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Asset Distribution of Taxable Estates: An Analysis

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Summary

This report provides data on the distribution of assets in estates as reported on estate tax returns filed in 2005. This report finds that farm and business assets represent a small share of the total value of taxable estates that filed tax returns in 2005, (2.3% and 10.8%, respectively). That share is concentrated in estates valued over $10 million. For an overview of the estate tax, see CRS Report RL30600, *Estate and Gift Taxes: Economic Issues*, by Jane G. Gravelle and Steven Maguire. This report will be updated as new data become available.

Introduction

The estate and gift tax debate has centered on the perceived need to relieve heirs of the responsibility of remitting taxes on the decedent's transferred assets, particularly in the case of family farms and businesses. The Economic Growth and Tax Relief Reconciliation Act of 2001 (P.L. 107-16), phases out the estate and gift tax by 2010. Repeal of the estate and gift tax for all estates would achieve the policy objective of relief for farm and small-business estates. However, farm assets and business assets represent a relatively small share of total taxable estate value, approximately 13.1% of gross taxable estate value in 2005. (The provisions phasing out the estate tax expire after 2010, although repeal may be made permanent.)

Overview

The estate and gift tax minimum filing requirement is $2.0 million for deaths occurring in 2007. Generally, estates valued below the threshold are not required to file a return. Estates valued over the threshold amount calculate their tax liability based upon the entire (or gross) value of the estate inclusive of the $2.0 million. Deductions from the gross estate value, such as bequests to a surviving spouse (the marital deduction), state estate and inheritance taxes, and donations to charitable organizations, are then subtracted from the gross estate value. The tentative tax liability is determined by the progressive rate schedule provided for in the tax code.

The next step in the calculation of estate tax liability, and perhaps the most important, is the applicable credit. The applicable credit is set such that an estate has the equivalent of a $2.0 million exemption (for deaths occurring in 2007, see **Table 1** below). In many cases, the marital deduction combined with the deduction for charitable contributions can eliminate all estate tax liability.

Table 1. Increases in the Filing Requirement

Year of Death	Filing Requirement or Equivalent Exemption	Applicable Credit
2004 and 2005	$1,500,000	$555,800
2006 through 2008	$2,000,000	$780,800
2009	$3,500,000	$1,525,800
2010	estate tax repealed	estate tax repealed
2011 and after	$1,000,000	$1,000,000

Before 2005, estates were allowed to claim a credit for state death taxes paid. The Economic Growth and Tax Relief Reconciliation Act of 2001, however, gradually repealed the credit for state death taxes; eliminating it in 2005 and replacing it with a deduction for taxes paid. Many states have relied on the federal credit for their estate tax and will need to modify their tax laws to continue collecting their estate and inheritance taxes. According to a recent evaluation of state laws, as of September 2006, "About half the states — some 24 states — continue to collect either an estate or inheritance tax."[1]

The data utilized in this report are from the Internal Revenue Service (IRS), Statistics of Income (SOI) Division.[2] The SOI data report the assets held by estates by gross estate value classes. For this report, farm returns are defined as estates reporting farm assets. Business returns are defined as those estates that include assets typically held by businesses: 'closely held stock,' 'limited partnerships,' 'real estate partnerships,' and 'other non-corporate business assets.' Estates reporting one or more of the four assets were termed business returns. This methodology is imperfect and likely double counts many estates. As a result, the number of business estates would be significantly *overstated* by this estimate.

[1] Elizabeth McNichol, "State Taxes on Inherited Wealth Remain Common: 24 States Levy an Estate or Inheritance Tax," *Center on Budget and Policy Priorities*, Sept. 9, 2006, p. 615.

[2] Statistics of Income, *Estate Tax Returns Filed in 2005*, IRS, SOI unpublished data, Nov. 2006.

Taxable Estate Tax Returns

Of the approximately 2.4 million deaths in 2004 of people 25 years old and over, 1.3% incurred estate and gift tax liability.[3] Further, only 1,715 decedents with taxable estates included farm assets (0.07% of all deaths), and 11,011 taxable estates listed assets of the type typically held by businesses (0.46% of all deaths). The primary reason for the low number of filers relative to the number of deaths in 2004 is the high gross estate value filing threshold. In tax year 2004, only estates valued at greater than $1,500,000 were required to file an estate and gift tax return.[4] This makes the estate tax a relatively progressive tax source.

Table 2 suggests the progressivity of the estate and gift tax in 2005. Taxable estates worth over $10 million accounted for 7.2% of the total taxable estates, yet 47.8% of all estate tax revenue. The 3,600 estates (19.5% of taxable estates) larger than $5 million generated over 63% of total estate tax revenue. Recall that only 1.3% of deaths generated any estate tax liability.

Table 2. Wealth Distribution of Taxable Returns Filed in 2005

Size of Gross Estate	Taxable Returns	Gross Taxable Estate Value (thousands)	Net Estate Tax (thousands)	Percent of Taxable Estate Returns	Percent Federal Net Estate Tax Revenue
All Returns	18,431	$101,771,906	$21,520,989	100.0%	100.0%
1.5 to 2.5 million	8,668	$16,866,733	$1,550,048	47.0%	16.6%
2.5 to 5.0 million	6,162	$20,763,258	$4,393,227	33.4%	20.4%
5.0 to 10.0 million	2,280	$15,590,318	$4,477,023	12.4%	15.3%
10.0 to 20 million	822	$11,251,943	$3,275,972	4.5%	11.1%
over 20.0 million	498	$37,299,654	$7,824,719	2.7%	36.7%

Source: Internal Revenue Service, Statistics of Income, *Estate Tax Returns Filed in 2005*, IRS, SOI unpublished data, November 2006.

[3] The latest available estate tax data are for the 2004 tax year. The estimated number of deaths in 2004 of those 25 and over is based on data from 2003. Death statistics for 2004 reported by age are not yet available. Total number of non-infant deaths in 2004, as reported in "Births, Marriages, Divorces, and Deaths: Provisional Data for 2004," *National Vital Statistics Reports, vol. 53, no. 21*, June 28, 2005, however, was 2,365,700. The data are available at [http://www.cdc.gov/nchs/data/nvsr/nvsr53/nvsr53_15.pdf]. Some estates may have been for individuals that died before their 25th birthday, thus, the percentage could be slightly overstated.

[4] For a detailed history of the estate and gift tax as well as an explanation of current law, see CRS Report 95-416, *Federal Estate, Gift, and Generation-Skipping Taxes: A Description of Current Law*, by John Luckey; and CRS Report 95-444, *A History of Federal Estate, Gift, and Generation-Skipping Taxes*, by John Luckey.

Asset Distribution of Taxable Estates

The SOI data do not distinguish estate tax returns by detailed occupation of the decedent, such as farmer or business person. However, the data do provide significant detail on the distribution of the decedent's assets. **Table 3** summarizes estate tax return asset data from the returns filed in 2005. Generally, assets that represent more of the taxable estate shoulder a greater share of the tax burden. The value of taxable estates is concentrated in the following asset categories: publicly held stocks, state and local bonds, non-farm real estate, personal residences, and cash. These five assets represent 66.4% of total taxable estate value in 2005. Thus, eliminating the estate tax will reduce the tax burden on these assets.

Farm and Business Assets

Table 3 reports that the value of total farm assets ("farm real estate" and "other farm assets") is approximately 3.5% of total taxable gross estate value. Note that the IRS does not separately report farm real estate; CRS estimated an amount for this report. Farm real estate would have been included in the "Other Real Estate" asset category. Real estate represents about 84% of total assets held by non-corporate farms according to recent U.S. Department of Agriculture (USDA) data.[5] Thus, a new category, "farm real estate," was created to better represent farm asset distribution. The primary assumption used to determine the amount of farm real estate is that the ratio of non-real estate farm assets to farm real estate assets (1 to 5.3) is the same for the farms of decedents and for the farms in the USDA data. Thus, by this interpolation, approximately $3.0 billion of the assets in the reported "Other Real Estate" IRS category would likely be farmland. The data reported in **Table 3** reflect this adjustment of the IRS reported data.

The business assets in **Table 3** represent approximately $11.0 billion of total taxable estate value (or 10.8%). The largest is closely held stock, worth approximately $5.9 billion. However, total business assets as reported do not explicitly indicate the portion of those assets held in small businesses.

Though farm and business decedents may have other taxable assets — such as equities and cash — the burden on farm and business assets alone is quite small relative to other assets. Thus, removing the estate and gift tax or lowering the rates in general will have a much greater effect on non-farm and non-business assets.

[5] The farm data are from the U.S. Department of Agriculture, Economic Research Service, available online at [http://www.ers.usda.gov/Data/FarmBalanceSheet/Fbsdmu.htm].

Table 3. Asset Distribution of Taxable Estate Tax Returns Filed in 2005

IRS Defined Asset Category	Total Asset Value ($ in thousands)	Percent of Total Taxable Estate Value
Gross Estate Value	**101,771,906**	**100.00%**
Publicly Held Stock	34,019,003	33.43%
State and Local Bonds	12,319,653	12.11%
Non-farm Real Estate	7,582,227	7.45%
Personal Residence	7,161,594	7.04%
Cash	6,471,578	6.36%
Closely Held Stock*	5,899,244	5.80%
Annuities	4,265,332	4.19%
Cash Management Accounts	4,182,384	4.11%
Other Federal Bonds	3,266,286	3.21%
Limited Partnerships*	3,045,329	2.99%
Farm Real Estate**	2,992,949	2.94%
Mortgage and Notes	2,112,390	2.08%
Corporate and Foreign Bonds	1,406,573	1.38%
Other Assets	1,275,587	1.25%
Real Estate Partnerships*	1,233,297	1.21%
Insurance, Face Value	922,596	0.91%
Art	858,723	0.84%
Other Non-corporate Business Assets*	785,908	0.77%
Non-real estate Farm Assets**	559,560	0.55%
Unclassifiable Mutual Funds	519,952	0.51%
Depletables and/or Intangibles	328,782	0.32%
Mixed Bond Funds	245,322	0.24%
Federal Savings Bonds	221,816	0.22%
Insurance, Policy Loans	32,922	0.03%

Source: Internal Revenue Service, Statistics of Income, *Estate Tax Returns Filed in 2005*, IRS, SOI unpublished data, November 2006.
* Indicates an asset that is included in this report's definition of a business estate.
**Indicates CRS-interpolated estimates, see text for methodology.

Table 4 presents detailed data on farm and business assets by gross estate value. Relatively large farm estates, those valued between $10 million and $20 million, comprise a relatively larger share of total estate value for that estate size category. Overall, however, farm estates appear to be evenly distributed across the estate size categories. Note that farm assets and farm real estate account for approximately 3.5% of total taxable estate value.

In contrast to farm estates, assets typically associated with non-farm businesses are concentrated in estates valued over $10 million. In fact, of the $11.0 billion in total business assets in estates, over $7.9 billion is held in those estates valued over $10 million. As a consequence, smaller-business taxable estates, those valued at less than $10 million, contribute very little to the estate and gift tax base.

Table 4. Percent of Taxable Estates Filed in 2005 with Farm Assets and Business Assets by Size of Estate

Size of Gross Estate	Taxable Estate Value ($ in thousands)			Percent of Taxable Estate Value in Class Represented by:	
	Gross	Farm Assets*	Business Assets	Farm Assets	Business Assets
All Returns	101,771,906	3,552,508	10,963,779	3.49%	10.77%
$1.5 to $2.5 million	16,866,733	518,865	627,045	3.08%	3.72%
$2.5 to $5.0 million	20,763,258	630,210	1,125,043	3.04%	5.42%
$5.0 to $10.0 million	15,590,318	457,251	1,274,626	2.93%	8.18%
$10.0 to $20 million	11,251,943	626,629	1,311,086	5.57%	11.65%
$20.0 million or more	37,299,654	1,319,552	6,625,979	3.54%	17.76%

Source: Internal Revenue Service, Statistics of Income, *Estate Tax Returns Filed in 2005*, IRS, SOI unpublished data, November 2006.
*Includes the CRS-estimated value of farm real estate.

In summary, repeal of the estate and gift tax would clearly achieve the policy objective of relief for estates composed of farm and small-business assets. Farm assets and business assets, however, represent a relatively small share of total taxable estate value, approximately 14.3% at the most. For more on the estate tax and businesses, see CRS Report RL33070, *Estate Taxes and Family Businesses: Economic Issues*, by Jane Gravelle and Steven Maguire.