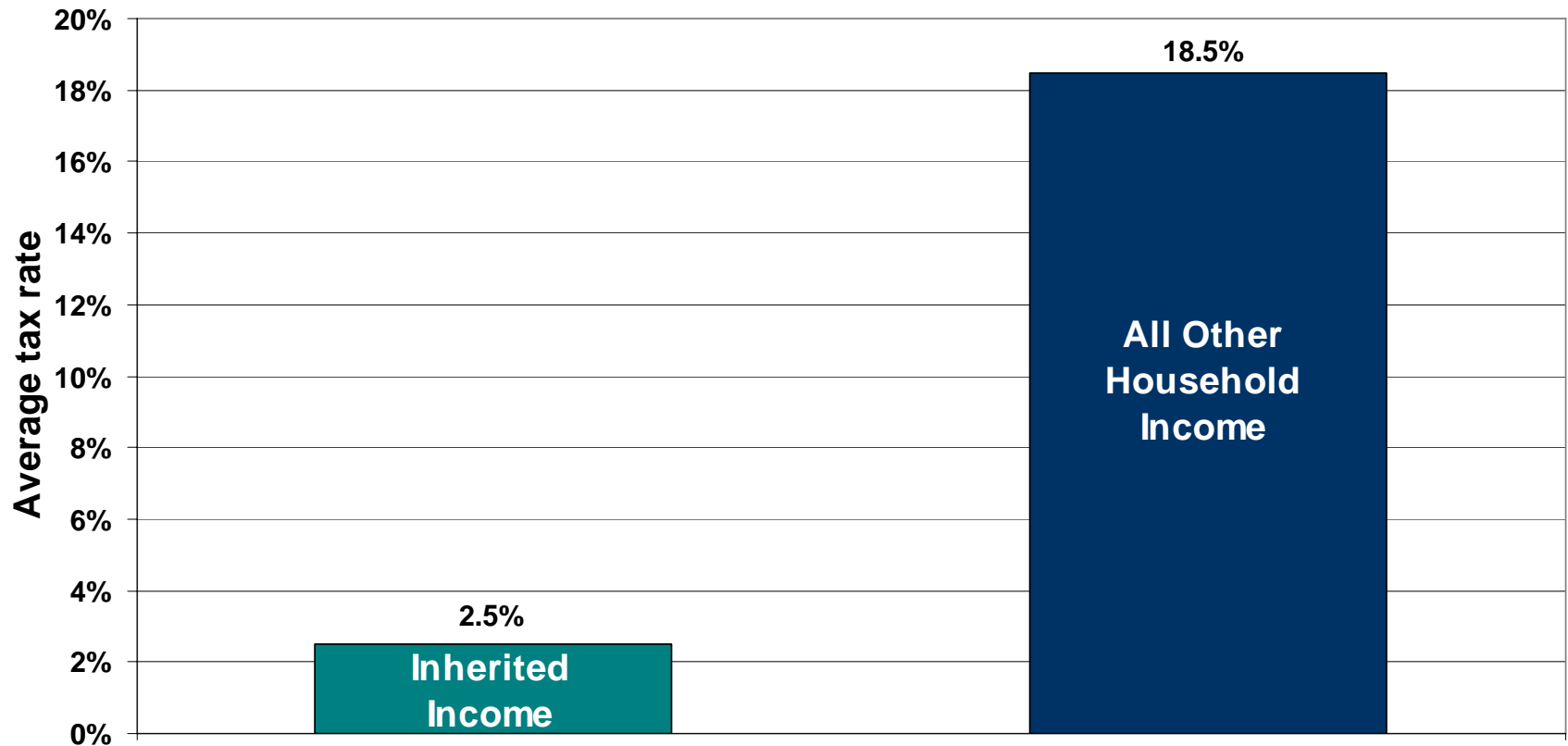


Taxing Privilege More Effectively: Replacing the Estate Tax with an Inheritance Tax

**Lily Batchelder
NYU School of Law**

Average Tax Rate under Income, Payroll, and Estate Taxes



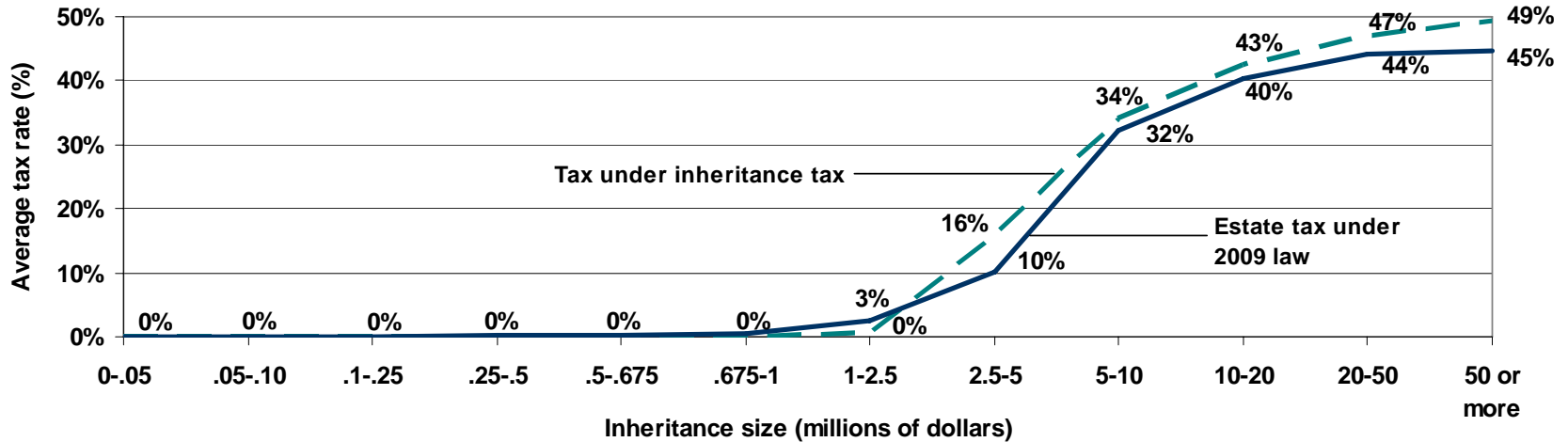
Source: Tax Policy Center. Figure for inherited income is in 2009, for all other household income is in 2007.

Comparison of 2009 Law and Proposal

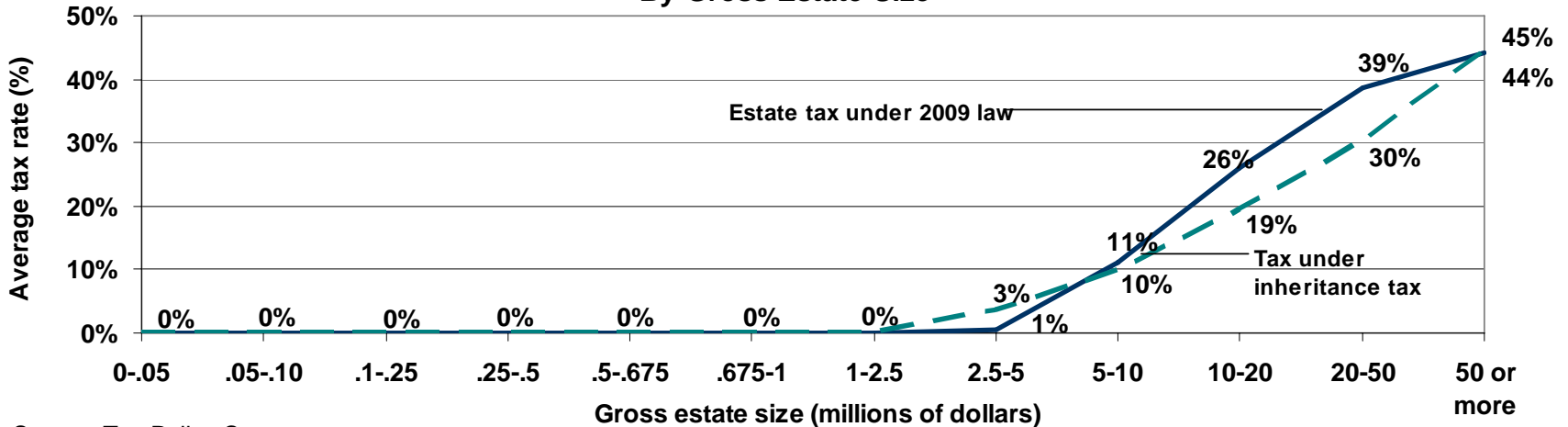
	2009 Law	Proposal
Tax on Bequests	\$3.5 million exemption on lifetime gifts and bequests. 45% on further transfers.	\$2.3 million exemption on lifetime gifts and bequests received. Income tax rate plus 15 percentage points on further inheritances.
Tax on Gifts	\$1 million exemption on lifetime gifts. 41% - 45% on further gifts.	
Annual Exclusion	\$12,000 of gifts made per donee.	\$5,000 of gifts received. (\$2K per donor). \$25,000 of bequests received.
Capital Gains Treatment	Gifts: Carryover basis. Bequests: Accrued gains never taxed.	Carryover basis.
Split and Contingent Transfers	Valued upfront	Value by waiting to see who gets what. Withholding tax in interim.
Family Businesses	Tax on certain closely-held businesses paid in installments over 15 years with below-market interest rate. Special valuation provisions.	Tax on illiquid assets can be deferred at market interest rate until sale, to extent tax exceeds liquid assets inherited.

Average Tax Rate on All Inheritances

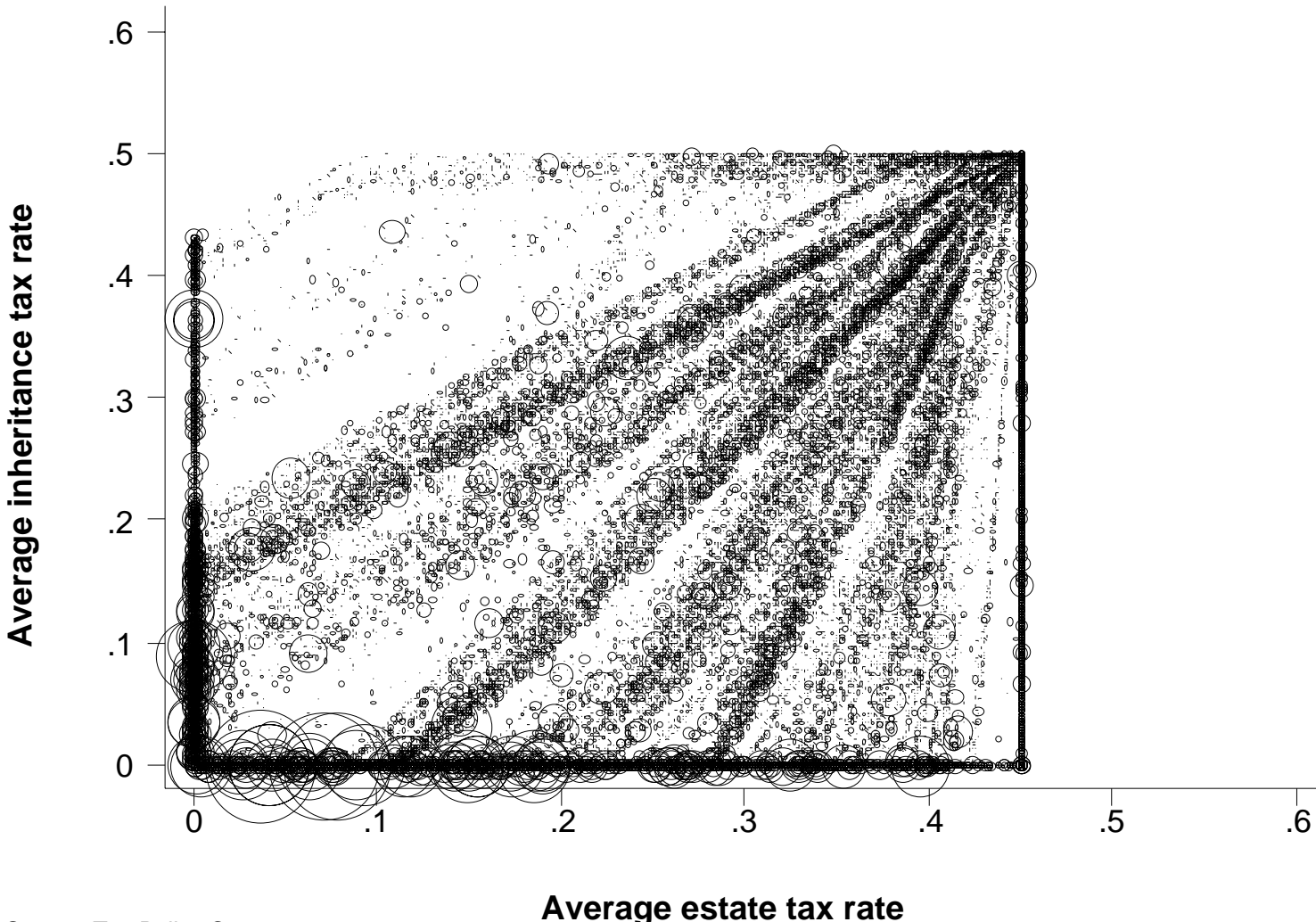
By Inheritance Size



By Gross Estate Size



Average Tax Rate on Inheritances among Individual Heirs Subject to Either Tax



Source: Tax Policy Center

Winning and Losing Heirs by Change in After-Tax Inheritance

