



Evolution of the Estate Tax: A 200-Year Journey

The Estate Tax Journey

For over two centuries, federal estate and gift taxes have played a pivotal role in funding the United States government. This revenue source has undergone significant changes in response to shifting political climates and economic landscapes. Proponents argue for its necessity in preventing wealth concentration, while opponents express concerns about its impact on business activity and successful individuals.

Different Types of Transfer Taxes:

When examining the "estate tax" system, it's essential to consider various transfer taxes:

- Estate tax: Imposed on property transfer at death.
- Gift tax: Applied to property transfer during life.
- Inheritance tax: Levied on the receipt of property from a deceased individual.
- Generation-skipping transfer (GST) tax: Imposed on property transfer between a transferor and a beneficiary spanning more than one generation.

The Journey Begins (18th and 19th Centuries):

The earliest estate and inheritance taxes were enacted to fund war-related expenses during events like the Civil War and the Spanish-American War. These taxes were repealed once the crises were resolved.

Modern Estate Taxes (20th Century and Today):

- The 16th Amendment introduced the federal income tax in 1913.
- 1916: The Revenue Act enacted the first modern estate tax during World War I.
- 1924: Congress closed the estate tax loophole by introducing the gift tax.
- 1948: Marital deduction introduced, allowing spouses to transfer property without immediate tax liability.

Estate Tax Reforms (1976-2000):

- 1976: Tax Reform Act (TRA) collapsed estate and gift tax systems into one with a single graduated rate.
- 1981: Economic Recovery Tax Act (ERTA) expanded the marital deduction.
- 1997: Taxpayer Relief Act increased unified credit and introduced family business deduction.

EGTRRA and 2010 Repeal:

- Economic Growth and Tax Relief Reconciliation Act (EGTRRA) in 2001 brought notable changes, including gradual increases in the estate tax exemption.
- January 1, 2010: EGTRRA repealed the estate tax for a year, retroactively reinstated by the 2010 Tax Act.

Uncertainty, "Fiscal Cliff," and ATRA:

 American Taxpayer Relief Act (ATRA) in 2012 addressed uncertainty, making estate tax laws permanent with a \$5 million exemption and 40% top rates.

TCJA of 2017:

- Tax Cuts and Jobs Act (TCJA) increased the applicable exclusion amount to \$10 million per taxpayer, indexed for inflation.
- Scheduled sunset after December 31, 2025, with a potential return to \$5 million exemption.

What Should You Do?

Estate taxes have undergone significant evolution, reflecting societal and economic changes. Despite historical attempts to reduce or repeal it, estate planning remains crucial for clients to achieve wealth and legacy goals. In navigating this complex landscape, it is imperative for individuals to take proactive steps.

Start planning now and collaborate with a seasoned financial professional to ensure your estate is properly positioned. Consider the use of life insurance, where appropriate, to fund potential estate tax liabilities. Life insurance can provide a financial safety net, offering a tax-efficient means to address estate planning concerns. By taking these steps, you can safeguard your legacy, protect your assets, and navigate the intricacies of the evolving estate tax landscape with confidence.

Timeline of key historical changes to the estate tax

2001

Reconciliation Act (EGTRRA) of 2001

provided extensive changes in the

system, most notably, the repeal of the

estate tax. Law provided for increases

in the exemption until 2009 (up to

\$3.5 million) and then a repeal of the

tax for decedents dying in 2010.

EGTRRA was set to expire in 2011.

1976

The Tax Reform Act (TRA) of 1976 overhauled the system by combining separate estate and gift tax exemptions into one, unified estate and gift tax credit. It also introduced the generation-skipping transfer (GST) tax.

2011-2012

After EGTRRA sunset, estate tax scheduled to return to a 55% rate and a \$1 million exemption. The 2010 Tax Act set the rate at 35% and increased the exemption to \$5 million but was only in force for two years.

1924

Federal gift tax enacted to prevent avoidance of the estate tax. The gift tax was repealed in 1926 and then reinstated and made permanent in 1932.

The Economic Growth and Tax Relief

The Tax Cuts and Jobs Act (TCJA) of 2017 increased the exemption to \$10 million (indexed for inflation). The increased exemption is scheduled to sunset after December 31, 2025, reverting to the \$5 million exemption (indexed for inflation) found in ATRA.

2018+



1916

The modern estate tax was enacted as part of The Revenue Act of 1916 in response to the costs of World War I. Rates ranged from 1 to 10% and estates had an exemption of \$50,000.

1981

The Economic Recovery Tax Act (ERTA) of 1981 expanded the marital deduction, increased the unified credit amount, and saw a gradual decrease in the top rates from 70 to 50%.

2013-2017

The American Taxpayer Relief Act (ATRA) made laws governing estate, gift and GST taxes permanent, including a \$5 million exemption indexed for inflation, top rates of 40%, and portability.

1930s-1940s

Various changes made to the estate tax system, including introduction of an optional valuation date and first version of the marital deduction.

2010

Estate tax repealed. For decedents dying in 2010, executors had the choice of (1) applying the federal estate tax and receiving an unlimited step-up on assets or (2) electing no estate tax but taking a "modified carryover basis."

Source: https://www.irs.gov/pub/irs-soi/ninetyestate.pdf

Looking at the past

Year	Top Estate Tax	Estate Tax Exemption	Annual Exclusion Gift	GST Tax Exemption ²	Taxes Due on a \$10M Estate
2002	50%	\$1,000,000	\$11,000	\$1,100,000	\$4,450,000
2003	49%	\$1,000,000	\$11,000	\$1,120,000	\$4,351,200
2004	48%	\$1,500,000	\$11,000	\$1,500,000	\$4,080,000
2005	47%	\$1,500,000	\$11,000	\$1,500,000	\$3,995,000
2006	46%	\$2,000,000	\$12,000	\$2,000,000	\$3,680,000
2007	45%	\$2,000,000	\$12,000	\$2,000,000	\$3,600,000
2008	45%	\$2,000,000	\$12,000	\$2,000,000	\$3,600,000
2009	45%	\$3,500,000	\$13,000	\$3,500,000	\$2,925,000
2010	0%	n/a	\$13,000	n/a	n/a
2011	35%	\$5,000,000	\$13,000	\$5,000,000	\$1,750,000
2012	35%	\$5,120,000	\$13,000	\$5,120,000	\$1,708,000
2013	40%	\$5,250,000	\$14,000	\$5,250,000	\$1,900,000
2014	40%	\$5,340,000	\$14,000	\$5,340,000	\$1,864,000
2015	40%	\$5,430,000	\$14,000	\$5,430,000	\$1,828,000
2016	40%	\$5,450,000	\$14,000	\$5,450,000	\$1,820,000
2017	40%	\$5,490,000	\$14,000	\$5,490,000	\$1,804,000
2018	40%	\$11,180,000	\$15,000	\$11,180,000	n/a
2019	40%	\$11,400,000	\$15,000	\$11,400,000	n/a
2020	40%	\$11,580,000	\$15,000	\$11,580,000	n/a
2021	40%	\$11,700,000	\$15,000	\$11,700,000	n/a
2022	40%	\$12,060,000	\$16,000	\$12,060,000	n/a
2023	40%	\$12,920,000	\$17,000	\$12,920,000	n/a
2024	40%	\$13,610,000	\$18,000	\$13,610,000	n/a
2025	40%	\$13,700,000	\$19,000	\$13,700,000	n/a
2026*	40%	\$6,300,000	\$9,500	\$6,300,000	\$1,480,000

^{*}Exemption and taxes due are estimates

Source: https://www.irs.gov/businesses/small-businesses-self-employed/estate-tax



3318618-0124