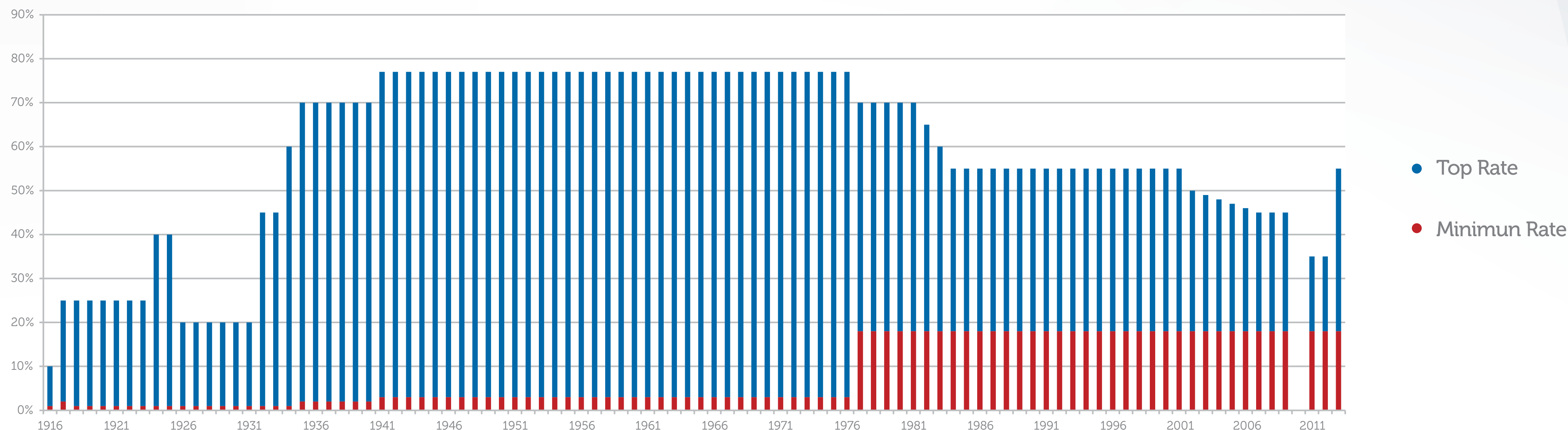
80 YEARS OF TAX HISTORY

The Federal Estate Tax

The estate tax (also known as the death tax) is one of the most inefficient features of the current tax system. Once the headache of the wealthy, it now reaches well into middle-class America. Because the estate tax falls on assets, it reduces incentives to save and invest and, therefore, hampers growth. It also unfairly hits owners of small businesses, family farms, and savers who amass wealth through hard work and thrift.



Financing worldwide conflict at the beginning of the 20thcentury motivated Congress in 1916 to pass the Revenue Act of 1916, which introduced the modern-day income tax and also contained an estate tax with many features of today's system. Even though it was enacted primarily to finance the war effort, the estate tax did not go away after the war ended. Despite sizable budget surpluses, Congress increased rates and introduced a gift tax in 1924. Like the estate tax, the gift tax is a levy on the transfer of property from one person to another. During the 1920s through the 1940s, estate taxes were used as another way to attempt to redistribute income. Tax rates of up to 77% on the largest estates were supposed to prevent wealth from becoming increasingly concentrated in the hands of a few.

In 1976, in an effort to close loopholes, the Estate Tax and the Gift Tax were combined into a single, unified Federal Estate and Gift Tax.

Source: U.S. Treasury Department – Internal Revenue Service 2005

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