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Estate and Gift Tax Revenues: Past and Projected

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Summary

Large increases in the prevailing estate tax exemption — from $675,000 to $1.5 million — led the number of taxable estate tax returns to fall by half between 2002 and 2005, from about 45,000 to about 22,000. Measured as a percent of deaths, taxable estates fell from 1.86% to 0.93%, or 9.3 per thousand deaths. Notwithstanding the steep decline in taxable returns, net estate tax receipts remained around $21 billion annually.

Gift tax revenues fell by roughly half after the possibility of repeal of the estate tax in 2010 was introduced by the enactment of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). Gift taxes accounted for 14% to 17% of combined estate and gift tax revenues from FY1999 through FY2001, but only 6% to 9% over the FY2002-FY2006 period. Gift tax revenues fell from $3.9 billion to $4.7 billion per year in FY1999-FY2001, down to $1.4 billion to $2 billion in FY2002-FY2006.

The standard 10-year forecasts of either revenue from the estate tax or revenue losses from permanent repeal of the estate tax should be interpreted with caution. The forecasts should not be used to approximate revenues for a different 10-year period. This is because of the changes scheduled in the estate tax exemption and top tax rate over the next five years. The exemption is $2 million for decedents dying in 2007 and 2008 but $3.5 million for 2009. There is no estate tax in 2010. If EGTRRA is permitted to sunset at the end of 2010, the estate tax will be reinstated in 2011 with an exemption of $1 million and the top tax rate will revert from 45% to 55% (with a 5% surtax in a certain range).

Net collections from estate and gift tax taxes totaled $28 billion in FY2006, contributing 1.2% of total federal revenue. The Congressional Budget Office (CBO) projects that revenue from these taxes will fall to $21 billion in FY2010 and $22 billion in FY2011, accounting for 0.7% of federal revenue in both years. CBO projects that, if the estate tax is reinstated in 2011 as currently scheduled, revenue from the estate and gift taxes would climb steadily by about $6 billion per year, from $50 billion in FY2012 , contributing 1.5% of total revenue, to $79 billion in FY2017, contributing 1.8% of total revenue.

President Bush's budget for FY2008 has again proposed to make permanent most of the tax cuts enacted in 2001 and 2003. Although estate and gift taxes account for less than 2% of total federal revenue, the proposal to permanently repeal the estate tax after 2010 accounts for one-quarter of the projected cost of this set of proposals. Permanent estate tax repeal is estimated to cost slightly over half as much as the proposal to permanently reduce the marginal individual income tax rates.

This report will be updated when new data concerning the estate tax become available. This report is a partial sequel to CRS Report RL32768, *Estate and Gift Tax Revenues: Several Measurements*, by Nonna A. Noto.

Contents

List of Tables

Estate and Gift Tax Revenues: Past and Projected

Changes in Estate Tax Law

The years 1997 through 2011 encompass a time of change in estate tax law. The modest changes brought about by the Taxpayer Relief Act of 1997 (TRA, P.L. 105-34) were followed by large changes made by the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA, P.L. 107-16). Both laws provided for increases in the applicable exclusion amount, commonly called the estate tax exemption, as shown in the first column of **Table 1**. EGTRRA also gradually decreases the maximum marginal estate tax rate, from 55% (plus a 5% surtax in a certain range) to 45%, as shown in the second column of **Table 1**.

Exemption

The estate tax exemption plays two important roles. First, it serves as the filing threshold for the estate tax. A federal estate tax return must be filed if a U.S. decedent's gross estate[1] (before deductions) equals or exceeds the exemption for the year of the decedent's death. Second, the transfer of an amount of assets up to the exemption is free from federal tax for every estate. Each estate tax return receives a unified credit[2] against the estate tax equal to the tax that would be due on the amount of the exemption.

The value of the exemption is not indexed for inflation. Nor is it set in relation to any definition of wealth. Instead, Congress has intermittently raised the dollar amount.

From 1987 through1997 the exemption remained at $600,000, under provisions of the Economic Recovery Tax of 1981 (ERTA, P.L. 97-34). The Taxpayer Relief Act of 1997 (TRA, P.L. 105-34) provided for a gradual increase in the exemption over nine years. Under TRA, the exemption rose to $625,000 for 1998, $650,000 for 1999, and $675,000 for 2000 and 2001. It was scheduled to reach $1 million in 2006.

Before the provisions of TRA were fully phased in, however, they were superseded for tax years 2002-2010 by much larger changes made by EGTRRA. EGTRRA raised the exemption to $1 million beginning immediately in 2002 and 2003. It further increased the exemption in large increments, to $1.5 million for 2004 and 2005, $2 million for 2006 through 2008, and $3.5 million for 2009. It repealed

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[1] Technically, the gross estate plus adjusted taxable gifts.

[2] The unified credit is applied against both estate and gift tax obligations.

the estate and generation-skipping transfer taxes entirely for the estates of decedents dying in 2010.

Table 1. Estate Tax Exemption and Maximum Tax Rate, 1988-2011

Calendar Year (in which death of decedent occurs)	(1) Exemption	(2) Maximum Tax Rate for Taxable Estate Values Over (in $ millions)
1988-1997	$600,000[a]	55% over $3.0 plus 5% surtax from over $10.0 to $21.040[d]
1998	$625,000[b]	55% over $3.0 plus 5% surtax from over $10.0 to $17.184[e]
1999	$650,000[b]	"
2000	$675,000[b]	"
2001	$675,000[b]	"
2002	$1,000,000[c]	50% over $2.5[c]
2003	$1,000,000[c]	49% over $2.0[c]
2004	$1,500,000[c]	48% over $2.0[c]
2005	$1,500,000[c]	47% over $2.0[c]
2006	$2,000,000[c]	46% over $2.0[c]
2007-2008	$2,000,000[c]	45% over $1.5[c]
2009	$3,500,000[c]	"
2010	Estate tax repealed for 2010 only[c]	
2011 and thereafter	$1,000,000[b]	55% over $3.0 plus 5% surtax from over $10.0 to $17.184[e]

Notes:

a. Provision of the Economic Recovery Tax Act of 1981 (ERTA, P.L. 97-34). The exemption was $600,000 in 1987 as well.

b. Provisions of the Taxpayer Relief Act of 1997 (TRA, P.L. 105-34). TRA had also provided for the exemption to increase to $700,000 for 2002 and 2003, $850,000 for 2004, $950,000 for 2005, and $1 million for 2006 and beyond.

c. Provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA, P.L. 107-16).

d. The Revenue Act of 1987 (P.L. 100-203) provided for a 5% surtax to offset the benefits of both the graduated tax rates on taxable estate values below $3 million and the unified credit (exemption), such that the effective rate of tax on the entire estate was 55%.

e. As the result of a clerical error in the final text of TRA of 1997, later adopted by Congress, the surtax was intended to offset the benefits of only the graduated tax rates, and not the unified credit (exemption) as well.

For detailed schedules of the marginal estate tax rates by year, see CRS Report RL33718, *Calculating Estate Tax Liability: 2001 to 2011 and Beyond*, by Nonna A. Noto.

But the provisions of EGTRRA are scheduled to sunset on December 31, 2010. Unless new legislation governing the estate tax is enacted beforehand, in 2011 the law will revert to the law in effect prior to June 7, 2001. The estate tax will be reinstated with an exemption of $1 million, the amount that TRA had provided for 2006 and beyond, and the family-owned business deduction will be reinstated.[3]

Maximum Tax Rate

From 1988 through 1997 the maximum marginal tax rate was 55% on taxable estate values over $3 million.[4] In addition, there was a surtax of 5% on taxable values over $10 million up to $21.040 million. From 1998 through 2001 the maximum rate remained at 55% on taxable estate values over $3 million; but, under TRA of 1997, the 5% surtax applied from over $10 million only up to $17.184 million.[5]

In addition to raising the exemption in large increments, EGTRRA significantly reduced the top marginal estate tax rate, over a period of six years (column 2 of **Table 1**). At the outset, EGTRRA eliminated the 5% surtax and reduced the maximum tax rate from 55% to 50% effective in 2002. It subsequently reduced the top tax rate by one percentage point per year, from 49% in 2003 to 45% in 2007, where it is scheduled to remain for 2008 and 2009.[6] For decedents dying in 2010, there is no estate tax. For 2011 and beyond, adhering to pre-EGTRRA law, the maximum tax rate would revert to 55%, the 49% and 53% marginal rate brackets would be restored, and the 5% surtax on taxable estate values from $10 million up to $17.184 million would be reinstated.

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[3] The Taxpayer Relief Act also created a new exclusion from the estate tax for qualified family-owned businesses that was in effect from 1998 through 2003. The exclusion was limited to a total of $1.3 million in combination with the applicable exclusion amount. The family-owned business exclusion was converted to a deduction by the Internal Revenue Service Restructuring and Reform Act of 1998 (P.L. 105-206). Under EGTRRA, the family-owned business deduction was repealed in 2004, when the applicable exclusion amount for all estates was increased to $1,500,000. For more information, see CRS Report 95-444, *A History of Federal Estate, Gift, and Generation-Skipping Taxes*, by John R. Luckey.

[4] Under ERTA of 1981, the top marginal estate tax rate was scheduled to fall to 50% in 1985. The Deficit Reduction Act of 1984 (P.L. 98-369) froze the top tax rate at the 1984 level of 55% until 1988. The Omnibus Budget Reconciliation Act of 1987 (P.L. 100-203) extended the maximum rate of 55% through 1992. The Omnibus Reconciliation Act of 1993 (P.L. 103-66) extended the maximum rate of 55% retroactively, from December 31, 1992, onward. See CRS Report 95-444, *A History of Federal Estate, Gift, and Generation-Skipping Taxes*, by John R. Luckey.

[5] For an explanation of the surtaxes, see notes d and e of **Table 1**.

[6] For additional information on these changes in federal estate tax law, see CRS Report RL31061, *Estate and Gift Tax Law: Changes Under the Economic Growth and Tax Relief Reconciliation Act of 2001*, by Nonna A. Noto and CRS Report 95-444, *A History of Federal Estate, Gift, and Generation-Skipping Taxes*, by John R. Luckey.

Which Law is Reflected in Revenue for a Particular Year?

The tax law that applies to an estate is the law in effect in the year of the person's death. However, the estate tax return is not due until nine months after the person's death, and an extension of six months is not uncommon. Complex returns may be granted a longer extension.

It follows that estate tax returns filed in any given calendar year will include a few returns of people who died in that year, mostly the returns of people who died in the previous year, and some returns from deaths in prior years that are filing under an extension. It has been estimated that of the estate tax returns filed for decedents dying in a given calendar year, roughly 5% are filed in the same calendar year, 75% to 80% the next year, and the remaining 15% to 20% in later years.[7]

For example, most estate tax returns filed in 2003 will have an exemption of $1 million, reflecting the law in effect for decedents dying in both 2002 and 2003. Most estate tax returns filed in 2004 will have the $1 million exemption in effect for deaths in 2003, but a few will have the $1.5 million exemption in effect for deaths in 2004. Most estate tax returns filed in 2005 will have the $1.5 million exemption in effect for deaths in both 2004 and 2005. In each of these years, returns filed under an extension will have the lower exemptions that applied to deaths in earlier years.

Revenue in a particular fiscal year is most likely to reflect the estate tax law in effect in the previous-number calendar year. Recall that the estate tax return is not due until nine months after the date of death and that the fiscal year runs from October 1 of the previous calendar year until September 30 of the same-numbered calendar year. So, for example, deaths in calendar 2006 would be reflected in estate tax returns filed in the last three months of 2006 and the first nine months of 2007, which comprise fiscal year 2007.

Unexpected Relationships

An increase in the exemption would be expected to reduce the number of estate tax returns filed, the number of taxable returns, and the total amount of estate tax paid with those returns. But this is not always the case. Whether these numbers decline depends on whether the increase in the exemption outpaces the growth in the value of estates held by decedents.

Increase in Exemption and the Number of Taxable Returns

For each filing year from 1998 to 2005, the first column of **Table 2** shows the exemption for decedents dying in the preceding year. **Table 3** refers to this as the "prevailing exemption" for the filing year, for reasons explained in the preceding

[7] David Joulfaian, *Estate Taxes and Charitable Bequests: Evidence from Two Tax Regimes*, unpublished research paper, December 2004, p. 10.

section. The second column of **Table 2** shows the number of taxable estate tax returns filed, the third the number of taxable returns expressed as a percent of deaths in the preceding year (a common standardized measure), and the fourth the total net estate taxes paid on those taxable returns. To help highlight the relationships among them, **Table 3** shows the percentage change from the previous year for the prevailing exemption, the number of taxable returns, and the total net estate tax paid.

From 1998 through 2000, when the prevailing exemption was rising in annual increments of $25,000 or about 4% — from $600,000 in 1998 to $625,000 in 1999, and $650,000 in 2000 — the number of taxable returns continued to rise modestly. The rising pattern holds whether measured as absolute number of returns or as tax returns as a percent of deaths. The number of taxable estate tax returns rose from 47,475 or 2.05% of deaths in 1998, to 52,000 or 2.17% of deaths in 2000. This suggests that value of estates held by decedents was generally rising more rapidly than the exemption from 1997 to 1999. (The stock market, for example, was generally rising over this period.)

The number of taxable returns declined very slightly, by half a percent, in 2001 when the $675,000 exemption first took effect. This suggests that the level of the exemption had caught up with the value of estates held by wealthy decedents in 2000. Between 2001 and 2002 the number of taxable estate tax returns dropped moderately, by 13%, even though the exemption remained at $675,000. This suggests that the value of estates held by decedents fell between 2000 and 2001. (The stock market, for example, peaked in March 2000 and stock prices continued to fall until October 2002.) Not until 2002, the second year that the $675,000 exemption prevailed, did the number of taxable returns (45,018) and taxable returns measured as a percent of deaths (1.86%) fall below their levels in 1998 when the prevailing exemption was $600,000.

In contrast, the number of taxable returns dropped significantly, by 26%, when the exemption rose by 48%, from $675,000 to $1 million, for most returns filed in 2003. This suggests that at the $1 million level the exemption amount had outpaced the growth in the value of estates generally held by decedents in 2002. The number of taxable returns dropped further, by a modest 6%, between 2003 and 2004 as the $1 million exemption continued to prevail. The number of taxable returns again dropped significantly, by 29%, from 31,329 in 2004 to 22,250 in 2005, after the exemption amount rose by $500,000, or 50%, to $1.5 million.

Table 2. Exemption, Taxable Returns in Number and as a Percent of Deaths, and Net Estate Tax Paid, for Returns Filed in 1998-2005

Year Filed	(1) Exemption in Preceding Year ($)	(2) Taxable Returns	(3) Taxable Returns as Percent of Deaths in Preceding Year[a]	(4) Net Estate Tax Paid[b] (in $ billions)
1998	600,000	47,475	2.05	20.3
1999	625,000	49,863	2.13	22.9
2000	650,000	52,000	2.17	24.4
2001	675,000	51,736	2.15	23.5
2002	675,000	45,018	1.86	21.4
2003	1,000,000	33,302	1.36	20.8
2004	1,000,000	31,329	1.28	21.6
2005	1,500,000	22,250	0.93	21.7

Sources: Data on number of taxable returns and net estate tax paid from Internal Revenue Service, Table 1. Estate Tax Returns Filed in [year]: Gross Estate by Type of Property, Deductions, Taxable Estate, Estate Tax and Tax Credits, by Size of Gross Estate. Unpublished data from the Statistics of Income (SOI) for the years 1998 to 2005. Available on the IRS website [http://www.irs.gov/taxstats] visited July 9, 2007. IRS revised the tables for estate tax returns filed in 2001 through 2005 in March 2007. Taxable returns as a percent of deaths in prior year were calculated by CRS based on the mortality numbers shown in note a below.

Deaths in 1997-2001 from U.S. Department of Commerce, Economics and Statistics Administration, U.S. Census Bureau, *Statistical Abstract of the United States*, annual editions from 2000 to 2003. Deaths in 2002 from National Vital Statistics Reports, *Deaths: Final Data for 2002*, vol. 53, no. 5, October 12, 2004, p. 1. Deaths in 2003 and 2004 from U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, National Center for Health Statistics, *Deaths: Final Data for 2004*, posted Nov. 24, 2006, Table 1, available at [http://www.cdc.gov/nchs/products/pubs/pubd/hestats/finaldeaths04_tables.pdf].

Notes:

a. The total number of deaths in the United States rose slightly from year to year from 1997 through 2003 and fell in 2004, as follows:

1997	2,314,245
1998	2,337,256
1999	2,391,399
2000	2,403,351
2001	2,416,425
2002	2,443,387
2003	2,448,288
2004	2,397,615

b. Net estate tax refers to the estate tax due after claiming permitted tax credits.

Table 3. Percentage Change from Previous Year in Prevailing Exemption, Number of Taxable Returns, and Net Estate Tax Paid

Year Filed	Prevailing Exemption	Taxable Returns	Net Estate Tax Paid
1999	4.2	5.0	12.6
2000	4.0	4.3	6.5
2001	3.8	-0.5	-3.6
2002	0	-13.0	-9.1
2003	48.1	-26.0	-2.8
2004	0	-5.9	3.9
2005	50.0	-29.0	0.3

Source: Calculated by CRS from data presented in columns (1), (2), and (4) of **Table 2**.

Taxable returns measured as a percentage of deaths in the prior year reflect the same pattern (**Table 2**, column 3). The measure fell below 1%, to 0.93% or 9.3 per thousand deaths, in 2005 when the prevailing exemption rose to $1.5 million. It can be expected that both the number of taxable returns and taxable returns measured as a percentage of deaths will drop substantially in 2007, when the prevailing exemption rises to $2 million, and again in 2010, when the prevailing exemption will rise to $3.5 million. The number of taxable estate tax returns is projected to drop far below the typical historical range of 1% to 2% of adult deaths.[8]

Number of Taxable Returns and Total Taxes Paid

As shown in the last columns of **Tables 2** and **3**, total estate taxes paid moved in the same direction as the number of taxable returns from 1998 through 2003. Both measures rose from 1998 to 2000 and fell from 2000 to 2003. Filing year 2003 is also the first year that the reduction in the top marginal estate tax rate was likely to affect revenues. Somewhat surprising, estate tax payments rose slightly (by 4%), from $20.8 billion in 2003 to $21.6 billion in 2004, despite a decline of nearly 2,000 (or 6%) in the number of taxable returns. Even more surprising, net estate taxes paid rose very slightly (by 0.3%) to $21.7 billion in 2005, even though the number of taxable returns dropped by 29%.

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[8] For estimates by the Urban-Brookings Tax Policy Center of the number of taxable estate tax returns, and calculations by CRS of taxable returns as a percent of adult deaths, under the higher exemptions scheduled under current law through 2009, see CRS Report RL33501, *Indexing the Estate Tax Exemption for Inflation*, by Nonna A. Noto, Table 2; for the historical series from 1934 through 2002, see Table 1.

Although the number of taxable estate tax returns filed in 2005 was less than half that in 1998, whether measured in absolute numbers or as a percent of deaths, essentially the same amount of estate tax was paid for both years — $21.7 billion in 2005 compared with $20.3 billion in 1998 — measured in nominal dollars (not adjusted for inflation).

Gift Tax Revenues Fell After 2001

The gift tax is levied on the taxable transfer of assets during the donor's lifetime. A gift tax return is due by April 15 of the year after a taxable gift is made. Under the Taxpayer Relief Act of 1997 (TRA), the "unified" applicable exclusion amount or exemption — for lifetime taxable gifts together with bequests — rose gradually from $600,000 in 1997, to $675,000 in 2001. The same graduated tax rate structure that applied to estates applied to cumulative taxable lifetime gifts[9] in excess of the exemption amount.

Under provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), the exemption for taxable lifetime gifts is scheduled to remain at the $1 million level established in 2002, even as the combined exemption for estates and gifts rises in large steps to $3.5 million in 2009. Furthermore, the gift tax is scheduled to remain in effect when the estate tax is repealed in 2010. At that time, the maximum gift tax rate will be capped at 35% (equal to the maximum individual income tax rate under EGTRRA) on cumulative lifetime taxable transfers over $500,000. This is substantially lower than the maximum rate of 45% scheduled to apply to estates and gifts in 2007 through 2009. This gift tax would remain in place after 2010 under the bills that would permanently repeal the estate tax by simply repealing the sunset provision of EGTRRA.

Through FY2001, gift taxes accounted for a significant percentage of combined estate and gift tax revenues.[10] Since the adoption of EGTRRA in 2001, with its announcement of estate tax repeal in 2010, there has been a substantial decline in the revenue collected from the gift tax. The last column of **Table 4** shows that gift taxes accounted for 14% to 17% of combined estate and gift tax revenues from FY1999 through FY2001. In contrast, over the FY2002-FY2006 period, gift taxes accounted

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[9] Under the gift tax there is an annual exclusion per donor per donee. This exclusion amount is indexed for inflation and rounded down to the nearest $1,000. The exclusion is $12,000 in 2007, the same as in 2006. Gifts up to this limit are not counted as taxable gifts. In addition, there is an unlimited exclusion for gifts to pay for tuition or medical expenses or for transfers to a political organization for the use of the organization. There is also an unlimited marital deduction for most gifts between spouses. For more information, see CRS Report 95-444, *A History of Federal Estate, Gift, and Generation-Skipping Taxes,* by John R. Luckey, and CRS Report 95-416, *Federal Estate, Gift, and Generation-Skipping Taxes: A Description of Current Law*, by John R. Luckey.

[10] The revenue numbers cited in the remainder of this report differ from those in the previous section in at least three ways. They include gift taxes in addition to estate taxes. They are on a fiscal year rather than calendar year basis. And they are based on revenue collections data, rather than on a sampling of estate tax returns.

for only 6% to 9%. Gift tax revenue fell by more than half, from the range of $3.9 billion to $4.7 billion per year in FY1999-FY2001, down to the range of $1.4 billion to $2 billion in FY2002-FY2006 (second column of **Table 4**).

Table 4. Net Collections of Estate Taxes and Gift Taxes and Their Percentage Breakdown, FY1999-FY2006

Fiscal Year	Estate Taxes	Gift Taxes	Estate and Gift Taxes	Percent Estate Taxes	Percent Gift Taxes
	(in $ billions)				
1999	23.0	4.7	27.7	83	17
2000	24.9	4.0	28.9	86	14
2001	24.4	3.9	28.3	86	14
2002	24.8	1.6	26.4	94	6
2003	20.0	1.9	21.9	91	9
2004	23.4	1.4	24.8	94	6
2005	22.7	2.0	24.7	92	8
2006	25.9	1.9	27.8	93	7

Sources: Internal Revenue Service *Data Book* for the fiscal years 1999-2006, Table 1: Internal Revenue Collections and Refunds, by Type of Tax. Available on the IRS website [http://www.irs.gov] under SOI Tax Stats. Net collections are equal to gross collections minus refunds. Percentage calculations by CRS.

A possible explanation for the decline in gift taxes is that many wealthy people chose to forgo the certainty of gift taxes if they transferred assets while they were alive, in the hope that the estate tax would be repealed permanently and they would then be able to pass the assets along to beneficiaries tax-free upon their death. Recipients are also likely to owe less in capital gains taxes when they sell a capital asset received from a bequest after death, rather than from a lifetime gift.[11] Forecasters predict that revenue from the gift tax will remain low in the years

[11] This is because, under both EGTRRA and prior law, assets transferred by gift receive a carryover basis (the donor's purchase price), in contrast to a step-up in basis (the value at the time of the transfer). Under the law in effect through 2009 while the estate tax remains in effect, recipients of assets transferred at death receive a step-up in basis. This cancels potential capital gains tax liability on the increase in the value of the asset during the decedent's period of ownership. Under EGTRRA, assets transferred at death during years when the estate tax is repealed (2010 and possibly subsequent years if extended) will receive a modified carryover basis. There is a step-up allowance of $1.3 million per decedent plus $3 million for a surviving spouse, both indexed for inflation after 2010. These step-up allowances are likely to shelter most capital gains in small estates from income tax when the heirs sell the assets.

remaining prior to FY2011 but will be higher in FY2011, reflecting gifts made in 2010 before the scheduled return of the estate tax in 2011.

Estate and Gift Taxes Are a Very Small Percent of Federal Revenue

Revenues from estate and gift taxes combined accounted for 1.5% of total federal revenue in FY1999 (column 2 of **Table 5**).[12] Their contribution remained at 1.4% for FY2000-FY2002, even though the absolute dollar amount fluctuated first above and then below its FY1999 level of $27.8 billion. Ever since the effects of EGGTRA began to register in FY2003, the relative contribution of estate and gift taxes has remained below 1.4%. From FY2003 through FY2006 it fluctuated within the range of 1.1% to 1.3% of total revenue, even though the dollar amount rebounded from $22 billion in FY2003 to $27.9 billion in FY2006. (The percentage share is influenced by fluctuations in other revenue sources as well as estate and gift taxes.)

Table 5. Estate and Gift Tax Revenues Combined, Dollar Amount and as a Percent of Total Federal Revenue, FY1999-FY2006

Fiscal Year	Estate and Gift Tax Revenues	
	In $ Billions	As a Percent of Total Federal Revenue
1999	27.8	1.5
2000	29.0	1.4
2001	28.4	1.4
2002	26.5	1.4
2003	22.0	1.2
2004	24.8	1.3
2005	24.8	1.1
2006	27.9	1.2

Sources: Revenue data from U.S. Executive Office of the President, Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2008* (Washington: GPO, 2007), Table 2.1, p. 30 (total receipts), Table 2.5, p. 45 (estate and gift taxes). Percentage calculations by CRS.

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[12] For information on state revenues from these types of taxes, see CRS Report RS20853, *State Estate and Gift Tax Revenue*, by Steven Maguire.

CBO Revenue Projections Show Rebound After FY2011 If EGTTRA Sunsets

In January 2007 the Congressional Budget Office (CBO) released its projections, under current law, of estate and gift tax revenues through FY2017, as shown in **Table 6**. CBO assumed growth in the value of assets over time, reflecting both real economic growth and inflation. Starting from actual revenues of $28 billion in FY2006, CBO projected that revenues would drop to $24 billion in FY2007 and then rise slowly to $26 billion in FY2009. In all three years, estate and gift taxes were estimated to account for 0.9% of total federal revenue and 0.2% of gross domestic product (GDP). This is based upon an estate tax exemption of $2 million for decedents dying in 2006-2008.

Reflecting the large increase in the exemption to $3.5 million for 2009 and the repeal of the estate tax for decedents dying in calendar year 2010, CBO projected that estate and gift tax revenues would fall to $21 billion in FY2010 and $22 billion in FY2011. This corresponds to 0.7% of total federal revenue and 0.1% of GDP for both years.

Reflecting the reinstatement of the estate tax in 2011 with an exemption of $1 million, CBO projected that estate and gift tax revenues would rise markedly to $50 billion in FY2012. That represents 1.5% of projected federal revenue (the share they previously held in FY1999) and 0.3% of GDP. CBO projected that estate and gift tax revenues would remain at 0.3% of GDP for the subsequent three fiscal years, rising steadily in nominal dollars from $56 billion in FY2013 to $67 billion in FY2015. That represents 1.6% of projected total revenue for FY2013 and 1.7% for FY2014 and FY2015.

Because the $1 million exemption amount is not indexed for inflation, and because the wealth of individuals is assumed to grow faster than inflation, CBO projected that estate and gift tax revenues would rise to 0.4% of GDP, reaching $73 billion in FY2016 and $79 billion in FY2017.[13] At these levels, estate and gift taxes account for 1.8% of projected federal revenue.

The cumulative revenue projection for the standard 10-year forecast period, FY2008-FY2017, is $481 billion. There is a big difference, however, in the revenue expected for the first half of the 10-year period versus the second half. This is because of the large changes in the exemption, plus smaller changes in the top tax rate, from calendar year 2007 through 2011. CBO's revenue forecast for the first five-year period, FY2008-FY2012, is $144 billion. This reflects two calendar years when the exemption is $2 million, one when it is $3.5 million, one when there is no estate tax, and one when the exemption is $1 million. The revenue projection for the second five-year period, FY2013-FY2017, is $337 billion. This projection is based on the assumption that the estate tax will be in effect for all of those years with an

[13] U.S. Congress, Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2008 to 2017*, Washington, January 2007, pp. 95-97.

exemption of $1 million and that the top tax rate will be restored (from 45%) to 55%, as provided under current law.

Table 6. CBO Projections of Combined Estate and Gift Tax Revenues from FY2007 through FY2017 under Current Law: Dollar Amount, Percent of Total Revenue, and Percent of GDP

Fiscal Year	Revenue in $ Billions	As a Percent of Total Revenue	As a Percent of GDP
Actual 2006	28	1.2	0.2
2007	24	0.9	0.2
2008	25	0.9	0.2
2009	26	0.9	0.2
2010	21	0.7	0.1
2011	22	0.7	0.1
2012	50	1.5	0.3
2013	56	1.6	0.3
2014	62	1.7	0.3
2015	67	1.7	0.3
2016	73	1.8	0.4
2017	79	1.8	0.4
First 5-year subtotal 2008-2012	144	1.0	0.2
Second 5-year subtotal 2013-2017[a]	337	1.7	0.3
10-year total 2008-2017	481	1.4	0.3

Source: U.S. Congress, Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2008 to 2017*, Washington, January 2007, Table 4-1: CBO's Projections of Revenues by Source, p. 81. Percent of total revenue calculated by CRS.

Note: a. The second five-year subtotal for FY2013-FY2017 was added by CRS.

Treasury and JCT Estimates of Revenue Loss from Permanent Repeal

Among the revenue proposals in its FY2008 budget document, the Bush Administration once again proposed to permanently extend the provisions of

EGTRRA that are scheduled to sunset on December 31, 2010. Removing the sunset provision of EGTRRA would make permanent the modifications to the gift tax and the repeal of both the estate tax and the generation-skipping transfer tax now scheduled to be in effect for 2010 only.

In February 2007, the Treasury Department published its estimates of changes in federal receipts expected each year from FY2007 through FY2017 if legislation to repeal the sunset provision of EGTRRA — with respect to the estate and gift taxes — were enacted in 2007, to take effect in 2010. The Joint Committee on Taxation (JCT) released its estimates in March 2007. Both sets of estimates are presented in **Table 7**.

Reduced Gift Taxes and Income Taxes Also Expected

The relatively modest estimated revenue losses from FY2007 through FY2010 stem primarily from a projected decline in gift taxes. The estimates are based on the assumption that taxpayers would immediately begin to reduce taxable gifts during their lifetimes if they knew that the estate tax would be permanently repealed in 2010. (This was explained previously at the end of the section on "Gift Taxes Fell After 2001.")

In addition, it is expected that an enactment in 2007 of permanent repeal of the estate tax (effective in 2010) would modestly affect revenues from the individual income tax, in two opposite ways. First, lifetime charitable donations and accompanying tax deductions would fall, thereby increasing income tax revenues. Second, and larger in effect, capital gains realizations by the elderly would fall as they wait to pass on their assets tax-free after death, thereby decreasing current income tax revenue. For each year from FY2008 through FY2010 Treasury projected that net reductions in income taxes would add to the decrease in revenue from gift taxes. For FY2011 and beyond, the loss in income taxes would add to the decrease in revenue from estate as well as gift taxes.[14] The expected losses in income tax revenue are reflected in the fact that each year from FY2011 on, the total revenue losses projected by both Treasury and JCT from permanent repeal of the estate tax shown in **Table 7** exceed CBO's estimates of estate and gift tax revenues under current law, shown in **Table 6**.

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[14] These conclusions are based on a comparison of two sets of revenue change estimates for the estate tax for FY2007-FY2012 published in the U.S. budget for FY2008. See U.S. Executive Office of the President, Office of Management and Budget, *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2008* (Washington: GPO, 2007), Table 17-3, p. 266, and Table 17-4, p. 270. According to conversations with Treasury Department analysts, the estimates in Table 17-3, Effect of Proposals on Receipts — for making permanent the repeal of estate and generation-skipping transfer taxes and modification of gift taxes — include the projected negative effects on income tax revenue, in addition to the effect on estate and gift tax revenue. These estimates (presented out to FY2012) are the same as those shown in **Table 7** of this report for the Treasury Department. In contrast, the estimates in Table 17-4, Receipts by Source — of the effects of proposed legislation on receipts, under the heading for estate and gift taxes — include only the effects on estate and gift tax receipts. The difference between the two series represents the estimated associated loss of income tax revenue.

Table 7. Treasury and JCT Estimates of Revenue Changes in FY2007-FY2017 from Acting in 2007 to Permanently Repeal the Estate and Generation-Skipping Transfer Taxes and Modify the Gift Tax Effective in 2010

Fiscal Year	Treasury Department	Joint Committee on Taxation	JCT Relative to Treasury
	(millions of dollars)		(Percent)
2007	-156	—	—
2008	-1,373	-2,111	154
2009	-2,290	-1,401	61
2010	-3,067	-3,074	100
2011	-26,845	-36,030	134
2012	-57,652	-59,824	104
2013	-60,012	-67,415	112
2014	-65,184	-73,514	113
2015	-70,077	-79,217	113
2016	-75,385	-84,970	113
2017	-80,605	-91,233	113
2008-2012	-91,227	-102,440	112
2013-2017[a]	-351,263	-396,349	113
2008-2017	-442,490	-498,789	113

Sources: Column 1: U.S. Department of the Treasury, *General Explanations of the Administration's Fiscal Year 2008 Revenue Proposals* (referred to as the Bluebook), Washington, February 2007, p. 119. Column 2: U.S. Congress, Joint Committee on Taxation, *Description of Revenue Provisions Contained in the President's Fiscal Year 2008 Budget Proposal*, 110th Cong., 1st sess., JCS-2-07 (Washington: GPO, March 2007), p. 301. Column 3: Percentage ratios were calculated by CRS by dividing column 2 (JCT estimate) by column 1 (Treasury estimate) and multiplying the result by 100.

Notes: These estimates for permanent estate tax repeal include the projected accompanying loss of individual income tax revenue, in addition to estate and gift taxes.

a. The second five-year subtotal for FYs 2013-2017 was added by CRS.

Ten-Year Forecast May Be Misleading Because of Changing Law

The Treasury Department and Joint Committee on Taxation prepare a revenue-change forecast for 10 fiscal years out whenever they evaluate a tax proposal. Similarly, in its budget outlook publications, CBO makes projections of specific revenue sources for the next 10 fiscal years. Because of the big changes in estate tax law scheduled over the next four calendar years, from 2008 through 2011, the standard 10-year forecast starting in FY2008 gives a misleading measure of the revenue — or revenue loss — that would be expected if the same tax law were in effect for each of the 10 years. In the case of legislating in 2007 to make estate tax repeal permanent for 2010 and beyond, the expected revenue losses are far lower for FY2008 through FY2011 than they are for FY2012 through FY2017, when repeal would be in full effect.

For the years prior to full repeal of the estate tax, the Treasury Department estimated revenue losses ranging from $1.4 billion in FY2008 to $3.1 billion in FY2010. FY2011 reflects a period of transition from estate taxes for decedents dying in 2009 to no estate taxes in 2010 and beyond. For FY2011, Treasury estimated a revenue loss of $26.8 billion, about half of what it expects for FY2012. For the years reflecting full repeal of the estate tax, Treasury estimated a revenue loss of $57.7 billion for FY2012, rising annually to $80.6 billion in FY2017. Consequently, the revenue loss estimate of $351 billion for the second five-year period, FY2013-FY2017, is more reflective of the true cost of the permanent repeal proposal than is the estimate of $91 billion for the first five-year period, FY2008-FY2012.

For FY2008-FY2012, the JCT's projections fluctuate above, below, and equal to the Treasury's. For FY2013 and beyond, when repeal would be in full effect, the JCT's revenue loss estimates are consistently 13% higher than the Treasury's. The same 13% difference applies to both the individual years and the five- and 10-year totals.

Estate Tax Repeal Accounts for 26% of the Cost of Making the 2001 and 2003 Tax Cuts Permanent

According to estimates by both the Treasury Department and the Joint Committee on Taxation, repeal of the estate tax accounts for one-quarter of the revenue losses associated with making permanent most of the tax cuts enacted in 2001 and 2003. This may seem surprising given that estate and gift taxes account for less than 2% of federal revenue (see **Tables 5** and **6**). The projected revenue loss from permanent repeal of the estate tax is just over half the size of the most costly component of the package, extending the reductions in marginal individual income tax rates.

Table 8 lists, in decreasing order of projected revenue loss, the proposals within the category labeled by Treasury and the JCT as "Make Permanent Certain Tax Cuts

Enacted in 2001 and 2003."[15] Despite differences in their dollar estimates of revenue loss for particular provisions, Treasury and JCT agree on the size of the revenue losses from estate taxes relative to both the total package and its largest component.[16]

Table 8. Treasury and JCT Estimates of Revenue Loss from Making Permanent Certain Tax Cuts Enacted in 2001 and 2003, Cumulatively for FY2008-FY2017

Tax Proposal	$ Billions		Percent of Total	
	Treasury	JCT	Treasury	JCT
Lower marginal individual income tax rates	-794	-852	46.8	45.5
Estate tax repeal	**-442**	**-497**	**26.1**	**26.5**
Increase child tax credit[a]	-206	-216	12.1	11.5
15% dividend rate	-90	-152	5.3	8.1
15% capital gains rate	-79	-64	4.7	3.4
Marriage penalty relief[a]	-50	-52	3.0	2.8
Increase small business expensing	-20	-19	1.2	1.0
Education incentives	-10	-12	0.6	0.6
Other incentives for families and children	-5	-6	0.3	0.3
Total	-1,697	-1,872	100.0	100.0

Sources: U.S. Department of the Treasury, *General Explanations of the Administration's Fiscal Year 2008 Revenue Proposals* (referred to as the Bluebook), Washington, February 2007, p. 119. U.S. Congress, Joint Committee on Taxation, *Description of Revenue Provisions Contained in the President's Fiscal Year 2008 Budget Proposal*, 110th Cong., 1st sess., JCS-2-07 (Washington: GPO, March 2007), p. 301. Percentage calculations by CRS.

Note: a. The estimates for the child tax credit and marriage penalty relief also include outlays for refundable tax credits associated with these proposals.

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[15] For additional information, see CRS Report RS21992, *Extending the 2001, 2003, and 2004 Tax Cuts*, by Gregg A. Esenwein.

[16] For estimates of the revenue loss relative to total repeal for a variety of estate tax reform proposals considered during the 109th Congress, see CRS Report RL32818, *Estate Tax Legislation in the 109th Congress*, by Nonna A. Noto, **Table 2**, p. 22. Revenue estimates for those proposals were made by the Urban-Brookings Tax Policy Center.