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Estate and Gift Tax Revenues: Several Measurements

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Summary

The question of whether to permanently repeal the federal estate tax or to reform it remains a topic of congressional interest. This report presents a variety of data measuring the payment of estate and gift taxes to help inform the debate.

The most recent IRS data are for estate tax returns filed in 2003. They show that the 3,486 gross estates of $5 million or higher accounted for just 11.4% of taxable returns, but 59.8% of estate taxes paid.

This is a period of changing estate tax laws. The Taxpayer Relief Act of 1997 (TRA, P.L. 105-34) provided for a gradual increase in the exempt amount under the estate tax from $600,000 for 1997 to $1 million in 2006. The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA, P.L. 107-16) superseded those changes and raised the exempt amount to $1 million for 2002 and 2003, $1.5 million for 2004 and 2005, $2 million for 2006 through 2008, and $3.5 million for 2009. EGTRRA repealed the estate tax entirely for 2010, but the estate tax provisions of EGTRRA sunset on December 31, 2010. Unless new legislation governing the estate tax is enacted, the estate tax will be reinstated in 2011 with an exempt amount of $1 million.

Both the number of taxable returns and total estate tax paid continued to rise from 1998 to 2000, as increases in asset values outpaced the $25,000 yearly increases in the applicable exclusion amount from $600,000 to $675,000. But the number of taxable returns dropped by 41% and estate tax payments fell by 15% between 2000 and 2003 as the exempt amount increased to $1 million and some asset values fell. Taxable estate tax returns filed in 2003 represented just 1.25% of deaths in 2002.

From 1998 through 2003 the rising exempt amount eliminated a large number of smaller estates ($600,000 up to $1 million in gross size) from being taxable. In contrast, the number of larger taxable estates (the three classes over $5 million in gross size) remained relatively constant over the same period.

Revenues from federal estate and gift taxes peaked at $29.0 billion in FY2000. Between FY2000 and FY2003 revenues fell by 24% to $22.0 billion. However, in FY2004 revenues rose by 12% to $24.8 billion. Estate and gift tax revenues were 1.3% of total federal revenue and 3.1% of individual income tax revenue in FY2004.

CBO has projected estate and gift tax revenues through FY2015 under current law, with annual revenues of $52 billion in FY2014. The Treasury Department and the Joint Committee on Taxation (JCT) have estimated revenue losses through FY2015 from permanent repeal of the estate and generation-skipping transfer taxes and modifying gift taxes starting in 2010. For FY2006-FY2010 Treasury shows revenue losses of $557 million to $2.2 billion per year, and JCT $1.1-to-$2.6 billion, primarily from reduced gift taxes. For FY2012-FY2015 Treasury shows losses of $51- to-$62 billion per year, and JCT $54-to-$71 billion, from forgone estate and gift tax revenues. This report will be updated as new data become available.

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The question of whether to permanently repeal the federal estate tax or to reform it remains before the 109th Congress. To provide background material for the debate, this report presents a variety of data available about revenues collected from federal estate and gift taxes. The text discusses the numbers presented in 11 tables.

The first section of the report presents the most recent distributional data available from the Internal Revenue Service (IRS), for estate tax returns filed in 2003. It shows the amount of estate tax paid by each of five categories of size of gross estate, both separately (**Table 1**) and cumulatively (**Table 2**).

The second section of the report describes the substantial increases in the applicable exclusion amount (or exempt amount) under the estate tax scheduled from 1997 through 2009, the repeal of the estate tax scheduled for 2010, and the reinstatement of the estate tax with a lower exempt amount in 2011 if no changes are made to current law. It also presents the scheduled decrease in the maximum marginal estate tax rate (**Table 3**).

The third section of the report examines the relationship between the increase in the applicable exclusion amount (or filing threshold) and the number of estate tax returns that were filed and taxable, as well as the total amount of tax paid, from 1998 through 2003 (**Table 4**). The total number of taxable returns rose between 1998 and 2000 and then fell dramatically in 2002 and 2003. It looks beneath the totals to trace the differing patterns of the number of taxable returns by size of gross estate, in both absolute numbers (**Table 5**) and measured as a percentage of deaths (**Table 6**).

The fourth section reveals that less than half of estate tax returns filed from 1998 through 2003 were taxable (**Table 7**). It shows that the percentage of taxable returns was higher, the larger the gross estate size class. It points out the downward trend in the percentage of taxable returns within each size class from 1998 through 2002.

The fifth section of the report presents data on actual estate and gift tax revenues collected from FY1998 through 2004, comparing them to total federal revenues and revenues from individual income taxes (**Table 9**). It presents the January 2005 Congressional Budget Office (CBO) projection of revenues from estate and gift taxes from FY2006 through FY2015, under current law (**Table 10**). It also presents estimates published by the Treasury Department in February 2005 and the Joint Committee on Taxation (JCT) in March 2005 of revenue losses from FY2006 through FY2015 if the sunset provision of EGTRRA were removed in 2005, thereby permanently repealing the estate tax and generation skipping transfer taxes and modifying the gift tax effective in 2010 (**Table 11**).

Distribution of Estate Tax Payments in 2003 by Size of Gross Estate

The estate tax is considered the most progressive part of the U.S. tax system — that is, the tax that falls most heavily on the wealthiest members of society. The distribution of estate tax payments is highly concentrated in the largest gross estate size categories. Estate tax returns filed in 2003 paid a total of $20.7 billion in taxes, as shown in the first row, third column of **Table 1**. The 30,626 taxable returns (column 2) represented 1.25 percent of deaths in the prior year, 2002 (column 4).

The largest gross estate size categories contributed a much bigger percentage of taxes (column 6) than the percentage of taxable returns they represented (column 5). The 505 gross taxable estates $20 million or more accounted for just 0.02% of decedents and 1.6% of taxable returns, but 25.1% of estate taxes paid. The 824 gross estates from $10 million up to $20 million accounted for just 0 .03% of decedents and 2.7% of taxable returns, but 14.3% of taxes paid. The 2,157 gross estates from $5 million up to $10 million accounted for 0.09% of decedents and 7.0% of taxable returns, but 20.4% of taxes paid. The 5,505 gross estates from $2.5 million up to $5 million accounted for 0.23% of decedents and 18.0% of taxable returns, and a nearly proportional 21.9% of taxes paid. In contrast, the 21,635 gross estates from $1.0 million up to $2.5 million accounted for 0.89% of decedents and 70.6% of taxable returns, but only 18.3% of estate taxes paid.[1]

[1] Estate tax returns filed in 2003 are most likely to be for the estates of decedents dying in 2002 and 2003 when the exempt amount under the estate tax was $1 million.

Table 1. Estate Tax Returns Filed in 2003, by Size of Gross Estate

Size of Gross Estate (in $ millions)	(1) Tax Returns Filed	(2) Taxable Returns	(3) Taxes Paid (in $ thousands)	(4) Taxable Returns as a Percent of Deaths	(5) Percent of Taxable Returns	(6) Percent of Taxes Paid
All Returns	66,043	30,626	20,655,481	1.25	100.0	100.0
1.0 < 2.5	49,748	21,635	3,789,066	0.89	70.6	18.3
2.5 < 5.0	10,549	5,505	4,516,551	0.23	18.0	21.9
5.0 < 10.0	3,732	2,157	4,222,161	0.09	7.0	20.4
10.0 < 20.0	1,293	824	2,943,694	0.03	2.7	14.3
20.0 or more	721	505	5,184,009	0.02	1.6	25.1

Sources: Columns 1-3: Internal Revenue Service, Statistics of Income, Estate Tax Returns Filed in 2003, **Table 1**. Unpublished data available at [http://www.irs.gov/pub/irs-soi/03es01tp.xls]. Column 4: Estate tax returns filed in one year are calculated as a percent of all deaths in the prior year. There were 2,443,387 deaths in the United States in 2002. Columns 4-6: Percentage calculations by CRS.

These calculations are shown on a cumulative basis in **Table 2**. Again, the 505 gross taxable estates of $20 million or more accounted for just .02% of decedents and 1.6% of taxable returns, but 25.1% of estate taxes paid. The 1,329 gross estates of $10 million or more accounted for .05% of decedents and 4.3% of taxable returns, but 39.3% of estate taxes. The 3,486 gross estates of $5 million or more accounted for .14% of decedents and 11.4% of taxable returns, but 59.8% of estate tax revenues. The 8,991 gross estates of $2.5 million or more accounted for .37% of decedents and 29.4% of taxable returns, but 81.7% of estate tax payments.

Table 2. Taxable Estate Tax Returns Filed in 2003, Cumulative Percentages by Size of Gross Estate

Size of Gross Estate (in $ millions)	Number of Taxable Returns	Taxable Returns as a Percentage of Deaths	Cumulative Percentage of Taxable Returns	Cumulative Percentage of Tax Paid
20 or more	505	.02	1.6	25.1
10 or more	1,329	.05	4.3	39.3
5 or more	3,486	.14	11.4	59.8
2.5 or more	8,991	.37	29.4	81.7
1 or more	30,626	1.25	100.0	100.0

Sources: See **Table 1**.

Increases in the Applicable Exclusion Amount

The period from 1997 through 2011 is a time of changes in the estate tax laws brought about by the Taxpayer Relief Act of 1997 (TRA, P.L. 105-34) and the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA, P.L. 107-16). In particular, these two laws provided for increases in the applicable exclusion amount for the estate tax, as shown in the first column of **Table 3**. EGTRRA also provided for a gradual decrease in the maximum marginal estate tax rate, as shown in the second column of **Table 3**.[2]

The applicable exclusion amount has two important implications. First, a federal estate tax return must be filed if a U.S. decedent's gross assets[3] equal or exceed the applicable exclusion amount for the year of the decedent's death. That is why the applicable exclusion amount is sometimes called the "tax filing threshold." Second, each estate tax return receives a unified transfer tax credit equal to the tax that would be due on the applicable exclusion amount.[4] Thus, the transfer of an amount of assets up to the applicable exclusion amount is free from federal tax for every estate. EGTRRA referred to the applicable exclusion amount as the "unified credit effective exemption amount." It is sometimes called the "exempt amount" for short.

The applicable exclusion amount is not indexed for inflation. Nor is it set with an explicit target of taxing only a certain percentage of the population, for example, the wealthiest one or two percent. Instead, Congress has intermittently changed the dollar amounts.

From 1987 through1997 the applicable exclusion amount 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) phased in a relatively gradual increase in the applicable exclusion amount from $600,000 in 1997 to $1,000,000 in 2006. The applicable exclusion amount rose to $625,000 in 1998, $650,000 in 1999, and $675,000 for 2000 and 2001.[5] In addition, the Taxpayer Relief Act provided for

[2] Taxable estate values below the maximum cutoff are subject to a table of graduated marginal tax rates starting at 18% for the first $10,000. The lower range of marginal rates is incorporated in the unified credit. Consequently, taxpayers are only likely to pay attention to the marginal rate that applies above the applicable exclusion amount.

[3] Including taxable gifts given during the donor's lifetime.

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

[5] 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 $1,300,000 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.

the applicable exclusion amount to increase to $700,000 for 2002 and 2003, $850,000 for 2004, $950,000 for 2005, and $1 million for 2006 and beyond.

However, before the provisions of TRA were fully phased in, they were superseded for tax years 2002-2010 by the provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA, P.L 107-16). EGTRRA raised the applicable exclusion amount to $1 million beginning immediately in 2002 and 2003. It increased the exclusion in large increments, to $1.5 million for 2004 and 2005, $2 million for 2006-2008, and $3.5 million in 2009. It repealed the estate tax and generation-skipping transfer tax entirely for the estates of decedents dying in 2010. But the provisions of EGTRRA will sunset on December 31, 2010. Unless new legislation governing the estate tax is enacted beforehand, in 2011 the law will revert to that in effect prior to June 7, 2001. The estate tax will be reinstated and the applicable exclusion amount will be $1 million, the amount that TRA had provided for 2006 and beyond.

Table 3. Applicable Exclusion Amount and Maximum Tax Rate for the Estate Tax, 1988-2011

Calendar Year (In the case of estates of decedents dying during)	Applicable Exclusion Amount	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]

a. Provision of the Economic Recovery Tax Act of 1981 (ERTA, P.L. 97-34). The applicable exclusion amount was $600,000 in 1987 also.
b. Provisions of the Taxpayer Relief Act of 1997 (TRA, P.L. 105-34).
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 (or applicable exclusion amount), 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.

Relationship between the Filing Threshold and the Number of Taxable Returns

Estate tax returns filed in a given year are most likely to reflect the tax law in effect in the preceding year. The tax law that applies to an estate is the law in effect in the year of a person's death. However, the estate tax return is not due until nine months after a person's death.[6] 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% in the next year, and the remaining 15% to 20% in later years.[7]

As a consequence of the time lag in filing, 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 from prior years that are filing under an extension.[8] The applicable exclusion amount — or tax filing threshold — may well differ among the years represented. For each filing year from 1998 to 2003, the second column of **Table 4** shows the applicable exclusion amount for both the prior year (top number) and current year (bottom number).

For example, estate tax returns filed in 2001 will generally reflect a filing threshold of $675,000, the threshold in effect for both 2000 and 2001. In contrast, estate tax returns filed in 2002 will include returns of decedents that fall under 2001 law when the threshold was $675,000, as well as under 2002 law when the effective filing threshold was $1 million. Estate tax returns filed in 2003 will generally reflect a filing threshold of $1 million, the law in effect for both 2002 and 2003.

An increase in the applicable exclusion amount would be expected to reduce the number of estate tax returns filed, the number of returns that were taxable, and the amount of estate tax paid — relative to what they would otherwise be. Whether these numbers decline absolutely depends on whether the increase in the exclusion amount outpaces the growth in the value of net assets held by decedents.

As shown in **Table 4**, even as the filing threshold was increasing in annual increments of $25,000 — from $600,000 in 1997, to $625,000 in 1998, $650,000 in 1999, and $675,000 in 2000 — the number of estate tax returns filed and the number of taxable returns continued to rise. The increasing pattern holds whether measured

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[6] Assets are typically valued at their fair market value as of the date of death. However, they may be valued as of the "alternate valuation date" — six months after the date of death or the date of distribution of the property from the estate if earlier. The alternate valuation date might be elected by the executor if the assets have a lower value on that later date. For more information, see CRS Report 95-416, *Federal Estate, Gift, and Generation-Skipping Taxes: A Description of Current Law*, by John R. Luckey.

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

[8] The routine period of extension is six months. Complex returns may be granted a longer extension.

as absolute number of returns or as tax returns as a percent of deaths in the prior year (reflecting the nine-month grace period for filing returns). This suggests that net asset values were generally rising more rapidly than the filing threshold over the 1997-2000 period. The number of estate tax returns filed rose from 97,856 or 4.23% of deaths in 1998 to 108,322 or 4.53% of deaths in 2000. The number of taxable estates rose from 47,475 or 2.05% of deaths in 1998 to 56,322 or 2.17% of deaths in 2000.

The numbers barely dipped in 2001 when the $675,000 filing threshold was fully phased in. This suggests that the filing threshold had caught up with the growth in asset values. But the number of returns filed dropped by 9% between 2001 and 2002 when the filing threshold was increasing by a much larger step, from $675,000 to $1 million. And the number dropped by another 26% in 2003 when the million dollar threshold was fully phased in. This suggests that at the $1 million level the tax filing threshold had moved ahead of the net value of assets held by decedents in 2003.

Between the peak in 2000 and 2003, the total number of returns filed and the number of taxable returns fell by approximately 40%. The total number of returns filed fell from 108,322 to 66,044, or from 4.53% of deaths to 2.70% of deaths. The number of taxable returns fell from 52,000 to 30,626, or from 2.17% to 1.25% of deaths. Some of this decrease was caused by a decline in asset values, in addition to an increase in the tax filing threshold from $650,000 to $1 million.

The last column of **Table 4** shows that the total estate tax paid generally moved in the same direction as the number of taxable returns, with both rising from 1998 to 2000 and falling from 2000 to 2003. In percentage terms the total estate tax paid rose more than the number of returns from 1998 to 2000 (a 20% increase in taxes compared with a 10% increase in the number of taxable returns), but dropped less than the number of returns from 2000 to 2003 (a 15% decrease in taxes compared with a 41% decrease in taxable returns).

Where did the big changes in the number of taxable estates occur? The number of taxable estates in each size category of gross estate above $5 million remained relatively constant across the years 1998-2003, as shown in **Table 5**. This stability is even more apparent in **Table 6** which shows the number of taxable estates by size category from **Table 5** as a percentage of total deaths in the previous year.[9]

[9] This percentage is sometimes expressed relative to the number of adult deaths in the previous year. The number of adult deaths (age 20 and over plus deaths for which age is unavailable) was 97.6 to 97.8 percent of all deaths for the years 1997 to 2002. Consequently, using total deaths instead of adult deaths does not make much difference in the percentage.

Table 4. Number of Estate Tax Returns Filed, Taxable, as a Percentage of Deaths, and Tax Paid, 1998-2003

Year Filed	Filing Threshold in Prior and Current Year ($)	Total Returns Filed	Taxable Returns	Total Returns as Percent of Deaths in Prior Year[a]	Taxable Returns as Percent of Deaths in Prior Year[a]	Estate Tax Paid (in $ billions)
1998	600,000 625,000	97,856	47,475	4.23	2.05	20.3
1999	625,000 650,000	103,979	49,863	4.45	2.13	22.9
2000	650,000 675,000	108,322	51,999	4.53	2.17	24.4
2001	675,000 675,000	108,112	51,842	4.50	2.16	23.5
2002	675,000 1,000,000	98,359	44,408	4.07	1.84	21.4
2003	1,000,000 1,000,000	66,044	30,626	2.70	1.25	20.7

a. The total number of deaths in the United States rose slightly from year to year from 1997 through 2002, 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

Sources: Data on total returns filed, taxable returns, and 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 2003. Available on the IRS website [http://www.irs.gov/taxstats].

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.

Table 5. Number of Taxable Returns by Size of Gross Estate, 1998-2003

Size of Gross Estate (in millions)	Year Returns Filed In					
	1998	1999	2000	2001	2002	2003
$0.600 < $1.0	20,106	19,136	18,634	18,198	13,026	NA
$1.0 < $2.5	19,838	22,233	23,827	24,591	22,993	21,635
$2.5 < $5.0	4,633	5,212	5,917	5,551	5,049	5,505
$5.0 < $10.0	1,836	2,045	2,258	2,165	2,101	2,157
$10.0 < $20.0	688	770	814	868	755	824
$20.0 or more	374	467	549	469	484	505
Total	47,475	49,863	51,999	51,842	44,408	30,626

Sources: IRS data cited for Table 4.

The fluctuation in the total number of taxable estate tax returns as a percentage of deaths (from 2.05 in 1998, to 2.17 in 2000, to 1.25 in 2003) is traceable to the three smallest size categories, under $5 million. The first row of **Table 6** shows how the increase in the tax filing threshold reduced the number of taxable estates (measured as a percentage of deaths) in the $0.600- up- to-$1 million size of gross estate class, at first gradually from 1998 to 2001, and then markedly in 2002 and completely in 2003.[10] The second row of **Table 6** shows how the number of taxable estates in the $1-up-to-$2.5 million size class grew from 1998 to 2001, largely offsetting the decline in the lowest size class. By the 2002 and 2003 filing years, however, the increase in the tax filing threshold to $1 million (and the decline in asset values) had started to reduce the number of taxable returns in the $1-up-to-$2.5 million size class. The combined losses in the two smallest size classes (under $2.5 million) caused most of the drop in the total from 2001 to 2002, and all of the drop from 2002 to 2003. The number of taxable returns in the $2.5-up-to-$5 million class rose from 1998 to 2000, fell in 2001 and 2002, and rose in 2003 (row 3).

In contrast, there was a noteworthy stability in the number of taxable estate tax returns in the three largest size classes. For all but one of the six years examined

[10] Some estate tax returns are filed several years after the decedent's death. In its publicly released data for returns filed in a given year, the IRS excludes those late returns for which the gross value of the estate was less than the filing threshold in effect for the prior calendar year. In 2003, for example, 7,086 returns were filed with from $600,000 up to $1 million in gross assets, of which 2,676 were taxable. These returns are not included in the publicly released data for returns filed in 2003. This practice understates the total number of returns filed, the number of taxable returns filed, and the amount of tax paid by the $0.6-up- to-$1 million gross estate size class for the 1998-2003 period examined in this report. IRS also excludes returns filed that were not required to be filed because gross assets were below the filing threshold in effect for the year of death.

estates in the $5-up-to-$10 million range represented .09% of deaths (row 4), and estates in the $10-up-to-$20 million range .03% of deaths (row 5). Estates of $20 million or more accounted for .02% of deaths in all six years (last row).

Table 6. Taxable Estates as a Percentage of Deaths by Size of Gross Estate, 1998-2003

Size of Gross Estate (in millions)	Year Returns Filed In					
	1998	1999	2000	2001	2002	2003
$0.600 < $1.0	.87	.82	.78	.76	.54	NA
$1.0 < $2.5	.86	.95	1.00	1.02	.95	.89
$2.5 < $5.0	.20	.22	.25	.23	.21	.23
$5.0 < $10.0	.08	.09	.09	.09	.09	.09
$10.0 < $20.0	.03	.03	.03	.04	.03	.03
$20.0 or more	.02	.02	.02	.02	.02	.02
Total	2.05	2.13	2.17	2.16	1.84	1.25

Sources: CRS calculations of percentages based on the IRS data presented in **Table 5**, divided by the number of deaths in the prior year shown in the note to **Table 4**.

The tax filing threshold is scheduled to increase further, in large steps, from $1 million in 2002-2003 to $1.5 million in 2004-2005, $2 million in 2006-2008, and $3.5 million in 2009. These increases can be expected to dramatically decrease the number of tax returns required to be filed and the number of returns that are taxable in the $1-up-to-$2.5 million class from 2005 to 2010. The increase in the threshold to $3.5 million is likely to moderately reduce the numbers in $2.5-up-to-$5 million class from 2009 to 2010, unless it is offset by a major increase in asset values.

Less Than Half of Estate Tax Returns Were Taxable

Many estates face the administrative burden of filing an estate tax return even though they owe no estate tax. Just under half of estate tax returns filed each year from 1998 through 2003 were taxable. Overall, the percentage of total returns filed that were taxable dipped slightly from 48.5% in 1998, to 48.0% in 1999-2001, to 45.1% in 2002, and then rose slightly to 46.4% in 2003, as shown in the first row of **Table 7**. Compare this with 75% of individual income tax returns filed for 2000 being taxable and 70% for 2002.[11]

[11] Internal Revenue Service, *Statistics of Income Bulletin*, Summer 2004, Washington, D.C., Selected Historical and Other Data, **Table 3**, p. 250.

The computation of final net estate tax liability permits deductions from the gross estate for certain expenses related to administering the estate (executors' commissions and attorneys' fees), funeral costs, debts and mortgages, charitable bequests, and, most importantly, bequests to a surviving spouse. It also permits credits against the tentative estate tax for the unified credit (equal to the tax on the exempt amount), gift taxes previously paid, and foreign death taxes. Prior to 2002 there was a full credit for state death taxes. The credit was phased out from 2002 to 2004 and converted to a deduction in 2005. It is common for the first spouse to die to leave a substantial portion of his or her estate as a bequest to the surviving spouse. As a result, the estate of the first spouse to die may become nontaxable.

For any given year, the percentage of estate tax returns that were taxable increased with the size of gross estate. Estates with a gross value just above the tax filing threshold (the applicable exclusion amount) are required to file an estate tax return but are likely to owe little or no tax. For tax returns filed in 2003 when the prevailing threshold was $1 million, 43.2% of returns in the $1-up-to-$2.5 million category were taxable, 52.2% in the $2.5-up-to-$5.0 million category, 57.8% in the $5-up-to-$10 million category, 63.7% in the $10-up-to-$20 million category, and 70.0% in the $20 million and over category.

In general, the percentage of returns that were taxable declined within each size category between 1998 and 2003. The largest percentage point drop occurred in the $20 million and over gross estate class, where the percentage of taxable returns fell from 83.9% in 1998 to 70.0% in 2003. Between 2002 and 2003 there was a slight increase in the taxable percentages for the $2.5-up-to-$5 million and the $10-up-to-$20 million class. In addition, the large $0.600-up-to-$1 million class — with the lowest rate of taxability (35.4% in 2002) — was eliminated by the rise in the tax filing threshold to $1 million. As a result, the overall percentage of taxable returns rose slightly from 45.1% in 2002 to 46.4% in 2003.

Table 7. Percentage of Returns Taxable by Size of Gross Estate

Size of Gross Estate (in millions)	Year Returns Filed In					
	1998	1999	2000	2001	2002	2003
Total	48.5	48.0	48.0	48.0	45.1	46.4
$0.600 < $1.0	40.5	38.4	38.9	40.0	35.4	NA
$1.0 < $2.5	54.5	54.5	52.7	52.0	49.6	43.5
$2.5 < $5.0	60.3	60.5	59.1	56.1	51.1	52.2
$5.0 < $10.0	68.9	67.1	66.7	61.0	61.1	57.8
$10.0 < $20.0	72.9	72.4	72.1	67.7	63.0	63.7
$20.0 or more	83.9	80.9	78.9	74.7	72.1	70.0

Source: Percentage calculations by CRS, based on IRS sources cited for **Table 4**.

Estate and Gift Tax Revenues: Past and Future

This section of the report shifts to data on revenues from both estate and gift taxes, and reported by fiscal year rather than calendar year. It looks back on actual data for FYs 1998-2004, and forward to projections through FY2015.

Because of the nine-month grace period for filing estate tax returns, the revenues for a particular fiscal year are most likely to reflect the tax laws in effect for the prior-numbered calendar year. For example, revenues collected during FY2003, which ran from October 1, 2002, until September 30, 2003, are most likely to reflect the estate and gift tax laws in effect during calendar year 2002.

Recent Experience

Revenues from federal estate and gift taxes peaked at $29.0 billion in FY2000, as shown in column 1 of **Table 8**. Revenues then began falling, in part as a result of changes in the tax law, described previously, which substantially raised the applicable exclusion amount and modestly lowered the maximum tax rate, and in part because of a decline in asset values. Between FY2000 and FY2003 estate and gift tax revenues fell by 24% to $22.0 billion. In FY2004, however, revenues rose by 12%, back to $24.8 billion, just above their FY1998 level, reflecting a recovery in asset values.

Estate and gift taxes contribute a small share of total federal revenues. Measured relative to other federal revenue sources, estate and gift tax revenues peaked in FY1999 at 1.5% of total receipts (column 2 of **Table 8**) and 3.2% of individual income tax revenues (column 3). In FY2003, they reached a low of 1.2% of total federal receipts and 2.8% of individual income taxes. In FY2004, estate and gift tax revenues of $24.8 billion represented 1.3% of total federal receipts of $1.880 trillion and 3.1% of individual income tax receipts of $809 billion.

Table 8. Estate and Gift Tax Revenues, Relative to Total Revenues and Individual Income Taxes, FYs 1998-2004

Fiscal Year	Estate and Gift Tax Revenues		
	In $ Billions	As a Percent of Total Federal Revenue	As a Percent of Individual Income Tax Revenue
1998	$24.1	1.4%	2.9%
1999	$27.8	1.5%	3.2%
2000	$29.0	1.4%	2.9%
2001	$28.4	1.4%	2.9%
2002	$26.5	1.4%	3.1%
2003	$22.0	1.2%	2.8%
2004	$24.8	1.3%	3.1%

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 2006* (Washington: GPO, 2005), **Table 2**.1, p. 30 (total receipts and individual income taxes), **Table 2**.5, p. 44 (estate and gift taxes). Percentage calculations by CRS.

Gift Taxes versus Estate Taxes

The gift tax is levied on the taxable transfer of assets during the donor's lifetime. The gift tax is due by April 15th of the year after the gift is made. Under the Taxpayer Relief Act of 1997 (TRA), the applicable exclusion amount for lifetime taxable gifts plus bequests rose from $600,000 in 1997, to $675,000 million in 2001. The same graduated tax rate structure that applied to estates applied to gifts above the exclusion amount, on a cumulative lifetime basis. However, under the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), the exclusion amount for lifetime gifts is scheduled to remain at $1 million, even as the applicable exclusion amount rises to $3.5 million by 2009.[12] Furthermore, the gift tax is scheduled to remain in effect when the estate tax is repealed in 2010. The maximum gift tax rate will be capped at 35% (equal to the maximum individual income tax rate) on taxable transfers over $500,000.

Through FY2001 gift taxes accounted for a significant percentage of estate and gift tax revenues. However, since the adoption of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) in 2001, with its announcement of estate tax

[12] Under the gift tax there is an annual exclusion of $11,000 (in 2005) per donor per donee. This exclusion amount is indexed for inflation, and rounded down to the nearest $1,000. 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 interspousal gifts. For more information, see CRS Report 95-444 A, *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.

repeal in 2010 , there has been a substantial decline in the revenue collected from gift taxes. The last column of **Table 9** shows that gift taxes accounted for 14% to 17% of combined estate and gift tax revenues over the FY1998-FY2001 period. However, over the FY2002-FY2004 period, gift taxes accounted for only 6% to 9% of combined estate and gift tax revenues. Gift tax revenues fell by more than half, from the range of $3.3 to $4.7 billion per year in FY1998-FY2001, down to the range of $1.4 to $1.9 billion in FY2002-FY2004 (column 2 of **Table 9**). Forecasters predict that gift tax revenues will remain lower than otherwise expected in the years prior to FY2011 and be higher in FY2011, reflecting gifts made in 2010 before the return of the estate tax in 2011.

Table 9. Estate Taxes and Gift Taxes, Net Collections, FYs 1998-2004

(Money amounts in billions of dollars)

Fiscal Year	Estate Taxes	Gift Taxes	Estate & Gift Taxes	Percent Estate Taxes	Percent Gift Taxes
1998	$20.8	$3.3	$24.1	86%	14%
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 [p]	$23.4 [p]	$1.4 [p]	$24.8 [p]	94% [p]	6% [p]

p. Unpublished preliminary data for FY2004 from the Internal Revenue Service.

Sources: Internal Revenue Service *Data Book* for the fiscal years 1998-2003, **Table 1**: Summary of Internal Revenue Collections and Refunds, by Type of Tax, p. 8. Available on the IRS website [http://www.irs.gov]. Net collections are equal to gross collections minus refunds. Percentage calculations by CRS.

CBO Revenue Projections

In January 2005 the Congressional Budget Office (CBO) released its projections of estate and gift tax revenues for FY2006-FY2015 under current law, as shown in **Table 10**. They assume growth in the value of assets over time, reflecting both real economic growth and inflation. Starting from actual revenues of $25 billion in FY2004, CBO projected that revenues would fluctuate in the $24-to-$27 billion range from FY2005 through FY2009, corresponding to 0.2% of gross domestic product (GDP). This is while the applicable exclusion amount is rising from $1.0 million for decedents dying in 2002-2003, to $1.5 million in 2004-2005, and to $2.0 million in 2006-2008. Reflecting the large increase in the applicable exclusion amount to $3.5 million for 2009 and the repeal of the estate tax for calendar year 2010, CBO projected that estate and gift tax revenues would fall to $21 billion in

FY2010 and $19 billion in FY2011, corresponding to 0.1% of GDP for both years. Reflecting the reinstatement of the estate tax in 2011 with an applicable exclusion amount of $1 million, CBO projected that estate and gift tax revenues would rise markedly to $43 billion in FY2012, returning to 0.2% of GDP. For the subsequent three fiscal years, CBO projected estate and gift tax revenues rising to 0.3% of GDP: $46 billion in FY2013, $52 billion in FY2014, and $58 billion in FY2015.

Table 10. CBO Projections of Estate and Gift Tax Revenues Through FY2015 under Current Law

Fiscal Year	Estate and Gift Tax Revenues (in $ billions)	Estate and Gift Taxes as a Percentage of GDP
Actual 2004	$25	0.2%
2005	$24	0.2%
2006	$27	0.2%
2007	$25	0.2%
2008	$26	0.2%
2009	$27	0.2%
2010	$21	0.1%
2011	$19	0.1%
2012	$43	0.2%
2013	$46	0.3%
2014	$52	0.3%
2015	$58	0.3%
Total 2006-2010	$126	0.2%
Total 2006-2015	$344	0.2%

Source: U.S. Congress, Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2006 to 2015*, Washington, January 2005, Tables 4-1 and 4-8.

Treasury and JCT Revenue Loss Estimates from Permanent Repeal

Among its revenue proposals for FY2006, the Bush Administration once again proposed to permanently extend the provisions of EGTRRA that are scheduled to sunset on December 31, 2010. EGTRRA's extension would make the modifications to the gift tax and the repeal of the estate tax and the generation-skipping transfer tax permanent for 2010 and beyond.

In February 2005, the Treasury Department published its estimates of changes in federal receipts expected each year from FY2005 through FY2015 if legislation to repeal the sunset provision (effective in 2010) with respect to the estate and gift taxes were enacted in 2005. The Joint Committee on Taxation (JCT) released its estimates of budget effects for the same period in March 2005. Both sets of estimates are presented in **Table 11**.

The relatively modest estimated revenue losses from FY2006 through FY2010 stem primarily from a projected decline in gift tax revenues. 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. In addition, the Treasury Department and the Joint Committee on Taxation project that the enactment in 2005 of permanent repeal of the estate tax (effective in 2010) would modestly affect revenues from the individual income tax, in two different ways. First, they assume that lifetime charitable donations and accompanying tax deductions would fall, thereby increasing income tax revenues. Second, they assume that capital gains realizations by the elderly would fall, thereby decreasing income tax revenues. For FY2006-FY2008, they project that increases in income taxes would slightly cushion the decreases in gift taxes. For FY2009 and FY2010, they project that reductions in income taxes would add to the annual decreases in gift taxes.[13]

For the years prior to full repeal of the estate tax, the Treasury Department estimated losses from $557 million in FY2006 up to $2.2 billion in FY2010. The JCT's revenue loss estimates were slightly higher, ranging from $1.1 billion in FY2006 to $2.6 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 the Treasury estimated revenue losses of $22.4 billion, the JCT $28.3 billion.

For the years reflecting full repeal of the estate tax, Treasury estimated a revenue loss of $51.2 billion for FY2012, rising annually to $62.4 billion in FY2015. The JCT estimates rose from $54.9 billion in FY2012 to $71.6 billion in FY2015. The five-year revenue loss estimate for FY2006-2010 was $7.0 billion for Treasury and $9.1 billion for JCT. The 10-year revenue loss estimate for FY2006-FY2015 was $256.0 billion for Treasury and $289.9 billion for JCT.

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[13] These conclusions are based on a comparison of two sets of revenue change estimates for FY2005-FY2010 published in the U.S. budget for FY2006. See U.S. Executive Office of the President, Office of Management and Budget, *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2006* (Washington: GPO, 2005), Table 17-3, p. 296, and Table 17-4, p. 300. 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 effects on income taxes, in addition to the effect on estate and gift tax revenues. These are the same estimates presented in **Table 11** of this report (out to FY2015). In contrast, the estimates in Table 17-4, Receipts by Source — for proposed legislation, under estate and gift taxes — include only the effects on estate and gift tax receipts. Comparing the two series suggests the estimated effect of changes in income taxes.

Table 11. Treasury and JCT Estimated Revenue Changes Through FY2015 from Acting in 2005 to Permanently Repeal the Estate and Generation-Skipping Transfer Taxes and Modify the Gift Tax Effective in 2010
(millions of dollars)

Fiscal Year	Treasury Department	Joint Committee on Taxation
2005	4	—
2006	-557	-1,135
2007	-910	-1,591
2008	-1,514	-1,999
2009	-1,847	-1,785
2010	-2,192	-2,556
2011	-22,423	-28,300
2012	-51,215	-54,883
2013	-54,400	-59,269
2014	-58,647	-66,730
2015	-62,352	-71,645
2006-2010	-7,020	-9,065
2006-2015	-256,057	-289,893

Note: These estimates include the projected effect on individual income tax revenue, in addition to estate and gift taxes.

Sources: U.S. Department of the Treasury, *General Explanations of the Administration's Fiscal Year 2006 Revenue Proposals* (referred to as the Bluebook), Washington, February 2005, p. 159. The Treasury Department's annual estimates for FY2005 to FY2010, and the cumulative five- and 10-year estimates are also published in U.S. Executive Office of the President, Office of Management and Budget, *Analytical Perspectives, Budget of the U.S. Government, Fiscal Year 2006*, Table 17-3, p. 296. U.S. Congress, Joint Committee on Taxation, *Estimated Budget Effects of the Revenue Provisions Contained in the President's Fiscal Year 2006 Budget Proposal*, 109th Cong., 1st Sess., JCX-10-05, March 9, 2005, p. 1.

To put these numbers in some perspective, the full set of revenue proposals presented in the Bush Administration's FY2006 budget were estimated by Treasury to cost $106.2 billion over the five-year period FY2006-2010 and $1.3 trillion over the 10-year period FY2006-2015. The JCT estimated a total revenue loss of $127.2

million over five years and $1.5 trillion over 10 years.[14] The revenue loss associated with the repeal of the estate tax and the generation-skipping transfer tax and the modification of the gift taxes represents 7% of the total proposed revenue losses over the period FY2006-FY2010, before total repeal. However, it represents 19% (JCT) or 20% (Treasury) of total estimated revenue costs for the period FY2006-FY2015. This reflects the large effects of full estate tax repeal during the second half of the 10-year period FY2011-FY2015.

For Additional Information

CRS Report 95-444 A. *A History of Federal Estate, Gift, and Generation-Skipping Taxes*, by John R. Luckey.

CRS Report RS20593. *Asset Distribution of Taxable Estates: An Analysis*, by Steven Maguire.

CRS Report RL31092. *Calculating Estate Tax Liability During the Estate Tax Phasedown Period 2001-2009*, by Nonna A. Noto.

CRS Report RS20609. *Economic Issues Surrounding the Estate and Gift Tax: A Brief Summary*, by Jane Gravelle.

CRS Report RL31061. *Estate and Gift Tax Law: Changes Under the Economic Growth and Tax Relief Reconciliation Act of 2001*, by Nonna A. Noto.

CRS Report RL30600. *Estate and Gift Taxes: Economic Issues*, by Jane G. Gravelle and Steven Maguire.

CRS Report RL32818. *Estate Tax Legislation in the 109th Congress*, by Nonna A. Noto.

CRS Report 95-416 A. *Federal Estate, Gift, and Generation-Skipping Taxes: A Description of Current Law*, by John R. Luckey.

CRS Report RS20853. *State Estate and Gift Tax Revenue*, by Steven Maguire.

[14] See source notes for **Table 1**. OMB, *Analytical Perspectives FY 2006*, Table 17-3, p. 298. JCT, *Estimated Budget Effects*, JCX-10-5, p. 4.