

A Brief History of Estate Taxes

The only thing certain is change

CAN YOU BASE YOUR FUTURE PLANS ON ESTATE TAX REPEAL?

Debates about the permanent repeal of estate taxes – the death tax according to some – regularly appear in the financial press. In recent weeks, the debate has increased.

Should you base your estate planning decisions on this debate? Your estate plan is a long-term prospect that may need to remain viable for decades. Basing your decision on short-term campaign rhetoric may prove costly in the long run.

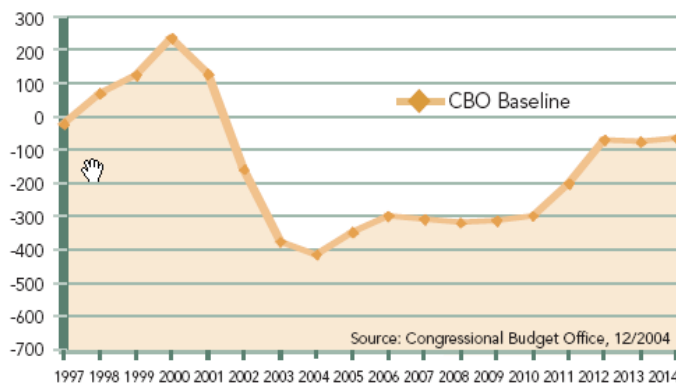
The truth is that estate taxes have been around for most of our history. They have come and gone, regardless of the party in office, often driven by the costs of war and budget issues. These same factors continue to drive the debate today.

The charts below, provided by the Congressional Budget Office, show just how large or small our budget deficits may be based on tax rates and budget pressures.

CAN OUR BUDGET HANDLE ESTATE TAX REPEAL?

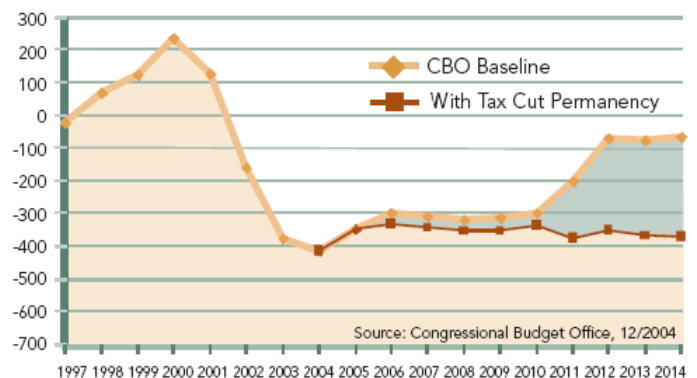
Based on numbers from the Congressional Budget Office (CBO), we are likely to approach moving out of the deficit by 2014. This is based on all current tax cuts expiring on schedule. But look at what happens if tax cuts are made permanent.

THE DEFICIT



If the tax cuts are extended, the deficit continues through 2014 and beyond.

THE DEFICIT – With Tax Cut Permanency



In Support of Estate Tax Repeal

- Tax repeal is usually an easy subject for politicians to endorse.
- The idea of estate tax has been heavily publicized as a “Death Tax,” something intended to incite even [low net middle income worth] taxpayers.
- The estate tax, as a portion of the federal budget, is relatively small.

Why Permanent Repeal is Unlikely

- History shows that even if there is a repeal, the tax will reappear.
- Estate and gift taxes have been primarily driven by budget issues, something that we are not likely to escape from in the near term if other, large tax cuts are retained.
- Debates about the Alternative Minimum Tax, medical costs and Social Security reform are likely to escalate in the next several years.
- The Congressional budget process is involved, although a repeal bill might be submitted in its own right, or as part of a larger budget. However, in many cases, revenue reducing legislation will need 60 votes in the Senate. This is unlikely even with the current make-up of Congress. Even estate tax reform may face certain budgetary hurdles.
- States are already actively looking at means to offset revenue losses as part of the 2001 legislation.

Timeline of Events

▪ 1797-1802

Earliest estate taxes. A stamp tax imposed on certain estates.

▪ 1812

War of 1812 reignites estate tax debate.

▪ 1864-1870

Estate tax reintroduced due to costs of Civil War.

▪ 1894-1902

Controversial estate tax appears and reappears several times before budget surplus removes need.

▪ 1916

Budget surplus that existed a decade earlier is gone. Estate taxes are reintroduced.

▪ 1924

Gift taxes are added for the first time. They appear and disappear several times over the next decade.

▪ 1932

Budget pressures from the Great Depression reintroduce gift taxes. They remain in place to this day.

▪ 1935

Pressure for the redistribution of wealth, in part driven by the Great Depression, raises top estate tax rates to 70%.

▪ 1948-1953

Despite post war prosperity, estate and gift tax rates continue to escalate. Estate tax rates rise as high as 77%. Gift tax rates rise as high as 57.5%.

▪ 1954

Qualified plans are exempted from estate taxes. This exemption only lasts a few decades.

▪ 1960-1969

A decade of debate about estate taxes Spans 4 administrations. Culminates in a proposal for widespread reforms. No action is taken until 1976. Many reforms are never enacted.

▪ 1976

The Tax Reform Act of 1976 introduces a range of tax reforms. Many of the estate tax reforms fall short of the 1960's study. However, new exemptions are enacted.

▪ 1978

Carryover basis, a controversial provision from the 1976 Act, becomes effective. It replaces the popular increase in value at death. But, carryover basis is replaced in 1980 by the Crude Oil Windfall Profits Act. The reason, it is tax-payer unfriendly and difficult to manage. Twenty years later it resurfaces as a potential source of revenue if estate taxes are repealed.

▪ 1982

Qualified plans lose most of their exemption from estate taxes.

▪ 1986

Generation Skipping taxation is introduced with a flat 55% tax. It remains in place to this day.

▪ 1988

Qualified plans, once free from estate taxes and fully taxable AND large plans now face 15% surcharge at death.

▪ 1990

Certain estate freeze provisions, enacted in 1987 to benefit small businesses are repealed.

▪ 1993

An anticipated drop in the top estate tax rate to 50% is eliminated. Rate remains at 55%.

▪ 1997

The unified credit is raised for the first time since it was introduced in 1976. The 15% surcharge on large retirement plans is eliminated after nearly 10 years.

▪ 1999

Budget proposals call for an estate tax repeal for 10 years. Because of technicalities, the repeal only lasts 10 months.

▪ 2001

Estate taxes debate reignites. Taxes are now scheduled to phase out over 10 years, but for budgetary reasons will reappear in 2011.