



Do You Need to Worry About Gift and Estate Taxes? A Look Back in History

**Estate and gift taxes are financial considerations only for the wealthy, right?
Maybe, maybe not! It depends!**

It depends upon how you define wealthy. It depends upon ever-changing tax laws. It depends upon what state you reside in. It depends upon whether the country needs to raise money. It depends upon the general political, social and economic considerations at the time of the discussion. That includes attitudes towards the wealthy and whether they should be contributing more to government coffers. Perhaps most importantly, in combination with some or all of the factors previously mentioned, it depends upon which political party controls the Executive and Legislative branches of government. And that's true at the state level, too.

Generally, at the federal level, Republicans would like a complete repeal of the gift and estate tax systems, or at the very least, to keep the exemption level high. On the other hand, Democrats favor a low exemption level, generally \$3.5 million or less, and increasing taxes on the wealthy.

Today, over 99% of residents need not be concerned about federal gift and estate taxes because the federal exemption amount is \$12.06 million per person for 2022, indexed for inflation. What that means is that generally, an individual can give away, during life or at death, up to \$12.06 million completely free of federal gift and estate taxes. A married couple can double that amount to \$24.12 million, which is certainly out of the financial realm of most residents. That amount may continue to increase with inflation until 2026 when current tax laws will cut that number back in half, unless there are intervening tax law changes. But even at half, while more residents would be affected, most will not.



A review of the history of the federal estate tax system shows that various forms of estate tax have been enacted, repealed, reenacted, repealed again and then reenacted again. The history of the gift tax is similar. Historically, the enactment and repeal of these taxes depended upon the political, economic and social environment at the time, particularly if the country was at war.

The Stamp Tax of 1797

- Fund navy in undeclared war against France
- Repealed 1802

The Revenue Act of 1862

- Fund Civil War
- Repealed 1872

The War Revenue Act of 1898

- Fund Spanish-American War
- Repealed 1903

The Revenue Act of 1916 (the “modern estate tax”)

- Fund World War I

Gift Tax

- Revenue Act of 1924 – introduced
- Revenue Act of 1926 – repealed
- Revenue Act of 1932 – reintroduced and made permanent

Generation Skipping Transfer (“GST”) Tax

- GST tax discourages transfers of wealth, over a certain amount, to grandchildren or lower generations.
- Tax Reform Act of 1976 – introduced

Economic Growth and Tax Relief and Reconciliation Act of 2001

- Estate and GST tax repealed in 2010 (for 2010 decedents)

Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010

- Estate and GST tax reinstated
- \$5 million exemption for 2011 and 2012

American Taxpayer Relief Act of 2012

- \$5 million exemption made “permanent”
- Inflation adjusted

Tax Cuts and Jobs Act of 2017

- Doubled exemption amount
- Inflation adjusted
- Exemption currently at \$12.06 million (for 2022)
- Sunsets on December 31, 2025

Source: Jacobsen, D.B.; Raub, B.G.; Johnson, B.W., The Estate Tax: Ninety Years and Counting. (<https://www.irs.gov/pub/irs-soi/ninetyestate.pdf>)

The federal exemption amounts and tax rates over the last few decades have ranged from \$600,000 to over \$12 million.

Federal Estate and Gift Tax Exemptions Since 1997

Year	Exemption Amount	Top Tax Rate
1997	\$600,000	55%
1998	\$625,000	55%
1999	\$650,000	55%
2000	\$675,000	55%
2001	\$675,000	55%
2002	\$1,000,000	50%
2003	\$1,000,000	49%
2004	\$1,500,000	48%
2005	\$1,500,000	47%

Year	Exemption Amount	Top Tax Rate
2006	\$2,000,000	46%
2007	\$2,000,000	45%
2008	\$2,000,000	45%
2009	\$3,500,000	45%
2010	\$5,000,000 or \$0	35% or 0%
2011	\$5,000,000	35%
2012	\$5,120,000	35%
2013	\$5,250,000	40%
2014	\$5,340,000	40%

Year	Exemption Amount	Top Tax Rate
2015	\$5,430,000	40%
2016	\$5,450,000	40%
2017	\$5,490,000	40%
2018	\$11,180,000	40%
2019	\$11,400,000	40%
2020	\$11,580,000	40%
2021	\$11,700,000	40%
2022	\$12,060,000	40%
2025	Tax Cut and Jobs Act expires in 2025	

To complicate matters, many states also have their own estate and inheritance tax systems. Currently, there are 12 states and the District of Columbia that have an estate tax. An additional 6 states have an inheritance tax system. Maryland is the only state to impose both. Typically, the state estate exemption amounts are significantly lower than the federal exemption, so you may still be subject to state estate taxes even if you are exempt from federal estate taxes. For example, there are some states with only a \$1 million exemption. These days, many people have a net worth exceeding \$1 million when you consider home equity and retirement savings, such as a 401(k) plans. For most, that’s considered neither rich nor wealthy.

So, do we need to worry about federal gift and estate taxes?

Conclusion

Throughout the history of this country, the debate on whether there should be an estate tax system or not has raged on. That debate continues today. While estate taxes have come and gone, the question we all face is: when the time comes for our demise, will we, or won't we, have to contend with estate taxes? That's a planning dilemma. Therefore, it is important to work with an experienced financial professional such as your Security Mutual Life insurance advisor, as well as your tax and legal advisors, to determine the appropriate estate plan and estate tax savings strategies to meet your goals and achieve the best outcome for you and your family.

For More Information Contact:



Contact your Security Mutual Life insurance advisor today to get the process started. Your Security Mutual Life insurance advisor is positioned to help you by working with your attorney and tax professional to review your situation and create an estate and insurance plan appropriate for you and your family.

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