

Estate Tax Repeal or Reform . . . What Does It Mean to You?

Amounts and Percentages of Estates That Pass to Heirs:

	Current Law				Hypothetical Reform						
	2004-2005	2006-2008	2009	After 2010	\$3,000,000		\$5,000,000		\$10,000,000		Repeal
Exemption Equivalent	\$1,500,000	\$2,000,000	\$3,500,000	\$1,000,000							
Highest Marginal Rate	47%	46%	45%	55%	15%	45%	15%	45%	15%	45%	0
\$100,000,000 Estate	\$53,715,000	\$54,920,000	\$56,575,000	\$45,345,800	\$85,450,000	\$56,350,000	\$85,750,000	\$57,250,000	\$86,500,000	\$59,500,000	\$100,000,000
\$50,000,000 Estate	\$27,215,000	\$27,920,000	\$29,075,000	\$22,845,800	\$42,950,000	\$28,850,000	\$43,250,000	\$29,750,000	\$44,000,000	\$32,000,000	\$50,000,000
\$25,000,000 Estate	\$13,965,000	\$14,420,000	\$15,325,000	\$11,595,800	\$21,700,000	\$15,100,000	\$22,000,000	\$16,000,000	\$22,750,000	\$18,250,000	\$25,000,000
\$10,000,000 Estate	\$6,015,000	\$6,320,000	\$7,075,000	\$5,205,000	\$8,950,000	\$6,850,000	\$9,250,000	\$7,750,000	\$10,000,000	\$10,000,000	\$10,000,000
\$5,000,000 Estate	\$3,365,000	\$3,620,000	\$4,325,000	\$2,955,000	\$4,700,000	\$4,100,000	\$5,000,000	\$5,000,000	\$5,000,000	\$5,000,000	\$5,000,000
\$3,000,000 Estate	\$2,305,000	\$2,540,000	\$3,000,000	\$2,055,000	\$3,000,000	\$3,000,000	\$3,000,000	\$3,000,000	\$3,000,000	\$3,000,000	\$3,000,000
\$1,500,000 Estate	\$1,500,000	\$1,500,000	\$1,500,000	\$1,290,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000
Percentage of Estate that Passes to Heirs	To Heirs = 100%				To Heirs = 70-99%		To Heirs = <70%		To Heirs = <70%		
	Shrinkage = 0%				Shrinkage = 1-30%		Shrinkage = >30%		Shrinkage = >30%		

Points to Ponder:

Historically, if the estate tax is repealed, it comes back when there is a need for revenue.

- ▶ Historically, low estate tax rates increase when the need for revenue increases.
- ▶ Even if federal estate taxes are repealed, most states assess a death tax.
- ▶ Life insurance is a cost-effective way to pay a tax that is assessed when the taxpayer dies.
- ▶ Repeal of estate taxes may include the loss of stepped-up tax basis at death on capital gain property.
- ▶ Regardless of death taxes, life insurance is often needed to provide for income replacement and other family needs.
- ▶ Insurance in trust allows the trust creator to determine how trust assets will be managed and controlled.
- ▶ Life insurance can provide estate equalization among the insured's children when a single asset makes up the bulk of the estate.
- ▶ Life insurance cash values and death benefits can provide good rates of return.
- ▶ A life insurance policy that is no longer needed can often be kept in force without paying additional premiums by reducing the face amount.

History of Estate and Gift Taxes:

- 1797-1801: Tax on stamps, wills, and estates for naval build-up
- 1862-65: Excise tax on legal documents to finance Civil War
- 1898-1902: Estate tax to fund Spanish-American War
- 1916: Estate tax to fund WWI; becomes permanent source of revenue
- 1924: Gift tax passed and repealed off and on for next decade
- 1932: Gift tax becomes permanent
- 1935: Top estate tax rate raised to 70%
- 1940s: Tax rates as high as 77% for estates and 57.5% for gifts
- 1960s - '70s: Debates and proposals on transfer taxes; nothing passed until 1976
- 1978-80: Carryover basis on capital gains passed and repealed
- 1981: \$225,000 exemption, unlimited marital deduction, and generation-skipping tax
- 1986: Generation-skipping tax revised with flat 55% rate
- 1997: Estate tax exemption raised to \$1,000,000 over 10-year period
- 2001: Estate tax exemption gradually increased to \$3,500,000 in 2009; estate tax repealed in 2010; estate tax reinstated in 2011 at pre-tax reform rates and exemptions