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

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

**By Inheritance Size**

- Inheritance size (millions of dollars)
- Average tax rate (%)
- Tax under inheritance tax
- Estate tax under 2009 law

**By Gross Estate Size**

- Gross estate size (millions of dollars)
- Average tax rate (%)
- Estate tax under 2009 law
- Tax under inheritance tax

Source: Tax Policy Center
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

Source: Tax Policy Center