

Re: how to compare living standards

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- *From:* William F Hummel <wfhummel@xxxxxxxxxxx>
 - *Date:* Mon, 17 Apr 2006 13:58:42 -0700
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On Mon, 17 Apr 2006 14:23:36 -0500, "Jim Blair" <jeb@xxxxxxxx> wrote:

"William F Hummel" <wfhummel@xxxxxxxxxxx> wrote in message news:30i74292lt5r7eivpja2muu2p18bhmhh5o@xxxxxxxx

On Mon, 17 Apr 2006 11:35:57 -0500, "Jim Blair" <jeb@xxxxxxxx> wrote:

"William F Hummel" <wfhummel@xxxxxxxxxxx> wrote in message

Trustee and trustor are usually the same people, but the beneficiary is never the same as the trustee. Typically the beneficiaries of living trust are the children of the trustee/trustor.

Sorry for the sloppy way I said that. The money passed from parents to children to grand children, bypassing both probate and Uncle Sam.

Individuals were variously trustees or beneficiaries but not both at the

same

time.

The trust avoids probate but does not the Federal estate tax if the value of the estate exceeds the exemption limit.

Hi,

Re: how to compare living standards

Do you agree with the figures cited earlier? Over \$200 billion passed from parents to their offspring each year but only about \$25 collected in estate taxes?

If so, what is the explanation for the low effective tax rate?

If not, which of the figures is incorrect?

The amount of estate and gift tax collected in 2005 was \$24.7 billion according to <http://www.fms.treas.gov/fr/05frusg/05stmt.pdf>. So your figure on revenue is correct. I don't think anyone knows how much is passed from parents to their offspring at time of death. Any figure is a rough estimate at best. Remember, no filing is required on estates whose value falls below the exemption limit.

The gift tax exemption in 2005 was \$1.5 million. Thus if both parents died in 2005, there would be no tax on an estate worth \$3.0 million or less. But if the estate were worth \$5.0 million, for example, the tax would be \$555,800, or about 11.1% of its total value.

The lowest marginal rate on the unified estate and gift tax is 18% on the first \$10,000 above the exemption limit. The highest marginal rate is 47% on the amount exceeding \$2 million. The tax on an estate worth \$100 million would be \$46.4 million, but I suspect few actually pay that large a tax because of the various options available such as prior provisions for foundations, charitable gifts, etc.

What does all this mean? The total estate and gift tax collected obviously depends on the distribution of all estate values. The total value of estates in the region of \$5 million very likely exceeds that of estates in the \$100 million region. A lot of estates valued in the vicinity of the exemption limit can explain why there would be a low average tax rate.

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