 3,644 | 15,579 | 0.88 | 0.12 |
| 1931 | 48 | 452 | 1.00 | 0.00 | 1971 | 3,735 | 15,104 | 0.88 | 0.12 |
| 1932 | 47 | 489 | 1.00 | 0.00 | 1972 | 5,436 | 21,059 | 0.93 | 0.07 |
| 1933 | 34 | 393 | 0.87 | 0.13 | 1973 | 4,917 | 18,456 | 0.87 | 0.13 |
| 1934 | 113 | 1,366 | 0.92 | 0.08 | 1974 | 5,035 | 17,793 | 0.91 | 0.09 |
| 1935 | 212 | 2,483 | 0.66 | 0.34 | 1975 | 4,611 | 14,675 | 0.92 | 0.08 |
| 1936 | 379 | 4,339 | 0.58 | 0.42 | 1976 | 5,216 | 15,212 | 0.92 | 0.08 |
| 1937 | 306 | 3,448 | 0.92 | 0.08 | 1977 | 7,327 | 20,204 | 0.76 | 0.24 |
| 1938 | 417 | 4,542 | 0.92 | 0.08 | 1978 | 5,285 | 13,683 | 0.97 | 0.03 |
| 1939 | 361 | 4,014 | 0.92 | 0.08 | 1979 | 5,411 | 13,021 | 0.97 | 0.03 |
| 1940 | 353 | 3,985 | 0.92 | 0.08 | 1980 | 6,389 | 13,808 | 0.97 | 0.03 |
| 1941 | 403 | 4,516 | 0.87 | 0.13 | 1981 | 6,787 | 12,923 | 0.97 | 0.03 |
| 1942 | 420 | 4,483 | 0.78 | 0.22 | 1982 | 7,991 | 13,793 | 0.99 | 0.01 |
| 1943 | 441 | 4,245 | 0.93 | 0.07 | 1983 | 6,053 | 9,842 | 0.98 | 0.02 |
| 1944 | 507 | 4,598 | 0.93 | 0.07 | 1984 | 6,010 | 9,468 | 0.97 | 0.03 |
| 1945 | 637 | 5,679 | 0.93 | 0.07 | 1985 | 6,422 | 9,698 | 0.96 | 0.04 |
| 1946 | 668 | 5,823 | 0.93 | 0.07 | 1986 | 6,958 | 10,146 | 0.95 | 0.05 |
| 1947 | 771 | 6,204 | 0.91 | 0.09 | 1987 | 7,493 | 10,727 | 0.93 | 0.07 |
| 1948 | 890 | 6,262 | 0.91 | 0.09 | 1988 | 7,594 | 10,489 | 0.94 | 0.06 |
| 1949 | 780 | 5,078 | 0.92 | 0.08 | 1989 | 8,745 | 11,598 | 0.91 | 0.09 |
| 1950 | 698 | 4,602 | 0.93 | 0.07 | 1990 | 11,500 | 14,551 | 0.81 | 0.19 |
| 1951 | 708 | 4,609 | 0.87 | 0.13 | 1991 | 11,139 | 13,372 | 0.89 | 0.11 |
| 1952 | 818 | 4,936 | 0.90 | 0.10 | 1992 | 11,143 | 12,837 | 0.91 | 0.09 |
| 1953 | 881 | 5,216 | 0.88 | 0.12 | 1993 | 12,577 | 14,065 | 0.89 | 0.11 |
| 1954 | 934 | 5,489 | 0.92 | 0.08 | 1994 | 15,225 | 16,532 | 0.86 | 0.14 |
| 1955 | 924 | 5,389 | 0.91 | 0.09 | 1995 | 14,763 | 15,630 | 0.88 | 0.12 |
| 1956 | 1,161 | 6,797 | 0.90 | 0.10 | 1996 | 17,189 | 17,697 | 0.87 | 0.13 |
| | | | | | 1997 | 19,845 | 19,845 | 0.86 | 0.14 |

Real values computed using CPI-U (1997=100), lagged one year.

Source: Annual Report of the Secretary of the Treasury (various years), the Annual Report of the Commissioner of the Internal Revenue Service (various years) and unpublished IRS statistics.

Table 18

Nominal and Real Exemption Amounts Under the Estate Tax, 1916-2006

| Year | Nominal | Real | Year | Nominal | Real |
|---|---|---|---|---|---|
| 1916 | $50,000 | $900,792 | 1961 | $60,000 | $394,059 |
| 1917 | 50,000 | 767,081 | 1962 | 60,000 | 390,144 |
| 1918 | 50,000 | 650,241 | 1963 | 60,000 | 385,045 |
| 1919 | 50,000 | 567,551 | 1964 | 60,000 | 380,076 |
| 1920 | 50,000 | 490,932 | 1965 | 60,000 | 374,043 |
| 1921 | 50,000 | 548,527 | 1966 | 60,000 | 363,653 |
| 1922 | 50,000 | 584,443 | 1967 | 60,000 | 352,765 |
| 1923 | 50,000 | 574,189 | 1968 | 60,000 | 338,574 |
| 1924 | 50,000 | 574,189 | 1969 | 60,000 | 321,045 |
| 1925 | 50,000 | 561,065 | 1970 | 60,000 | 303,669 |
| 1926 | 100,000 | 1,109,450 | 1971 | 60,000 | 290,923 |
| 1927 | 100,000 | 1,128,579 | 1972 | 60,000 | 281,875 |
| 1928 | 100,000 | 1,148,378 | 1973 | 60,000 | 265,369 |
| 1929 | 100,000 | 1,148,378 | 1974 | 60,000 | 238,993 |
| 1930 | 100,000 | 1,175,884 | 1975 | 60,000 | 219,003 |
| 1931 | 100,000 | 1,291,926 | 1976 | 60,000 | 207,071 |
| 1932 | 50,000 | 716,689 | 1977 | 120,667 | 391,018 |
| 1933 | 50,000 | 755,280 | 1978 | 134,000 | 403,588 |
| 1934 | 50,000 | 732,734 | 1979 | 147,333 | 398,515 |
| 1935 | 40,000 | 573,351 | 1980 | 161,563 | 385,031 |
| 1936 | 40,000 | 565,101 | 1981 | 175,625 | 379,405 |
| 1937 | 40,000 | 545,480 | 1982 | 225,000 | 457,864 |
| 1938 | 40,000 | 557,086 | 1983 | 275,000 | 542,194 |
| 1939 | 40,000 | 565,101 | 1984 | 325,000 | 614,255 |
| 1940 | 40,000 | 561,065 | 1985 | 400,000 | 730,010 |
| 1941 | 40,000 | 534,347 | 1986 | 500,000 | 895,861 |
| 1942 | 60,000 | 722,844 | 1987 | 600,000 | 1,037,180 |
| 1943 | 60,000 | 681,061 | 1988 | 600,000 | 995,973 |
| 1944 | 60,000 | 669,452 | 1989 | 600,000 | 950,190 |
| 1945 | 60,000 | 654,576 | 1990 | 600,000 | 901,481 |
| 1946 | 60,000 | 604,224 | 1991 | 600,000 | 865,078 |
| 1947 | 60,000 | 528,357 | 1992 | 600,000 | 839,798 |
| 1948 | 60,000 | 488,895 | 1993 | 600,000 | 815,388 |
| 1949 | 60,000 | 495,057 | 1994 | 600,000 | 795,031 |
| 1950 | 60,000 | 488,895 | 1995 | 600,000 | 773,121 |
| 1951 | 60,000 | 453,168 | 1996 | 600,000 | 750,947 |
| 1952 | 60,000 | 444,617 | 1997 | 600,000 | 734,104 |
| 1953 | 60,000 | 441,287 | 1998 | 625,000 | 748,963 |
| 1954 | 60,000 | 438,006 | 1999 | 650,000 | 762,154 |
| 1955 | 60,000 | 439,640 | 2000 | 675,000 | 773,673 |
| 1956 | 60,000 | 433,175 | 2001 | 675,000 | 756,279 |
| 1957 | 60,000 | 419,301 | 2002 | 700,000 | 766,656 |
| 1958 | 60,000 | 407,694 | 2003 | 700,000 | 749,419 |
| 1959 | 60,000 | 404,892 | 2004 | 850,000 | 889,550 |
| 1960 | 60,000 | 398,053 | 2005 | 950,000 | 971,850 |
| | | | 2006 | 1,000,000 | 1,000,000 |

Real values computed using CPI-U, 2006=100. An inflation rate of 2.1% is assumed for 1998, 2.2% for 1999, and 2.3% thereafter.

Table 19

Life Expectancy of a Surviving Spouse

| Years | Relative Frequency | Cumulative Relative Frequency |
|---|---|---|
| 1 | 8.28% | 8.28% |
| 2 | 7.71% | 15.99% |
| 3 | 6.72% | 22.71% |
| 4 | 5.77% | 28.47% |
| 5 | 6.07% | 34.54% |
| 6 | 4.37% | 38.90% |
| 7 | 3.86% | 42.76% |
| 8 | 4.12% | 46.88% |
| 9 | 4.28% | 51.16% |
| 10 | 4.24% | 55.39% |
| 11 | 2.79% | 58.19% |
| 12 | 3.00% | 61.18% |
| 13 | 3.36% | 64.54% |
| 14 | 2.77% | 67.31% |
| 15 | 2.79% | 70.10% |
| 16 | 2.37% | 72.47% |
| 17 | 2.12% | 74.59% |
| 18 | 1.81% | 76.40% |
| 19 | 2.17% | 78.57% |
| 20 | 2.00% | 80.57% |
| 21 | 1.76% | 82.33% |
| 22 | 1.51% | 83.84% |
| 23 | 1.36% | 85.20% |
| 24 | 1.66% | 86.86% |
| 25 | 1.23% | 88.09% |
| 26 | 0.73% | 88.82% |
| 27 | 1.15% | 89.97% |
| 28 | 0.95% | 90.92% |
| 29 | 1.16% | 92.08% |
| 30 | 0.95% | 93.03% |
| 31 | 0.58% | 93.61% |
| 32 | 0.61% | 94.22% |
| 33 | 1.05% | 95.27% |
| 34 | 0.52% | 95.79% |
| 35 | 0.39% | 96.17% |
| 36 | 0.47% | 96.65% |
| 37 | 0.55% | 97.19% |
| 38 | 0.25% | 97.44% |
| 39 | 0.45% | 97.89% |
| 40 | 0.29% | 98.18% |
| 40+ | 1.82% | 100.00% |

Source: Computed from estate tax returns filed during 1989-1991 for decedents in 1989.

Table 20

Summary of the Findings on the Effect of Estate Taxes on Charitable Bequests

| Study | Data Sources | Estimated Price Elasticities (Specification) |
|---|---|---|
| McNees (1973) | Federal estate tax returns filed in 1957 and 1959 | Not reported; finds taxes to be a significant factor |
| Boskin (1976) | Federal estate tax returns filed in 1957 and 1959 | -0.94 to -1.8* (linear) |
| | Federal estate tax returns filed in 1969 | -0.2 to -2.53* (linear) |
| Feldstein (1977) | Aggregate Federal estate tax data pooled for estate tax returns filed in 1948 through 1963. | -4.0 to -0.1 (varies) |
| Barthold and Plotnick (1984) | Connecticut probate records, 1930s and 1940s | No effect (logarithmic) |
| Clotfelter (1985) | Federal estate tax returns of decedents in 1976 filed in 1977 | -2.79 to -1.67 (logarithmic) |
| Joulfaian (1991) | Federal estate tax returns of decedents in 1986 filed during 1986-88 | -3.0 (logarithmic) |
| Auten and Joulfaian (1996) | Federal estate tax returns of decedents in 1982 filed during 1982-83 | -2.5 (logarithmic) |
| Joulfaian (1998) | Federal estate tax returns of decedents in 1992 filed during 1992-94 | -1.67* (budget share)<br>-2.26 (logarithmic) |

* Evaluated at mean values.

Table 21

Estimated Tax Price Elasticities for Charitable Bequests by Type of Donee, 1986

| Charity | Log-linear Model | Linear Model |
|---|---|---|
| Arts and Humanities | -0.19 | -0.49 |
| Religious | -1.22 | -1.22 |
| Education/Medical Research | -1.57 | -1.18 |
| Social Welfare | -0.25 | -0.61 |
| Foundations | -0.33 | -0.26 |
| Other | -0.70 | -0.80 |

Source: David Joulfaian, "Charitable Bequests and Estate Taxes," National Tax Journal, June, 1991 (p. 176 and 179).

Table 22A

Charitable Bequests, Tax Price, and After-Tax Wealth in 1992: All Estates

| After-Tax Wealth | | Returns | Returns with Bequests | Percent of Returns with Bequests (%) | Mean (First $) Price *100 | Mean (Last $) Price *100 | Mean Bequest ($000s) | Mean After-Tax Wealth ($000s) | Bequests as Percent of Wealth (%) |
|---|---|---|---|---|---|---|---|---|---|
| $1 | $500,000 | 651 | 99 | 15.2 | 95 | 95 | 11 | 409 | 2.7 |
| 500,000 | 750,000 | 22,078 | 3,836 | 17.4 | 77 | 80 | 27 | 651 | 3.6 |
| 750,000 | 1,000,000 | 14,931 | 2,846 | 19.1 | 76 | 78 | 44 | 854 | 3.9 |
| 1,000,000 | 2,500,000 | 17,106 | 3,168 | 18.5 | 73 | 76 | 80 | 1,449 | 3.5 |
| 2,500,000 | 5,000,000 | 3,012 | 719 | 23.9 | 70 | 72 | 310 | 3,353 | 4.6 |
| 5,000,000 | 10,000,000 | 953 | 283 | 29.7 | 66 | 69 | 796 | 6,701 | 5.3 |
| 10,000,000 | 20,000,000 | 283 | 84 | 29.7 | 66 | 68 | 2,563 | 13,409 | 8.3 |
| 20,000,000 | 50,000,000 | 123 | 52 | 42.3 | 61 | 64 | 8,175 | 29,106 | 12.5 |
| 50,000,000 | ******** | 29 | 16 | 55.2 | 54 | 56 | 64,496 | 161,157 | 18.0 |
| TOTAL | | 59,166 | 11,102 | 18.8 | 75 | 78 | 134 | 1,364 | 5.3 |

Note: Wealth is defined as net worth less estate expenses and estate taxes computed in the absence of charitable bequests, plus excluded life insurance proceeds. The ratio of bequests to wealth is computed after reducing bequests by the tax savings from the deduction. First dollar tax price is computed by setting charitable bequests to zero, and subtracting $1000 from the taxable estate. The last dollar price is computed by adding $1000 to charitable bequests.

Source: Calculated from SOI sample of estate tax returns filed in 1992 through 1994 for decedents in 1992.
Limited to estates with positive wealth

Table 22B

Charitable Bequests, Tax Price, and After-Tax Wealth in 1992: Estates of Married Individuals

| After-Tax Wealth | | Returns | Returns with Bequests | Percent of Returns with Bequests (%) | Mean (First $) Price *100 | Mean (Last $) Price *100 | Mean Bequest ($000s) | Mean After-Tax Wealth ($000s) | Bequests as Percent of Wealth (%) |
|---|---|---|---|---|---|---|---|---|---|
| $1 | $500,000 | 279 | 1 | 0.4 | 95 | 95 | 0 | 411 | 0 |
| 500,000 | 750,000 | 7,286 | 298 | 4.1 | 95 | 95 | 2 | 658 | 0.3 |
| 750,000 | 1,000,000 | 7,248 | 645 | 8.9 | 93 | 94 | 2 | 858 | 0.2 |
| 1,000,000 | 2,500,000 | 9,987 | 702 | 7.0 | 88 | 89 | 10 | 1,471 | 0.5 |
| 2,500,000 | 5,000,000 | 2,136 | 306 | 14.3 | 80 | 82 | 82 | 3,375 | 1.4 |
| 5,000,000 | 10,000,000 | 722 | 144 | 19.9 | 74 | 77 | 171 | 6,751 | 1.2 |
| 10,000,000 | 20,000,000 | 233 | 45 | 19.3 | 70 | 72 | 557 | 13,389 | 1.9 |
| 20,000,000 | 50,000,000 | 93 | 28 | 30.1 | 66 | 69 | 1,585 | 28,274 | 2.5 |
| 50,000,000 | ******** | 20 | 10 | 50.0 | 58 | 61 | 23,174 | 181,455 | 5.7 |
| TOTAL | | 28,003 | 2,179 | 7.8 | 90 | 91 | 42 | 1,688 | 1.2 |

Note: Wealth is defined as net worth less estate expenses and estate taxes computed in the absence of charitable bequests, plus excluded life insurance proceeds. The ratio of bequests to wealth is computed after reducing bequests by the tax savings from the deduction. First dollar tax price is computed by setting charitable bequests to zero, and subtracting $1000 from the taxable estate. The last dollar price is computed by adding $1000 to charitable bequests.

Source: Calculated from SOI sample of estate tax returns filed in 1992 through 1994 for decedents in 1992.
Limited to estates with positive wealth

Table 22C

Charitable Bequests, Tax Price, and After-Tax Wealth in 1992: Estates of Individuals not Married

| After-Tax Wealth | | Returns | Returns with Bequests | Percent of Returns with Bequests (%) | Mean (First $) Price *100 | Mean (Last $) Price *100 | Mean Bequest ($000s) | Mean After-Tax Wealth ($000s) | Bequests as Percent of Wealth (%) |
|---|---|---|---|---|---|---|---|---|---|
| $1 | $500,000 | 372 | 98 | 26.3 | 95 | 95 | 19 | 407 | 4.7 |
| 500,000 | 750,000 | 14,791 | 3,538 | 23.9 | 69 | 72 | 39 | 648 | 5.3 |
| 750,000 | 1,000,000 | 7,683 | 2,201 | 28.7 | 60 | 64 | 83 | 851 | 7.5 |
| 1,000,000 | 2,500,000 | 7,119 | 2,466 | 34.6 | 53 | 57 | 177 | 1,419 | 7.8 |
| 2,500,000 | 5,000,000 | 876 | 412 | 47.1 | 45 | 49 | 867 | 3,299 | 12.8 |
| 5,000,000 | 10,000,000 | 231 | 139 | 60.2 | 41 | 46 | 2,748 | 6,545 | 18.4 |
| 10,000,000 | 20,000,000 | 50 | 39 | 78.0 | 45 | 51 | 11,912 | 13,504 | 38.2 |
| 20,000,000 | 50,000,000 | 30 | 24 | 80.0 | 45 | 48 | 28,602 | 31,684 | 40.1 |
| 50,000,000 | ******** | 9 | 6 | 66.7 | 45 | 45 | 156,323 | 116,049 | 60.6 |
| TOTAL | | 31,162 | 8,923 | 28.6 | 62 | 66 | 216 | 1,074 | 11.1 |

Note: Wealth is defined as net worth less estate expenses and estate taxes computed in the absence of charitable bequests, plus excluded life insurance proceeds. The ratio of bequests to wealth is computed after reducing bequests by the tax savings from the deduction. First dollar tax price is computed by setting charitable bequests to zero, and subtracting $1000 from the taxable estate. The last dollar price is computed by adding $1000 to charitable bequests.

Source: Calculated from SOI sample of estate tax returns filed in 1992 through 1994 for decedents in 1992.
Limited to estates with positive wealth

Table 23A

Inheritance and Labor Force Transitions of Singles

| Status in 1982 | | Inheritance under $25,000 | | Inheritance $25,000-$150,000 | | Inheritance over $150,000 | | All | |
|---|---|---|---|---|---|---|---|---|---|
| | | Working Status in 1985 | | | | | | | |
| | | 0 | 1 | 0 | 1 | 0 | 1 | 0 | 1 |
| 0 | Number | 35 | 39 | 61 | 33 | 74 | 14 | 170 | 86 |
| | Percent | 0.4730 | 0.5270 | 0.6489 | 0.3511 | 0.8409 | 0.1591 | 0.6641 | 0.3359 |
| | Inheritance | 9,277 | 6,141 | 74,642 | 68,471 | 426,575 | 368,577 | 214,379 | 89,060 |
| | Earn82/Inheritance | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | Age | 37.4 | 25.9 | 38.1 | 28.1 | 49.1 | 32.8 | 42.8 | 27.9 |
| | | | | | | | | | |
| 1 | Number | 30 | 626 | 45 | 405 | 49 | 221 | 124 | 1252 |
| | Percent | 0.0457 | 0.9543 | 0.1000 | 0.9000 | 0.1815 | 0.8185 | 0.0901 | 0.9099 |
| | Inheritance | 8,661 | 7,718 | 75,682 | 67,939 | 347,957 | 328,636 | 167,060 | 83,846 |
| | Earn82/Inheritance | 1.86 | 124.54* | 0.16 | 0.29 | 0.03 | 0.06 | 0.52 | 62.37* |
| | Age | 30.9 | 33.7 | 36.8 | 33.5 | 41.3 | 37.8 | 37.2 | 34.4 |
| | | | | | | | | | |
| All | Number | 730 | | 544 | | 358 | | 1,632 | |
| | Inheritance | 7,747 | | 69,364 | | 353,087 | | 104,041 | |
| | Earn82/Inheritance | 106.87 | | 0.23 | | 0.04 | | 47.89 | |
| | Age | 33.4 | | 33.9 | | 40.4 | | 35.1 | |

* When 8 outliers are excluded, the reported figures become 4.88 and 1.98 respectively. The remaining figures are little affected.
Note: Status equal 1 denotes that the individual is employed, and denotes not working when equal to zero.

Source: Computed from the 1982 Collation File.

Table 23B

Inheritance and Labor Force Transitions of Joint Filers

| | | Inheritance under $25,000 | | | Inheritance $25,000-$150,000 | | | Inheritance over $150,000 | | | All | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Status in 1982 | | Working Status in 1985 | | | | | | | | | | | |
| | | 0 | 1 | 2 | 0 | 1 | 2 | 0 | 1 | 2 | 0 | 1 | 2 |
| 0 | Number | 11 | 5 | 0 | 20 | 9 | 0 | 19 | 4 | 0 | 50 | 18 | 0 |
| | Percent | 0.6875 | 0.3125 | 0.0000 | 0.6897 | 0.3103 | 0.0000 | 0.8261 | 0.1739 | 0.0000 | 0.7353 | 0.2647 | 0.0000 |
| | Inheritance | 8,386 | 9,190 | 0 | 81,403 | 54,239 | 0 | 634,358 | 382,972 | 0 | 275,462 | 114,777 | 0 |
| | Earn82/Inheritance | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | Age | 51.3 | 35.2 | 0 | 52.8 | 42.7 | 0 | 48.4 | 37 | 0 | 50.8 | 39.3 | 0 |
| 1 | Number | 10 | 314 | 139 | 21 | 367 | 88 | 23 | 265 | 58 | 54 | 946 | 285 |
| | Percent | 0.0216 | 0.6782 | 0.3002 | 0.0441 | 0.7710 | 0.1849 | 0.0665 | 0.7659 | 0.1676 | 0.0420 | 0.7362 | 0.2218 |
| | Inheritance | 10,382 | 7,661 | 7,860 | 88,005 | 71,902 | 72,796 | 391,362 | 363,745 | 310,105 | 202,838 | 132,332 | 89,420 |
| | Earn82/Inheritance | 5.20 | 11.53 | 8.13 | 0.21 | 0.64 | 0.57 | 0.06 | 0.14 | 0.12 | 1.07 | 4.11 | 4.16 |
| | Age | 51.6 | 41.3 | 39.0 | 52.5 | 42.2 | 38.5 | 49.9 | 45.6 | 41.6 | 51.2 | 42.9 | 39.4 |
| 2 | Number | 5 | 127 | 467 | 8 | 128 | 353 | 7 | 80 | 172 | 20 | 335 | 992 |
| | Percent | 0.0084 | 0.2120 | 0.7796 | 0.0164 | 0.2618 | 0.7219 | 0.0270 | 0.3089 | 0.6641 | 0.0149 | 0.2487 | 0.7365 |
| | Inheritance | 5,400 | 7,681 | 7,678 | 110,372 | 78,949 | 69,765 | 428,235 | 322,440 | 300,441 | 195,381 | 110,078 | 80,533 |
| | Earn82/Inheritance | 10.67 | 15.13 | 16.01 | 0.40 | 0.59 | 0.70 | 0.08 | 0.14 | 0.19 | 2.85 | 5.99 | 7.82 |
| | Age | 50.8 | 39.0 | 38.8 | 45.3 | 39.6 | 39.2 | 53.1 | 44.5 | 43.2 | 49.4 | 40.5 | 39.7 |
| All | Number | 1,078 | | | 994 | | | 628 | | | 2,700 | | |
| | Inheritance | 7,726 | | | 72,811 | | | 346,232 | | | 110,422 | | |
| | Earn82/Inheritance | 13.22 | | | 0.62 | | | 0.14 | | | 5.54 | | |
| | Age | 39.8 | | | 41.0 | | | 44.7 | | | 41.4 | | |

Note: The status indicator refers to the number of employed taxpayers filing joint returns. Earn82 denotes labor earnings in 1982.

Source: Computed from the 1982 Collation File.

Table 24

Income and Wealth of Estate Tax Decedents
(1981 Levels of Income and 1982 Levels of Wealth)

| Gross Estate | | Mean Income | Mean Wealth | Income/ Wealth |
|---|---|---|---|---|
| $300,000 | 500,000 | $32,122 | $379,107 | 8.47% |
| 500,000 | 1,000,000 | 54,268 | 682,203 | 7.95% |
| 1,000,000 | 2,500,000 | 86,554 | 1,471,358 | 5.88% |
| 2,500,000 | 10,000,000 | 222,479 | 4,118,342 | 5.40% |
| 10,000,000 | and over | 1,219,559 | 27,834,296 | 4.38% |
| Total | | 55,270 | 810,229 | 6.82% |

Mean Income is defined as Adjusted Gross Income less wages, in 1981.
Mean Wealth is defined as the gross estate, in 1982.

Source: Computed from the 1982 Estate Collation File.

Table 25

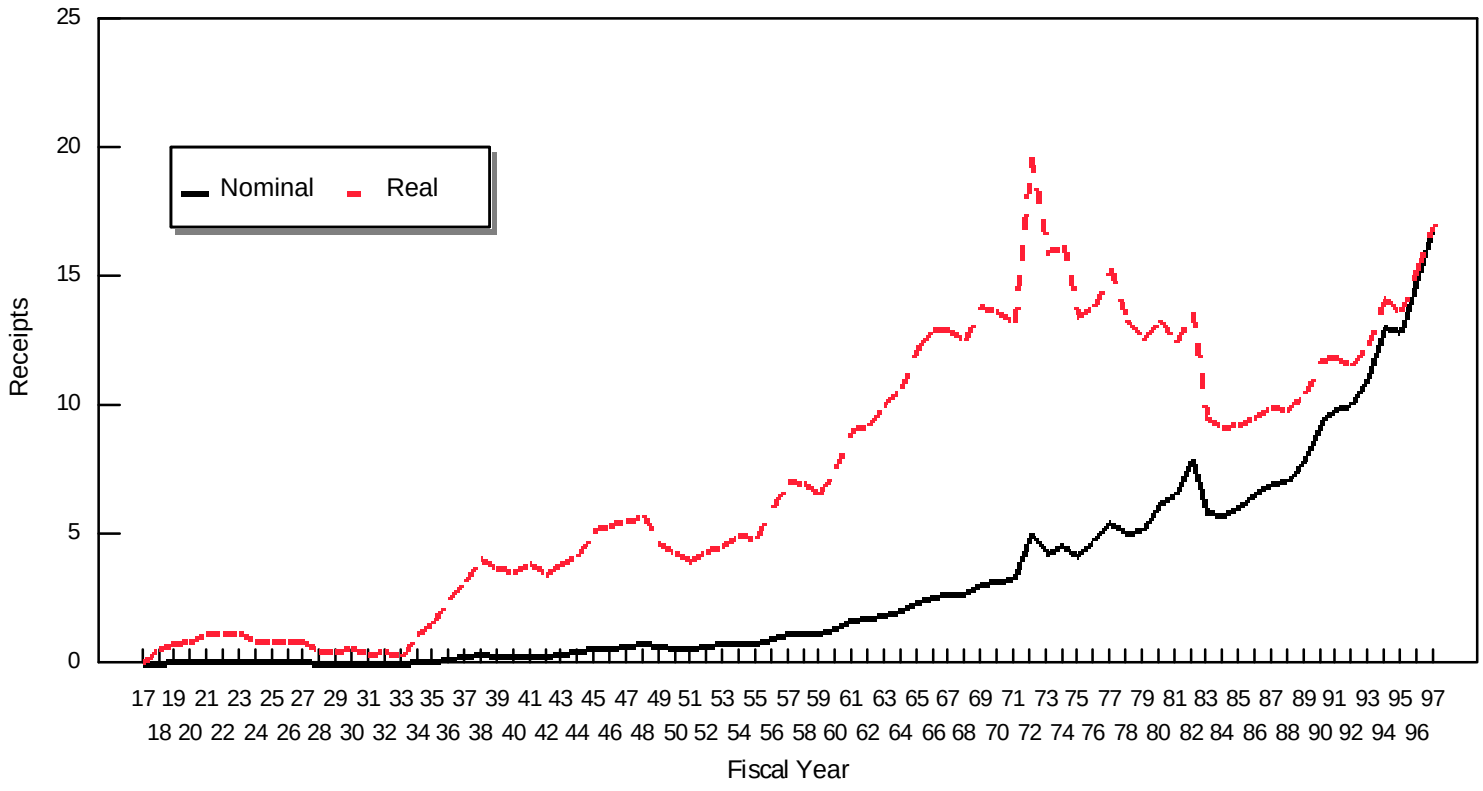
Income and Estate Tax Liabilities of Estate Tax Decedents
(1981 Levels of Income and 1982 Levels of Wealth)

| Gross Estate | | Income Tax ($millions) | Estate Tax ($millions) | Income Tax/ Estate Tax |
|---|---|---|---|---|
| $300,000 | 500,000 | 284.5 | 823.2 | 34.57% |
| 500,000 | 1,000,000 | 314.2 | 1,508.0 | 20.84% |
| 1,000,000 | 2,500,000 | 243.9 | 1,698.0 | 14.37% |
| 2,500,000 | 10,000,000 | 196.2 | 1,704.6 | 11.51% |
| 10,000,000 | and over | 128.0 | 952.3 | 13.44% |
| Total | | 1,166.9 | 6,686.0 | 17.45% |

Source: Computed from the 1982 Estate Collation File, limited to returns with taxable estates.

# Figure 1. Estate Tax Receipts: Fiscal Years 1917-1997

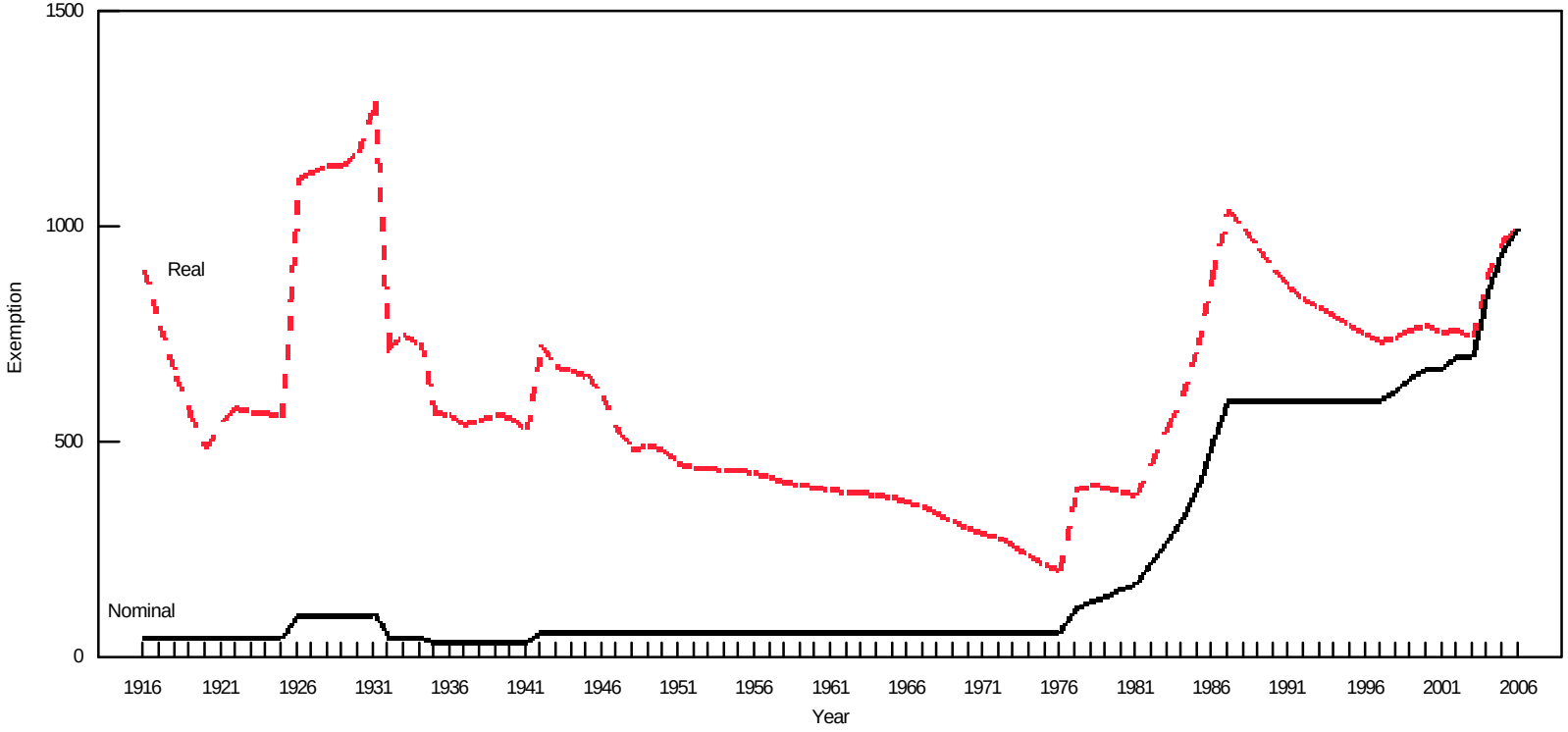
(in $billions)




Real values are computed using CPI-U, 1997=100

Figure 2. Exemption Amounts under the Estate Tax, 1916-2006

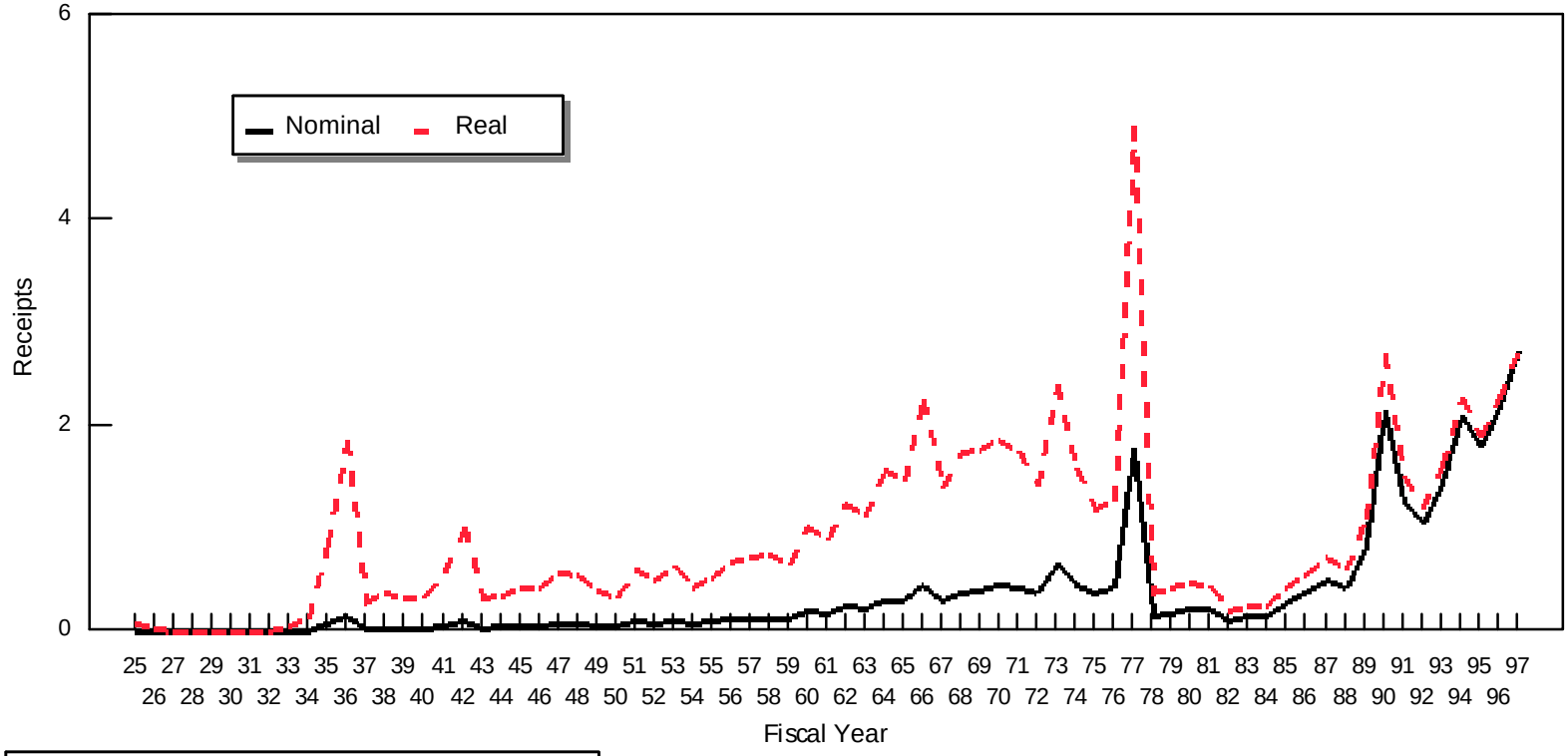
(in $1000s)




Real values computed using CPI-U 2006=100

# Figure 3. Gift Tax Receipts: Fiscal Years 1925-1997

(in $billions)




Real values are computed using CPI-U, 1997=100