

Re: how to compare living standards

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- *From:* "Jim Blair" <jeb@xxxxxxxx>
 - *Date:* Tue, 18 Apr 2006 09:54:34 -0500
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"William F Hummel" <wfhummel@xxxxxxxxxxxx> wrote in message
<news:4et742tdph4lt0435n35solkh6ic4278fh@xxxxxxxxxxxx>

On Mon, 17 Apr 2006 14:23:36 -0500, "Jim Blair" <jeb@xxxxxxxx> wrote:

Hi,

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.

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Hi,

I suspect that there is more to this. The letter I read last night from TIAA/CREF informing me of my options for my IRA distribution cautioned me that if I designate a person (like my wife) as the beneficiary, and I die, the total tax rate on my estate might be as high as 80%. So I should consult with an estate planner before I decide, but it indicated that a trust would likely be a better choice. I note here that my estate including the IRA is well below your \$5million example, and the information on options was not specific to me but was in a general form letter.

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.

And isn't the remaining money (after the estate tax) also considered to be income? If in your \$100 million example, about half is estate tax and the other half is income in the 35% bracket, then the total tax would be in the range that TIAA/CREF warns me of.

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.

Yes. But it would take a lot of \$5M estates relative to \$100M ones to result in an average of 12.5%. I think the popular impression is that the estate tax collects from the very rich, not from those at the upper edge of the "middle class".

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