



### REPUBLICAN STAFF STUDY

## Cost and Consequences of the Federal Estate Tax

*An Update*

July 25, 2012

### Executive Summary

This study confirms that the cost of the estate tax far exceeds any benefits it produces. This study updates and extends two previous Joint Economic Committee studies on the estate tax, building on these previous studies to reflect updated data and legislation.

- The estate tax has reduced the amount of capital stock in the economy as described in previous Joint Economic Committee studies in 1998<sup>1</sup> and 2006.<sup>2</sup> As of 2008, the estate tax has cumulatively reduced the amount of capital stock in the U.S. economy by roughly \$1.1 trillion since its introduction as a permanent tax in 1916, equivalent to 3.2 percent of the total capital stock.
- The estate tax is an overwhelming cause of the dissolution of family businesses. The estate tax is a significant hindrance to entrepreneurial activity because many family businesses lack sufficient liquid assets to pay estate tax liabilities.
- The estate tax does not reduce income and wealth inequality. Perversely, the estate tax creates a barrier to income and wealth mobility.
- Economic inefficiencies due to the distortionary effects of the estate tax are burdensome, and the costs of compliance associated with the estate tax add to the paperwork and time necessary to comply with other taxes.
- The estate tax raises a negligible amount of revenue. Since its inception nearly 100 years ago, the estate tax has raised just under \$1.3 trillion in total revenue; by comparison, that is equivalent to the U.S. federal deficit for fiscal year 2011 alone.
- Many studies have indicated that abolition of the estate tax would actually increase overall federal tax revenue in at least two ways: (1) the estate tax robs additional federal tax revenues from the collection of other taxes like the income tax, and (2) a larger total capital stock could increase income tax revenue.

*(Continued on the next page ...)*

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*The art of taxation consists in so plucking the goose as to get the most feathers with the least hissing.*

-- Jean Baptiste Colbert, Minister of Finance to Louis XIV of France

***Effective taxation requires efficiency to achieve the greatest amount of revenue, but at the least distortion of output, employment, and growth. And yet, the estate tax fails on both counts.***

## **Introduction**

As alluded to by Jean Baptiste Colbert, effective taxation requires efficiency to achieve the greatest amount of revenue, but at the least distortion of output, employment, and growth. And yet, the estate tax fails on both counts. The commentary will first review the federal estate tax and structure, examining historical data on the estate and gift tax, exemptions, and taxable estates. Following that discussion, the focus will turn to addressing the common arguments for the estate tax that are not valid, particularly delving into types of economic inequality that the estate tax exacerbates and its adverse impact on wealth and income mobility. Prior to concluding, the commentary will shift to arguments against estate taxation, detailing the effects of the estate tax on savings and consumption, the capital stock of the economy, and its burden to family businesses.

## **Overview of the Federal Estate Tax**

According to the Internal Revenue Service (IRS), the estate tax is a tax on an individual's right to transfer property at his or her death. Congress enacted temporary estate taxes to finance military activities (1797-1802, 1862-1870, and 1898-1902). In 1916, Congress made the estate tax a permanent part of the federal tax system. Through the *Tax Reform Act of 1976*, Congress reshaped the estate tax into its current form that provides a unified system to tax all types of wealth transfers.

The current form of the federal estate tax includes: (1) a traditional estate tax, (2) a gift tax, and (3) a generation-skipping transfer (GST) tax. There are three major estate tax credits that provide a dollar-for-dollar offset against an estate's federal estate tax liability: (1) the unified transfer credit, (2) the credit for foreign death taxes, and (3) the credit for federal estate taxes paid by previous estates.

Being cumulative in nature, the gift tax requires that all gifts made by the decedent during his or her life be included in the value of the estate for tax purposes. At present, every donor may exclude the first \$13,000 (\$26,000 per recipient from married couples) of cash or property given to each recipient annually.

First enacted in 1976 and modified by the *Tax Reform Act of 1986*, the GST is imposed on outright gifts and transfers in trust for the benefit of individuals two or more generations younger than the decedent. The GST is a flat-rate tax set at the top estate tax rate, 35 percent as of 2012, with a \$5.12 million exemption (indexed for inflation per individual while living or at death and doubled for married couples).<sup>3</sup>

***The estate tax is intended as a tool of redistribution, but generates the least amount of federal revenue of any source, yielding very little to redistribute.***

The estate tax is intended as a tool of redistribution, but generates the least amount of federal revenue of any source, yielding very little to redistribute. Rather, if the estate tax were abolished, a great majority of transfers would still be subject to capital gains taxation when assets are sold, which would in part offset revenue loss from abolishment of the estate tax.<sup>4</sup>

**Historical and Current Tax Rates**

Over the past decade, the top estate tax rate and the size of the estate subject to tax have varied. *The Economic Growth and Tax Relief Reconciliation Act of 2001* (EGTRRA) gradually reduced the federal estate tax through 2009 and abolished it in 2010 as shown in Table 1.

Table 1				
Fiscal Year	Top Estate & Gift Tax Rates	Estate Tax Exemption	GST Tax Exemption	Gift Tax Exclusion
2001	60%*	\$675,000	\$1,060,000	\$10,000
2002	50%	\$1,000,000	\$1,100,000	\$11,000
2003	49%	\$1,000,000	\$1,120,000	\$11,000
2004	48%	\$1,500,000	\$1,500,000	\$11,000
2005	47%	\$1,500,000	\$1,500,000	\$11,000
2006	46%	\$2,000,000	\$2,000,000	\$12,000
2007	45%	\$2,000,000	\$2,000,000	\$12,000
2008	45%	\$2,000,000	\$2,000,000	\$12,000
2009	45%	\$3,500,000	\$3,500,000	\$13,000
2010	-- Estate and GST Taxes Repealed --			\$13,000
2011	35%	\$5,000,000	\$5,000,000	\$13,000
2012	35%	\$5,000,000	\$5,120,000	\$13,000
2013 & later	60%*	\$1,000,000	\$1,360,000	\$13,000

\*Top rate is 55% & a 5% surtax for taxable estates of \$10.0 million to \$17.2 million.

**Table 1 – As a result of EGTRRA, the top estate and gift tax rates declined over time from 2001 to 2010 while the estate, gift, and GST tax exemptions increased. Rates are expected to return to pre-EGTRRA levels in 2013.**

Under EGTRRA, the estate tax would have been reinstated with a top rate of 55 percent plus a five percent surtax on taxable estates of \$10.0 million to \$17.2 million in 2011.<sup>5</sup> However, Congress enacted *The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010* (TRA 2010) that replaced the full reinstatement of the estate tax and its pre-EGTRRA rates with a two-year reinstatement of the estate tax with (1) a \$5 million unified and indexed exemption amount, (2) a 35 percent maximum rate, (3) portability of the exemption amount, and (4) the option of applying EGTRRA to the estates of decedents in 2010.<sup>6</sup> Decedents who passed away before 2010, but whose estates did not file returns until fiscal year 2010 comprised the payments in 2010.<sup>7</sup>

As shown in Table 1 above, the exemption amount for the estate tax has been increased from \$675,000 in 2001 to \$5 million in 2011 and 2012. The GST tax exemption amount has been raised from \$1.06 million in 2001 to \$5 million in 2011 and \$5.12 million in 2012 as well. For gifts, the annual exclusion amount has been adjusted for inflation since 2001 and is \$13,000 in 2012.<sup>1</sup> Unless Congress acts to change the law, the estate tax rates will revert back to their pre-EGTRRA 2001 levels and the estate tax exemption will return to \$1 million in 2013.<sup>ii, 8</sup>

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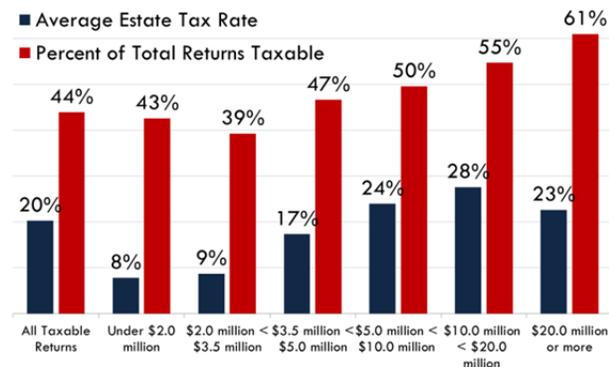
<sup>i</sup> Note: For additional information on the historical detail of estate and gift tax revenue, as well as the estate tax including the initial tax rate and top brackets in dollar values, see the Appendix.

<sup>ii</sup> In all, the provisions scheduled to expire December 31, 2012 include (1) the reduction in maximum estate and gift tax rates to 35 percent; (2) modifications to reflect differences in credits resulting from different tax rates; (3) the increase of estate and gift tax exemption to \$5 million; (4) “portability” rules for the surviving spouse to use unused exemptions; (5) the deduction for state death taxes paid; (6) expansion and clarification of estate tax conservation easement rules; (7) repeal of the qualified family-owned business deduction; (8) modifications to the generation-skipping transfer tax rule for certain transfers to trusts; and (9) modifications to estate tax installment payment rules.

***In 2009, the average tax rate on 2009 estate tax returns was 20 percent, and 44 percent of total returns were taxable.***

According to the IRS, the number of estate tax returns filed has decreased steadily from 108,000 in 2001 to fewer than 34,000 in 2009, primarily due to increases in the filing threshold. In 2009, the average tax rate on 2009 estate tax returns was 20 percent, and 44 percent of total returns were taxable. For taxable returns valued at \$20.0 million or more, the average

**Average Estate Tax Returns & Taxable Estates**  
Filing Year 2009



Source: JEC calculations using IRS data

**Figure 1 – The average tax rate on estate tax returns is compared to the percent of total returns that were taxable in 2009.**

effective estate tax rate fell significantly. Based on the size of the estate, the percentage of total returns taxable steadily increased from 39 percent for returns valued between \$2 million and \$3.5 million to 61 percent for returns valued at \$20 million or more.

and debts of estates, less than half of estates, 44 percent, filing in 2009 owed the estate tax as shown in the category ‘All Taxable Returns’ in Figure 1 above.<sup>9</sup>

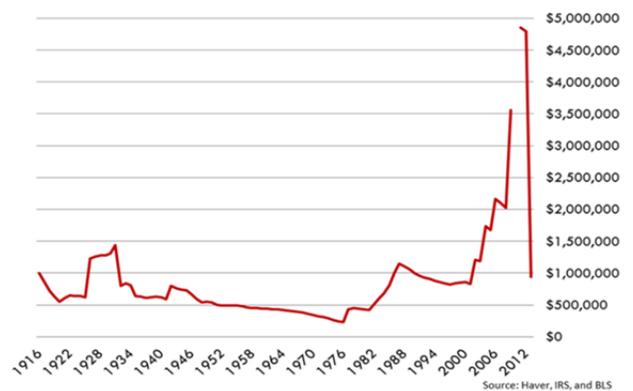
After accounting for marital and charitable bequest deductions, in addition to expenses

***The \$1 million exemption amount scheduled after 2012 is just below the counterpart of 1916 in today’s wealth.***

From a historical perspective, prior to the 2000s, the exemption amount for the estate tax had eroded when adjusting for inflation; the \$1 million exemption amount scheduled after 2012 is just below the counterpart of 1916 in today’s wealth (the exemption was \$50,000 for 1916), see Figure 2. The line is broken for the year 2010, during which the estate tax was repealed.<sup>10</sup>

**The Estate Tax Exemption over 100 Years**

Adjusted for inflation (2010\$), 1913-2013



**Figure 2 – The estate tax exemption, adjusted for inflation in 2010 dollars, is shown above from 1916 to expected exemption level in 2013.**

TRA 2010 allowed executors, the individual(s) nominated to apportion the estate assets as requested in the will, to make a choice to file an estate tax return under the new law, or they could opt out and the recipient of those assets could instead pay under a different set of taxes when they sold those assets. For heirs wishing to opt out, the assets would not be valued at the date of death (known as the “stepped up basis”), but by their original value, and spouses were then eligible for \$3 million against the appreciated value of the assets when sold, and \$1.3 million for any other heir. It has been

suggested that this creates a problem, however, for the executor when deciding who is to benefit from the \$1.3 million credit.<sup>11</sup>

**Taxable Estates**

Asset distribution of taxable estates has changed over time as shown in Figure 3. The value of taxable estates is concentrated in publicly traded

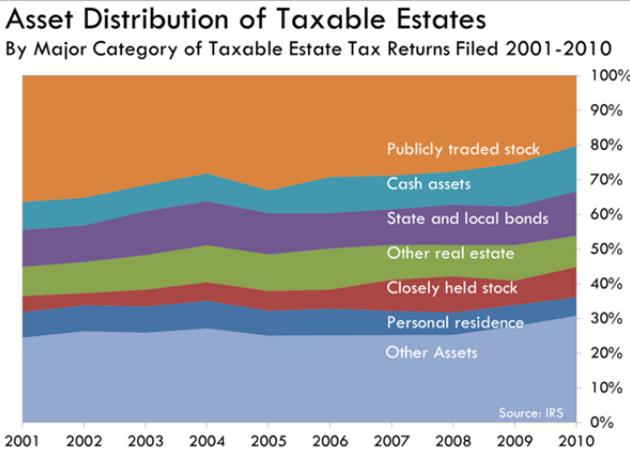


Figure 3 – The asset distribution of taxable estate tax returns filed over the 2001-2010 period, indicating that stocks held, while still a major asset, have declined.

assets, intangibles, art, and other assets.

**International Comparisons**

The United States has one of the highest top marginal estate tax rates in the world. A 2007 report demonstrated that apart from South Korea and Japan, both with 50 percent rates, the United States boasted a 45 percent tax rate, the third highest of the 50 countries surveyed.<sup>13</sup> Exactly half of the countries surveyed had no inheritance tax, and the remaining countries (excluding the United States) averaged a top marginal estate tax rate of 23 percent—about half of the U.S. top marginal federal estate tax rate.

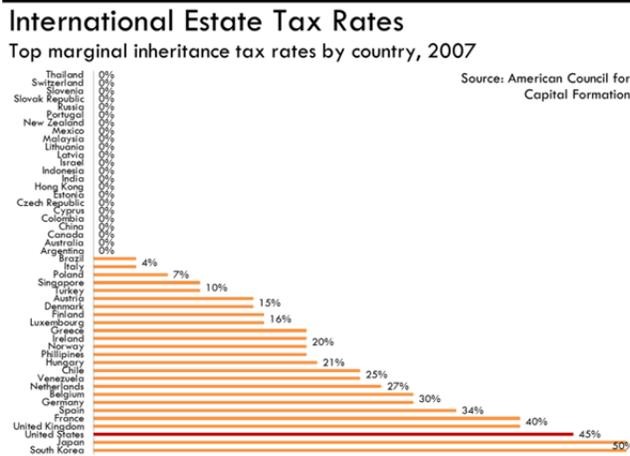


Figure 4 – Compared to the rest of the world, the United States bears one of the highest top marginal inheritance/estate tax rates as of 2007.

In addition, unlike the United States, Canada and Mexico have no inheritance tax. Should the top marginal estate and gift tax rates return to 55 percent with a five percent surtax in 2013, then the United States will soon rank first not just in corporate taxation, but in inheritance taxes as well.

**The value of taxable estates is concentrated in publicly traded stock, cash assets, state and local bonds, other real estate, closely-held stock, and personal residences.<sup>12</sup>**

The remaining distribution of assets includes categories defined by the IRS, including other federal bonds, insurance, private equity and hedge funds, limited partnerships, other noncorporate business assets, mortgages and notes, retirement

**Exactly half of the countries, surveyed by the American Council for Capital Formation, had no inheritance tax, and the remaining countries (excluding the United States) averaged a top marginal estate tax of 23 percent.**

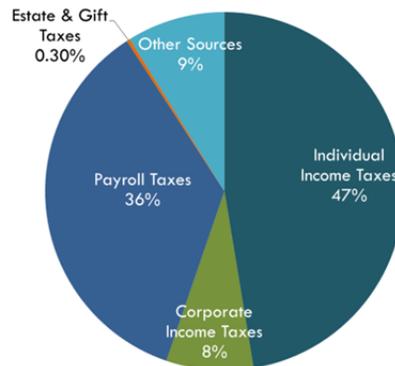
## Arguments for Estate Taxation Are Weak

### Federal Revenue

The number of estate tax returns filed in 2011 fell 61.3 percent from the year before to 11,128; in 2010 28,780 were filed, another 38.8 percent drop compared to the 47,000 filed in 2009.<sup>14</sup> In fiscal year 2010, the IRS collected a net \$18.9 billion in estate and gift taxes representing one percent of the 2010 revenue total. For fiscal year 2011, the latest Congressional Budget Office (CBO) estimates indicate that estate and gift taxes produced \$7.4

#### Estate Taxes Abysmally Small

Distribution of Estimated 2011 Federal Revenues



Source: CBO

Figure 5 – It is estimated that for fiscal year 2011, the estate and gift taxes will represent less than one half percent of total federal revenue.

were averaged over one year, the amount of federal revenue raised from estate and gift taxes would cover less than one day of federal spending.<sup>15</sup>

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**Historically, the estate and gift tax has never raised more than approximately \$37 billion in real 2011 dollars of tax revenue in any given year.**

Historically, the estate and gift tax has never raised more than approximately \$37 billion in real 2011 dollars of tax revenue in any given year despite the highest rates reaching 77 percent. Figure 6 below demonstrates that the estate and gift tax rates are not correlated with the amount of revenue raised.

Taxable returns from 1916 to 2004 further demonstrate that the net estate tax revenue, which is the gross estate less deductions, has risen over the years relative to the gross estate tax revenue.<sup>16</sup>

The Joint Committee on Taxation (JCT)

estimates that permanent repeal of the estate tax would lose \$68 billion over the 2011-2020 period as a result of TRA 2010, which reduced the scheduled estate and gift tax rates post-2010.<sup>17</sup> However, the estimated loss from the recent estate tax changes projected over the next decade is based upon static

#### Estate Taxes and Revenue

Gray bars indicate recessions, 1916-2010

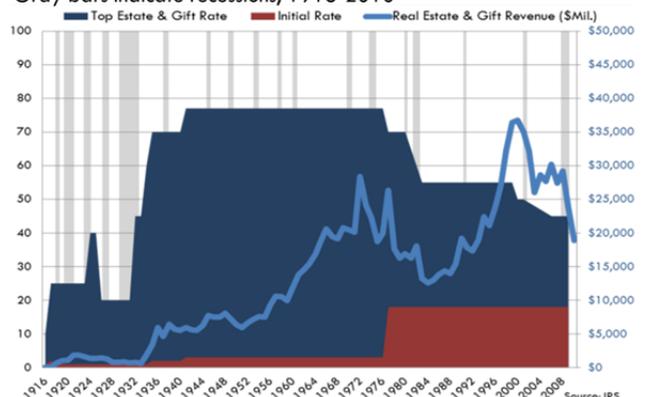


Figure 6 – The top and initial estate and gift tax rates are not correlated with the real estate and gift revenue, shown above adjusted for inflation.

analysis. While the JCT does account for some changes in taxpayer behavior, such as substitution effects that would lead to this potential loss, it fails to account for the added revenue from other forms of taxation of the resources that formerly fell under the estate and gift taxes, as well as greater capital accumulation resulting in more economic activity and additional capital gains realizations. In a recent study by former Deputy Assistant Secretary for Economic Policy at the Department of the Treasury, Stephen J. Entin, the increase in other federal government tax revenue would exceed the revenue lost from repeal of the estate tax by \$89 billion cumulatively through 2021.<sup>18</sup>

### ***Estate Tax and Inequality***

Supporters of the estate tax argue that because it only applies to the “wealthy,” it reduces income inequality. However, this assertion fails to distinguish between the different kinds of inequality and the reasons for them. It also lacks evidence of meaningful reductions in inequality.

As the prior 1998 and 2006 JEC studies have demonstrated, there is weak evidence of a correlation between wealth and income. In fact, former Vice Chairman of the Federal Reserve Board, Alan Blinder, found that only about two percent of income inequality can be explained by inherited wealth.<sup>19</sup> Part of the reason for this result is the life-cycle of income and savings; when workers reach retirement, income plummets while asset levels remain high, and some wealthy households may experience business or capital losses that temporarily place them at the bottom of the income distribution. Wealth transfers by way of the inheritance tax have only a limited impact on the distribution of earnings.

An updated article from the Federal Reserve Bank of Minneapolis’ *Quarterly Review* in February 2011 found that many low-income households continue to hold substantial amounts of wealth, and many wealthy households have very little or negative income.<sup>20</sup> The latest data confirm the prior trends in earlier Federal Reserve Bank of Minneapolis papers from 2002 and 1997. The recent paper breaks down types of inequality into three different measurements, as defined below: earnings, income, and wealth.

*Earnings: payments to all types of labor.*

- The **earnings-poorest**, the bottom 1 percent of households in terms of earnings, have negative earnings but are in fact wealthy, owning almost twice the average wealth, putting them in the top ten percent of the wealth distribution. Most of their income, 79 percent, comes from capital sources, and these households are older than the average, and do not have a high level of formal education.
- The **earnings poor**, those within the bottom quintile of households in terms of earnings, have negative earnings and are still wealthy but sizably less wealthy than the earnings-poorest. They similarly have less formal education and the vast majority is composed of retirees.
- Alternatively, most of the **earnings-richest** belong to the 46-65 age category (69 percent), the prime working years. Most have completed college (88 percent) and nearly half are self-employed.

***According to Entin, the increase in other federal government tax revenue would exceed the revenue lost from repeal of the estate tax by \$89 billion cumulatively through 2021.***

***Only about two percent of income inequality can be explained by inherited wealth, according to Blinder.***

- The **earnings-rich** rely more on labor income and less on business and capital sources.

*Income: earnings plus capital income and government transfers.*

- The **income-poorest** have negative income and zero earnings, and yet they are wealthy; their negative income comes from both business (37 percent) and capital losses (106 percent), but their average wealth would put them in the second-highest quintile of the wealth distribution. The income-poorest are young, have failed to complete their education, and many households are headed by non-workers or by the self-employed.
- The **income-poor** have an average annual household income of \$11,700 from transfers (60 percent) and labor (36 percent). They are either young or old (under 31 or over 65).
- The **income-richest** gain most income from business and capital sources, and most are older than 56.
- The **income-rich** are slightly younger with an average age of 50, and get more income from labor than business and capital resources.

*Wealth: the value of all assets.*

- The **wealth-poorest** have an average net worth of -\$79,000, but have annual incomes of \$40,000 on average, most of which comes from labor. They are typically young workers (86 percent under 45), college-educated, and a third of their debt is from student loans, making up half of their negative net worth position.
- The **wealth-poor** have average net wealth holdings of -\$5,300, and most income comes from labor (79 percent). The difference between the wealth-poorest and wealth-poor is education; a large share of the wealth-poor consists of high school dropouts.
- The **wealth-richest** get their income evenly split between labor and capital and business resources, average an age of 59, and are highly educated.
- The **wealth-rich** get most of their income from labor, average 58-years-old, and a considerable portion of them have retired.

Indeed, in a recent study of Census Bureau data explains a majority of income inequality by household demographics. In 2010 alone, there were significantly more income earners per household in the top income quintile of households, at 1.97, than earners per household in the bottom quintile of households, at 0.43. Additionally, married-couple households represented a larger share of the top quintile, at just over 78 percent, relative to single-parent families or singles. The top quintile had the largest share of full-time workers, over 77 percent, while 68 percent of those in the bottom quintile did not work. Family members in the top income quintile were five times more likely to have a college degree and 12 times more likely to have finished high school than those in the bottom quintile.<sup>21</sup>

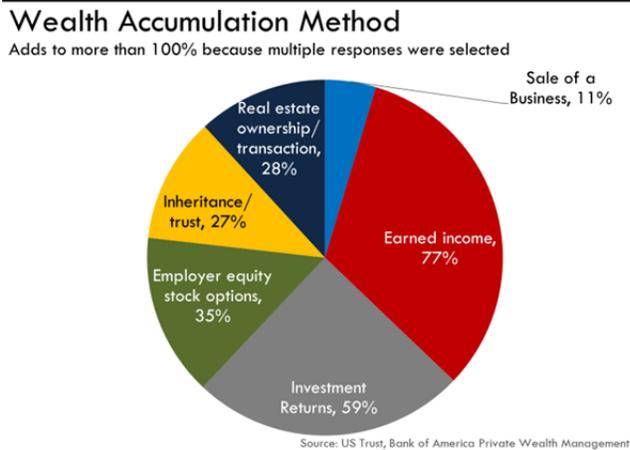
***The Federal Reserve Bank of Minneapolis' reports that the top quintile had the largest share of full-time workers, over 77 percent, while 68 percent of those in the bottom quintile did not work.***

**Intergenerational Transfers and Wealth Distribution**

The estate tax is ineffective at decreasing inequality because most wealthy households did not acquire their wealth through inheritances. As an example, a look at *Forbes'* 2011 list of the 400 richest people in America, measured by net worth, indicates that approximately 70 percent of the richest individuals in America were, in fact, self-made.<sup>22</sup>

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According to the 2011 U.S. Trust Survey, over three quarters of respondents<sup>iii</sup> (with wealth in excess of \$3 million) accumulated their wealth through earned income from their occupations and investments; only 27 percent accumulated any part of their wealth through inheritance, as shown in Figure 7.<sup>23</sup>



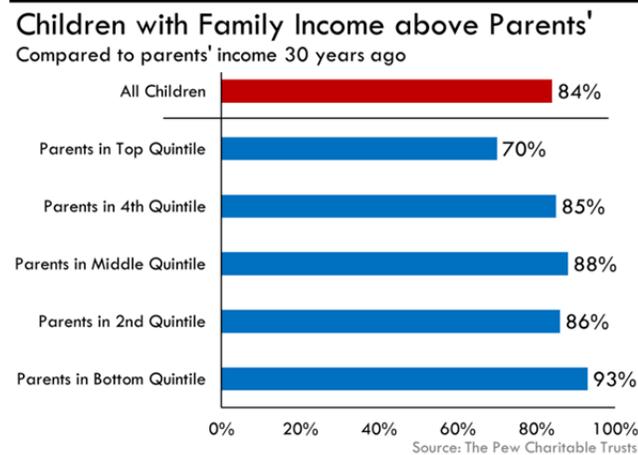
**Figure 7 – In the 2011 U.S. Trust Survey, respondents selected one or more wealth accumulation methods as a reason for their wealth.**

Furthermore, empirical research from Kerwin Kofi Charles and Erik Hurst on the likelihood that children of wealthy parents will also be wealthy has demonstrated that intergenerational wealth transfers have little impact on the distribution of income and wealth. When parental and child lifetime incomes are accounted for, the estimated elasticity falls to 0.18, meaning 52 percent of age-adjusted elasticity can be explained by income. Lifetime income and ownership of certain assets account for nearly two-thirds of wealth elasticity, with the remainder influenced by a combination of education, past parental transfers, and expected future bequests. Charles and Hurst further suggest that children’s propensity to save is determined by inheritance of *preferences* exhibited by their parents.<sup>24</sup>

Even for the richest households, inherited wealth represents a very small portion of total wealth. According to a 2006 study from the National Center for Policy Analysis examining wealth, inheritance, and the estate tax, if every dollar resulting from inheritances was taxed away, it would reduce the top one percent’s share of the nation’s total wealth by only four percentage points; of the top five percent, it would reduce their share of wealth by only seven percentage points. Furthermore, only one in five children of wealthy families will be rich themselves upon retirement, while well above half the

<sup>iii</sup> According to the survey, as of September 2010, there were “...approximately 5.6 million households in the U.S. with more than \$1 million in investable assets, including 4.8 million with \$1M-\$4.99M and 782,000 households with more than \$5M in investable assets, of which approximately 182,000 have greater than \$10 million in investable assets.” Of the respondents to the survey, 63 percent had \$3-5 million, 27 percent had \$5-10 million, and 10 percent had greater than \$10 million. The average age of respondents was 61 years, 58 percent of which were men and 42 percent were women; 86 percent were married and 81 percent had children. In addition, roughly half had total gross 2010 household income of less than \$250,000.

children of parents in the bottom half of the wealth distribution will end up in the top half by the time they retire.<sup>25</sup>



According to a recently updated study by Pew Charitable Trusts, as shown in Figure 8, more than four out of five Americans have higher absolute family incomes today than their own parents had approximately 30 years ago, and children born to parents in the bottom quintile are more likely to surpass their parents' income than children from any other quintile.<sup>26</sup>

Figure 8 – The percent of the children with family income above their parents by parents' income ranking shows that 84 percent of all children will achieve income above that of their parents.

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Recent research suggests that Social Security has a significant negative effect on the distribution of wealth. The guarantee of Social Security discourages the savings of lower- and middle-income households for retirement. These households have generally relied upon Social Security in place of or as a large supplement to retirement savings, and as a result, have little to nothing to leave their children, as Social Security benefits are nontransferable. Thus, without Social Security, enabling intergenerational transfers without taxation would have an equalizing effect on wealth. According to the aforementioned 2006 study from the National Center for Policy Analysis, absent the Social Security program, increased bequests would actually reduce wealth inequality, such that the top five percent of households would hold only 46 percent of total wealth rather than 51 percent.<sup>27</sup>

***Wealth and Income Mobility***

There are many factors affecting the distribution of income and wealth among U.S. households over time. Without an accurate and comprehensive picture of income and wealth mobility over time, a snapshot of the distribution of income and wealth at any particular moment may actually be quite misleading. As elaborated by James Pethokoukis, the CBO's recent analysis of income inequality is limited, and reasons why the income inequality picture is so difficult to measure include:<sup>28</sup>

***Without an accurate and comprehensive picture of income and wealth mobility over time, a snapshot of the distribution of income and wealth at any particular moment may actually be quite misleading.***

- (1) the wealthiest and poorest individuals change constantly over time;
- (2) real median after-tax income grew by 35 percent over the past three decades;
- (3) households in the top income quintile have nearly five times more family members working on average than the lowest quintile;
- (4) technological change has rewarded workers that have more education and skills;

(5) prices paid by the rich have been increasing faster than prices paid by the poor, thus a single common price index across all income groups overstates real income growth at the top and understates it at the bottom;<sup>29</sup> and

(6) as the CBO has mentioned, "...changes in the governance and structure of executive compensation, increases in firms' size and complexity, and the increasing scale of financial-sector activities" as possible influences as well.

The different reasons for wealth and income inequality call into question the justification as well as the likely efficacy of government redistribution efforts.

As reported in the earlier 2006 JEC paper, for every person who remains in the same wealth quintile as their parents, two or three change to a different quintile. Further research reveals that across any given time period, there is significant movement within one's lifetime between quintiles.

According to a recent report from the U.S. Treasury, from 1996 to 2005, 58 percent of households have moved up to a higher income quintile. Likewise, 57 percent of the top one percent of taxpayers moved down one or more income groups over the same period as shown in Figure 9. According to the Treasury:

*The degree of relative income mobility among income groups over the 1996 to 2005 period is very similar to that over the prior decade (1987 to 1996). To the extent that increasing income inequality widened income gaps, this was offset by increased absolute income mobility so that relative income mobility has neither increased nor decreased over the past 20 years.<sup>30</sup>*

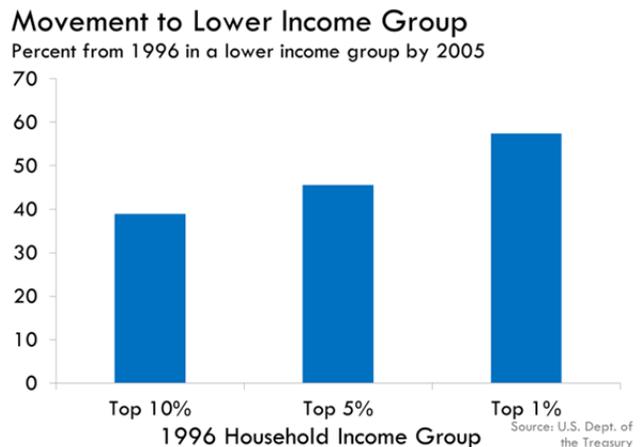
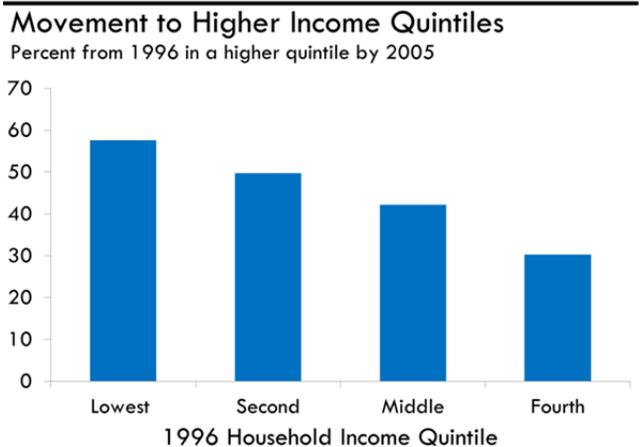


Figure 9 – Above: Movement to a higher income quintile from 1996 to 2005. Below: Movement to a lower income group from the top 10, 5, and 1 percent(s).

***The different reasons for wealth and income inequality call into question the justification as well as the likely efficacy of government redistribution efforts.***

***From 1996 to 2005, 58 percent of households have moved up to a higher income quintile. Likewise, 57 percent of the top one percent of taxpayers moved down one or more quintiles over the same period.***

In addition, a report from the Tax Foundation has found similar results on the income mobility issue by using recent IRS data spanning from 1999 to

***Median household income for most household types increased by somewhere between 44 percent to 62 percent from 1976 to 2006, according to the Federal Reserve Bank of Minneapolis.***

***According to the Federal Reserve, among the wealthiest one percent of households in 2007, 33 percent fell from that group by 2009; among households in the top one percent of income in 2007, 43 percent fell from that highest category by 2009.***

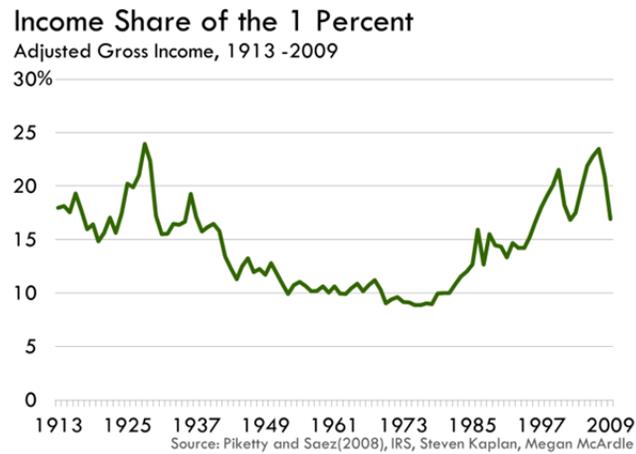
2007, identifying that approximately 60 percent of households that were in the lowest income quintile in 1999 were in a higher quintile in 2007, and another approximate 40 percent of households in the top quintile fell at least one quintile over the same nine-year period.<sup>31</sup>

The Federal Reserve Bank of Minneapolis has also used data to demonstrate earnings mobility of U.S. households using income data from the Panel Study of Income Dynamics that followed the same households from 2001 to 2007. The empirical results demonstrate that 44 percent of the lowest quintile moved up at least one quintile by 2007, and 34 percent in the highest quintile moved down at least one quintile over the same time period. In addition, when taking into account household size and differing price indexes, median household income for most household types increased by somewhere between 44 percent to 62 percent from 1976 to 2006.<sup>32</sup> Median hourly wages, including fringe benefits, also increased 28 percent between 1975 and 2005.<sup>33</sup>

In another examination of IRS data, the 400 highest earning tax returns filed between 1992 and 2008 included only four people who appeared in the top 400 filers continuously; however, one-timers abounded: 39 percent of the top 400 filers appeared in that category only once over the 17-year period.<sup>34</sup>

According to a paper published with the National Bureau of Economic Research by authors Emmanuel Saez and Wojciech Kopczuk, the shocks of the Great Depression, the New Deal, and World War II radically reduced the share of wealth held by the top of the wealth distribution. The prominent role of stocks and real estate portfolios on wealth has a significant effect on the number of estates with sufficient assets to be considered taxable with the estate tax. As such, those at the top of the wealth distribution are also exposed to the greatest volatility in wealth. Between March 2007 and February 2009, the S&P 500 index lost 48.3 percent of its value, and the value of single-family homes fell by an average of 23.6 percent over a similar time frame.<sup>35</sup>

In recent research from the Federal Reserve using the cross-sectional Survey of Consumer Finances, among the wealthiest one percent of households in 2007, 33 percent fell from that group by 2009; among households in the top one percent of income in 2007, 43 percent fell from that highest category by 2009.<sup>36</sup> Indeed, in the wake of the recent recession, the number of individuals making a million dollars or more fell by 40 percent to 236,883, and their combined incomes fell by nearly 50 percent. In the 1990-91 and 2001 recessions, the richest five percent of Americans experienced the largest declines in wealth. By contrast, the effect was much broader in 2009, with the richest 20 percent encountering the greatest loss in average wealth of any other quintile. For all three recessions, the top one percent of earners experienced the largest income shocks in percentage terms of any U.S. income group, and the measured gap between the top and bottom quintiles shrank during recessions.<sup>37</sup>



**Figure 10 – The top one percent’s share of adjusted gross income (AGI) demonstrates that the wealthy held 17 percent of AGI in 2009, similar to that of 1913.**

Source: Piketty and Saez(2008), IRS, Steven Kaplan, Megan McArdle

As a measure of adjusted gross *income* (AGI), shown in Figure 10, the income share of the top one percent in the United States fell from nearly 25 percent in 2007 to 17 percent in 2009. The income share of the top 0.1 percent experienced a drop from just over 12 percent to eight percent of the income earned in 2009, the lowest it has been since 2003.<sup>38</sup> The recent

***The income share of the top one percent in the United States fell from nearly 25 percent in 2007 to 17 percent in 2009, as demonstrated by authors Piketty and Saez.***

spikes shown in Figure 10 in the late 1990s and through the 2000s similarly demonstrate the aftermath of the tech and housing bubbles, respectively.

As a measure of total *wealth*, since the Great Depression, top wealth shares have increased only modestly during the stock market booms of the 1960s and 1990s. Prior to the Depression, the top one percent held 35 to 40 percent of total wealth in the United States, but over the last three decades leading up to 2000 that share has declined to between 20 and 25 percent.<sup>39</sup> In 2009, Kopczuk restated there was no compelling evidence that wealth concentration has much changed since the early 1980s.<sup>40</sup>

The federal effort to level wealth and income in America is of dubious value and, in any case, devoid of material effect, given the predominant reasons for inequality, the population’s high degree of wealth and income mobility, and the independently occurring reduction in wealth concentration associated with recessions.

***Estate Tax and Charitable Contributions***

Wealthy individuals generally consider charitable contributions to be an important use of wealth—a goal which can be significantly affected by the estate tax. According to the IRS, from 2001 to 2007, charitable contributions reported on estate tax returns were the second largest tax deduction, just behind bequests to a surviving spouse.<sup>41</sup> According to the JCT, charitable giving by individuals, foundations, estates, and corporations totaled \$290.89 billion in 2010, of which \$22.83 billion was given by estates, well over the total amount of estate tax revenue collected for that year.<sup>42</sup>

***According to the IRS, from 2001 to 2007, charitable contributions reported on estate tax returns were the second largest tax deduction, just behind bequests to a surviving spouse.***

According to the 2011 U.S. Trust Survey, regarding the way that respondents wanted to use their wealth, 36 percent of respondents said making a positive impact on society and 13 percent said that leaving a lasting legacy of contribution to society are important goals. In addition, three-fourths of respondents answered that there is growing animosity in the country toward wealth, and two-thirds agree that there is an economic benefit of wealth that is ultimately beneficial to society.<sup>43</sup>

**Approximately 19 percent of all estates claimed a charitable bequest deduction, totaling \$16 billion in 2009, averaging \$2.7 million for all estates.**

**Average Charitable Bequests**  
Taxable and all estate tax returns, 1995-2009



Note: Amounts in 2011 inflation-adjusted dollars. Source: JEC calculations using IRS data.  
**Figure 11 – The average charitable bequests on all estate tax returns follows closely with the average charitable bequests of taxable estate tax returns.**

Using data from the IRS, it is possible to identify that approximately 19 percent of all estates (just over 21 percent of taxable estates, shown in red in Figure 11) claimed a charitable bequest deduction, totaling \$16 billion in 2009, averaging \$2.7 million for all estates as shown in blue. This is consistent with the formerly reported 18.5 percent of returns filed

in 2004 as mentioned in the 2006 JEC paper. Of those in 2009, estates with \$20 million or more in gross estate accounted for more than 58 percent of this charitable bequest total despite comprising only 3 percent of estate tax filers.<sup>44</sup>

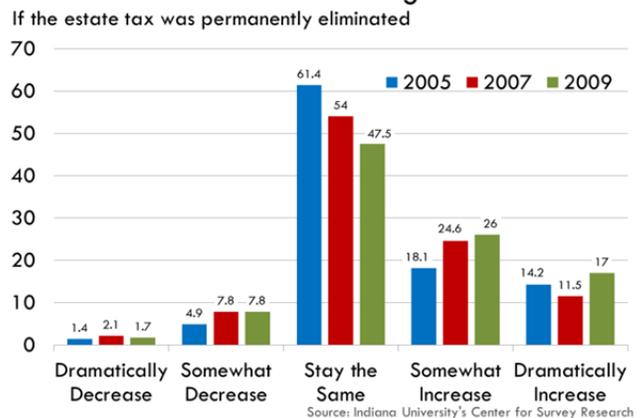
**Provisions of allowing deductions for charitable giving in the individual income tax code provide greater incentive to give to charities during life rather than in death.**

The common objection that elimination of the estate tax would negatively impact charitable giving because of the provisions in the estate tax that allow for charitable bequests is misleading because provisions of allowing deductions for charitable giving in the individual income tax code provide greater incentive to give to charities during life rather than in death. A greater percentage, 36 percent of total taxable households nationwide, itemized charitable contributions on individual income tax returns, totaling \$158 billion.<sup>45</sup>

IRS data has also contradicted expert forecasts from the early 2000s that claimed charitable contributions would drop between 22 and 37 percent if the federal estate tax were repealed. The data has since revealed that even as the exemption continued to climb in the 2000s leading up to estate tax repeal for the year 2010, inflation-adjusted charitable contributions remained steady for charities and even increased for private foundations.<sup>46</sup>

In 2004, the CBO acknowledged that reducing the estate tax by exempting more wealth from the tax has two conflicting effects: (1) by raising after-tax wealth, individuals may be more inclined to give to charity, and (2) individuals newly exempt from the tax may have less incentive to give and therefore reduce their

**Charitable Contribution Changes**



Source: Indiana University's Center for Survey Research  
**Figure 12 – As reported in a recent survey, wealthy givers identified if they planned to change their charitable contributions if the estate tax were repealed.**

charitable giving.<sup>47</sup>

While the report estimates that the repeal of the estate tax would negatively affect charitable contributions, assuming the latter would outweigh the former incentive, tax uncertainty has also negatively affected charitable giving, as reported by a recent survey from the Center on Philanthropy at Indiana University, which determined that wealthy givers have been more sensitive to the impact of tax policy on their contributions than they have been in the past. In fact, as shown in Figure 12 on the previous page, in 2009, wealthy households reported that if the estate tax were repealed, nearly 48 percent of high net worth households would leave unchanged the amount they leave to charity, while 43 percent reported they would leave more to charity if the estate tax were repealed.<sup>48</sup>

### **Arguments Against Estate Taxation**

In addition, the estate tax cannot be assessed completely isolated from the effects and influences of government programs and other forms of taxation. As taxes are interactive, when Congress changes one tax, it can change the revenue flows of other taxes. As highlighted by the Tax Foundation, the estate tax robs the income tax several ways: (1) by imposing wasteful compliance costs on taxpayers and the IRS; (2) by sheltering some income from taxation through deductions for tax planning; and (3) by shifting wealth into nonprofits that pay no tax.<sup>49</sup> William Ahern writes:

*For example, consider a \$100 million charitable gift made shortly before death in 2009 to avoid paying about \$40 million in estate tax. The charity could be the National Rifle Association or Handgun Control, the Catholic Church or Planned Parenthood. If the charity invests the gift, it will earn about \$8 million annually, tax-free. ...[in 2010], thanks to estate tax repeal, people like Duncan, Steinbrenner, and Kluge are more likely to leave their assets in the hands of taxpaying people, probably their spouses and children, who continue earning taxable income. When the heirs earn that \$8 million, it won't be tax-free; they'll pay about \$3 million to Uncle Sam. ...if they reinvest the balance, 10 years of tax payments will exceed \$40 million. After 20 years, the income tax payments would exceed \$100 million.<sup>50</sup>*

Based on this example, the federal government actually achieves more tax revenue from the permanent repeal of the estate tax than by keeping it in place. This would also boost tax revenue by reducing the need for additional tax planning, which is not only expensive and time consuming, but also tax deductible.

### **Estate Tax Reduces Savings, Increases Consumption**

The estate tax impedes economic growth because it discourages savings and capital accumulation. Even the meager \$19 billion that the estate and gift tax raised in 2010 and the even smaller \$7 billion in 2011 are overstated because they fail to take into account the income tax losses that result from estate tax avoidance. The estate tax motivates wealth holders to reduce savings and increase consumption, thus increasing the inequality of consumption. Thus, when faced with a potential 55 percent marginal tax

***The estate tax impedes economic growth because it discourages savings and capital accumulation.***

***When faced with a potential 55 percent marginal tax rate, it costs \$2.22 for a decedent to give a beneficent \$1 of pre-tax assets as a result of estate and gift taxes.***

rate, it costs \$2.22 for a decedent to give a \$1 of pre-tax assets as a result of estate and gift taxes, whereas the decedents could instead consume significantly more of that \$2.22 for personal benefit.

As economist and professor Ed McCaffery explains, “Another common argument is that the tax hits only a small fraction of the population. But that fraction pulls a disproportionate amount of economic weight when it comes to savings. ...the right way to deal with the general problem of U.S. tax policy—to tax *spending*, not working and saving.”<sup>51</sup>

Rather, inheritances may decrease inequality because they redistribute income within families and thus decrease inequality in lifetime consumption. These reasons have been echoed in several studies examining the effect of wealth transfers on inequality.

Increased investment by entrepreneurs increases capital stock and wages. Examining the effects of abolishing the estate tax on business investment, borrowing constraints, estate transmission, and wealth inequality, Cagetti and De Nardi determined that repeal of the estate tax would not generate large increases in inequality, but would instead, in some cases, increase aggregate output by as much as 1.5 percent and capital accumulation by 2.5 percent. About 80 percent of the young and 90 percent of the elderly would experience a resultant 0.2 percent increase in yearly consumption. Further, if the revenue shortfall was financed through increased income or consumption taxation, the cost of the tax burden would fall on the vast majority of the population (of 1 percent of yearly consumption at most) while the rich and elderly would experience welfare gains (of approximately 6 percent of yearly consumption).<sup>52</sup>

### ***Reduction in the Capital Stock of the Economy***

As aforementioned, the estate tax lowers federal income tax revenue by motivating individuals to reduce saving and increase consumption, thereby reducing the amount of capital stock in the economy. Prior research demonstrates that estate taxes can inhibit the size of reported taxable estates. Furthermore, following significant estate tax rate increases, estate tax revenue as a share of GDP has been shown to decrease, and alternatively, increase as a share of GDP when the estate tax rate is significantly lowered. The resultant loss of capital from the estate tax could be serving economically productive uses; but as it is, the loss translates into less wealth and reduced economic activity, thus leading to a smaller tax base for the income tax.<sup>53</sup>

As initially demonstrated in the first JEC study on the subject of estate taxes in 1998, if it is assumed that estate tax revenues represent resources that would otherwise have been left in the stock of capital (which is defined in this case as total private fixed assets excluding consumer durable goods), it is possible to determine how much greater the total stock of capital would be in the absence of the estate tax.

The initial 1998 JEC study makes use of a formula derived from a 1988 academic paper<sup>54</sup> by Laurence J. Kotlikoff and Lawrence H. Summers in which they define the long-run steady-state equilibrium stock of capital. From there, the authors determined the accumulated stock of wealth that is derived from total intergenerational transfers over time by defining the

***According to authors Cagetti and De Nardi, repeal of the estate tax would not generate large increases in inequality, but would instead, in some cases, increase aggregate output by as much as 1.5 percent and capital accumulation by 2.5 percent.***

***The resultant loss of capital from the estate tax could be otherwise serving economically productive uses.***

magnitude of the wealth effect based on several factors including the after-tax interest rate, the population growth rate, the age at death, the age at which the transfer is made to the recipient, and the age of the recipient when the transfer is made. This provides enough information to estimate the annual intergenerational flow of capital in steady-state equilibrium, as well as measurement of lost intergenerational transfers over a long period of time. This figure can be interpreted as the total reduction in capital stock resulting from the estate tax since its inception in 1916.

As noted in the 1998 JEC paper, and again in 2006, it was estimated how much larger the annual flow of intergenerational transfers would have been in the absence of the estate tax.<sup>iv</sup> Using data from 1995, the paper concluded that the estate tax represented at least 5.9 percent of annual intergenerational flows. Increasing the 1995 inferred flow of capital by 5.9 percent yields an increase in the 1995 stock of privately-owned capital of \$497 billion, equivalent to 3.2 percent of the \$15.7 trillion total stock in the economy. In 2006, the figure was updated to show a loss of \$847 billion, equal to 3.8 percent of the total capital stock.

Table 2			
Data	Cap. Acc. Loss	Stock of Capital in Economy	
	\$Bil, Nominal	%	\$Bil, Nominal
1995	\$497	3.20%	\$15,700
2001	\$847	3.80%	\$22,500
2008	\$1,115	3.20%	\$34,900

Table 2 – A compilation of the results from the current and former JEC studies examining the accumulated loss of stock of capital in the economy as a result of the estate tax.

nearly the total cumulative estate tax revenue since 1916—the year of the estate tax’s inception—\$1.2 trillion in real 2008 dollars.<sup>v</sup>

According to data analysis completed by former CBO Director Douglas Holtz-Eakin and Cameron Smith, after the year 2010, setting the estate tax rate to equal capital gains taxation of 15 percent raises the cost of capital by eight basis points. Letting the top marginal estate tax rate return to 60 percent (the 55 percent rate prior to EGTRRA including the five percent surtax) would increase the cost of capital by approximately 35 basis points. Due to higher capital costs, which reduce incentives to invest and impede the ability of firms to grow and create jobs, capital outlays by family businesses would fall by between two and nine percent in response to higher estate tax rates. In addition, letting the rate rise as high as 55 or 60 percent would decrease the probability of new hiring by 31 or 33 percent and cut the size of payrolls by nine or ten percent, respectively. According to Holtz-Eakin and Smith, letting the estate tax rise to 60 percent would potentially cost as much as 1.5 million jobs over a planning period of 20 years, and a modest rate of 15 percent could still slow hiring by over 350,000 jobs over the same period.<sup>55</sup>

According to the latest figures (shown in Table 2 above), as of 2008, the accumulated capital loss since 1916 as a result of the estate tax is approximately \$1.1 trillion, representing 3.2 percent of the total stock of capital in the economy. This is

***As of 2008, the accumulated capital loss as a result of the estate tax is approximately \$1.1 trillion, representing 3.2 percent of the total stock of capital in the economy.***

<sup>iv</sup> The formulas and data supplied by Kotlikoff and Summers indicate in the long run, a \$1 increase in annual transfers results in \$38.67 in additional capital.

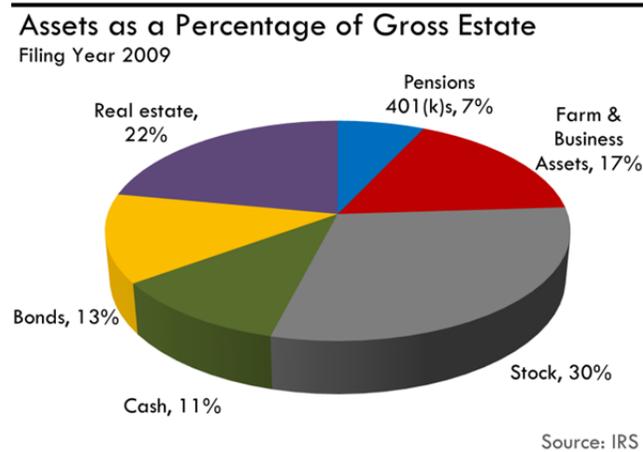
<sup>v</sup> The year 2008 was used to largely avoid the effects of the recent recession, which can be seen to some extent in the 2009 and 2010 figures for the total capital stock in the economy.

In addition to lowering the capital stock and slowing capital formation, economist Joseph Stiglitz has argued the estate tax essentially raises the return on existing capital because it becomes more difficult for others to accumulate wealth, thus making the rich richer since the wealthy already own most of the existing capital. Even with the capital-labor ratio remaining unchanged—which, according to Stiglitz, is necessary to evaluate the incidence of a tax in a growth context—the estate tax may increase inequality in the distribution of consumption.<sup>56</sup>

***The Estate Tax Remains a Burden to Family Business***

The estate tax is the overwhelming cause of dissolution of family businesses because these businesses are less likely to have the resources necessary to meet estate tax liabilities. Hence, the estate tax is a significant hindrance to entrepreneurial activity. The Tax Foundation produced a study which estimated a compliance cost of \$88.2 million and 2.3 million hours of compliance effort for estate taxes in the year 2005. The gift tax required an additional \$66.0 million and 1.7 million hours to comply.<sup>57</sup>

***The Tax Foundation produced a study which estimated a compliance cost of \$88.2 million and 2.3 million hours of compliance effort for estate taxes in the year 2005.***



**Figure 13 – Assets as a percent of gross estate in filing year 2009; stock remains the largest share, followed by real estate, farm & business assets, bonds, cash, and pensions.**

For estates exceeding at least \$5 million in value, the effective tax burden is only 13.5 to 17 percent.<sup>58</sup> However, according to the CBO, approximately 5 percent of all estates that owed estate taxes in 2000 (the latest data available) had a tax liability that exceeded their liquid assets (i.e. bonds, corporate stock, bank accounts, and insurance); for estates of farmers, the figure was 8 percent, and for family-owned businesses, the figure was even greater, at more than a third.<sup>59</sup>

Farm assets and business assets represent 17.1 percent of the gross taxable estate value as of 2009, the third largest category following stock (30 percent) and real estate (22 percent), as shown in Figure 13.

**Conclusion**

There are extensive costs associated with the estate tax in terms of the dissolution of family businesses, slower growth of the capital stock, and the resulting loss of output and income over time. If the estate tax actually provided benefits, such as raising a significant amount of revenue or reducing inequality, the estate tax might be justified, but the estate tax does not. Perversely, the estate tax actually creates an impediment to income and wealth mobility. Moreover, the estate tax may actually reduce aggregate federal tax revenue by reducing the collections from other federal taxes.

***Perversely, the estate tax actually creates an impediment to income and wealth mobility.***

Uncertainty over the future course of taxation contributes to the subpar recovery from the December 2007-June 2009 recession. Respondents to

the 2011 U.S. Trust Survey conveyed significant uncertainty and worry over the future path of taxation on their assets. While respondents were virtually unanimous about feeling they have a good understanding of their risk tolerance and that their risk tolerance is accurately reflected in their current asset allocation, there remained reportedly much less confidence when determining whether that asset allocation is structured to minimize the impact of taxes. Furthermore, while 96 percent of respondents reported that they were wealthier than their parents, nearly half the respondents believed that it is unlikely their children, the next generation's heirs, will achieve a level of wealth that is equal to or higher than what they have experienced.<sup>60</sup>

The estate tax accomplishes little at great economic cost. Policymakers should consider reforming the estate tax to lessen its adverse effects or repealing it altogether.

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**Estate and Gift Tax Revenue, 1916-2010 (Millions)**

Fiscal Year	Revenue		Fiscal Year	Revenue	
	Nominal	Real (2010\$)		Nominal	Real (2010\$)
1916	\$ -	\$ -	1964	\$ 2,394	\$ 16,821
1917	\$ 1	\$ 10	1965	\$ 2,716	\$ 18,786
1918	\$ 47	\$ 685	1966	\$ 3,066	\$ 20,592
1919	\$ 82	\$ 1,034	1967	\$ 2,978	\$ 19,459
1920	\$ 104	\$ 1,130	1968	\$ 3,051	\$ 19,124
1921	\$ 154	\$ 1,877	1969	\$ 3,491	\$ 20,754
1922	\$ 139	\$ 1,810	1970	\$ 3,644	\$ 20,459
1923	\$ 127	\$ 1,616	1971	\$ 3,735	\$ 20,120
1924	\$ 103	\$ 1,313	1972	\$ 5,436	\$ 28,355
1925	\$ 109	\$ 1,358	1973	\$ 4,917	\$ 24,137
1926	\$ 119	\$ 1,469	1974	\$ 5,035	\$ 22,265
1927	\$ 100	\$ 1,258	1975	\$ 4,611	\$ 18,682
1928	\$ 60	\$ 766	1976	\$ 5,216	\$ 19,980
1929	\$ 62	\$ 789	TQ*	\$ 1,455	\$ 5,499
1930	\$ 65	\$ 846	1977	\$ 7,327	\$ 26,360
1931	\$ 48	\$ 690	1978	\$ 5,285	\$ 17,666
1932	\$ 47	\$ 755	1979	\$ 5,411	\$ 16,258
1933	\$ 34	\$ 576	1980	\$ 6,389	\$ 16,912
1934	\$ 113	\$ 1,841	1981	\$ 6,787	\$ 16,277
1935	\$ 212	\$ 3,376	1982	\$ 7,991	\$ 18,053
1936	\$ 379	\$ 5,944	1983	\$ 6,053	\$ 13,256
1937	\$ 306	\$ 4,627	1984	\$ 6,010	\$ 12,611
1938	\$ 417	\$ 6,448	1985	\$ 6,422	\$ 13,016
1939	\$ 361	\$ 5,659	1986	\$ 6,958	\$ 13,833
1940	\$ 353	\$ 5,499	1987	\$ 7,493	\$ 14,382
1941	\$ 403	\$ 5,979	1988	\$ 7,594	\$ 14,002
1942	\$ 420	\$ 5,619	1989	\$ 8,745	\$ 15,387
1943	\$ 441	\$ 5,559	1990	\$ 11,500	\$ 19,194
1944	\$ 507	\$ 6,282	1991	\$ 11,138	\$ 17,838
1945	\$ 637	\$ 7,718	1992	\$ 11,143	\$ 17,319
1946	\$ 668	\$ 7,471	1993	\$ 12,577	\$ 18,984
1947	\$ 771	\$ 7,529	1994	\$ 15,225	\$ 22,400
1948	\$ 890	\$ 8,072	1995	\$ 14,763	\$ 21,128
1949	\$ 780	\$ 7,144	1996	\$ 17,189	\$ 23,898
1950	\$ 698	\$ 6,326	1997	\$ 19,845	\$ 26,960
1951	\$ 708	\$ 5,945	1998	\$ 24,076	\$ 32,210
1952	\$ 818	\$ 6,715	1999	\$ 27,782	\$ 36,370
1953	\$ 881	\$ 7,177	2000	\$ 29,010	\$ 36,741
1954	\$ 934	\$ 7,582	2001	\$ 28,400	\$ 34,983
1955	\$ 924	\$ 7,520	2002	\$ 26,507	\$ 32,138
1956	\$ 1,161	\$ 9,312	2003	\$ 21,959	\$ 26,026
1957	\$ 1,365	\$ 10,588	2004	\$ 24,831	\$ 28,665
1958	\$ 1,393	\$ 10,519	2005	\$ 24,764	\$ 27,657
1959	\$ 1,333	\$ 9,973	2006	\$ 27,877	\$ 30,162
1960	\$ 1,606	\$ 11,838	2007	\$ 26,044	\$ 27,393
1961	\$ 1,896	\$ 13,828	2008	\$ 28,844	\$ 29,223
1962	\$ 2,016	\$ 14,532	2009	\$ 23,482	\$ 23,868
1963	\$ 2,167	\$ 15,427	2010	\$ 18,885	\$ 18,885

Note: Adjustments for inflation were made using annual avg. CPI-U; \*TQ = Transition Quarter, shifts fiscal year from June 1 to Oct. 1. Source: OMB & Commerce Dept.

***Table of Estate Tax Rates Before, During, and After EGTRRA, 1916-2007***

Year	Exemption (dollars)	Initial Rate (percent)	Top Rate (percent)	Top Bracket (dollars)
1916	50,000	1	10	5,000,000
1917	50,000	2	25	10,000,000
1918-1923	50,000	1	25	10,000,000
1924-1925	50,000	1	40	10,000,000
1926-1931	100,000	1	20	10,000,000
1932-1933	50,000	1	45	10,000,000
1934	50,000	1	60	10,000,000
1935-1939	40,000	2	70	50,000,000
1940	40,000	2	70	50,000,000
1941	40,000	3	77	10,000,000
1942-1976	60,000	3	77	10,000,000
1977	120,000	18	70	5,000,000
1978	134,000	18	70	5,000,000
1979	147,000	18	70	5,000,000
1980	161,000	18	70	5,000,000
1981	175,000	18	70	5,000,000
1982	225,000	18	65	4,000,000
1983	275,000	18	60	3,500,000
1984	325,000	18	55	3,000,000
1985	400,000	18	55	3,000,000
1986	500,000	18	55	3,000,000
1987-1997	600,000	18	55	3,000,000
1998	625,000	18	55	3,000,000
1999	650,000	18	55	3,000,000
2000-2001	675,000	18	55	3,000,000
2002	1,000,000	18	50	3,000,000
2003	1,000,000	18	49	3,000,000
2004	1,500,000	18	48	3,000,000
2005	1,500,000	18	47	3,000,000
2006	2,000,000	18	46	3,000,000
2007	2,000,000	18	45	3,000,000

Source: IRS.

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