Part 1-- Federal Tax Law Explained

FAQ1/A/3 What is the history of federal estate and gift taxation?

Federal estate and gift taxation are 20th Century developments.

A federal estate tax became a permanent part of the government's revenue program in 1916. Since its inception, numerous changes have been made in the federal estate tax rates, exemptions, deductions and credits. Today, the federal estate tax not only raises revenue, but is also an instrument for enacting social policy.

Federal gift taxation, on the other hand, has a different purpose. While the federal estate tax is designed to raise revenue on transfers that take place at a property owner's death, the federal gift tax is designed to ensure that those estate taxes ultimately are collected by the government. Without a gift tax, it would be possible for a property owner to dispose of his/her assets during life, thus avoiding their taxation at the property owner's death. The federal gift tax also discourages the redistribution of income among members of a family in order to reduce income taxes payable.

In 1976, a unified rate schedule and credit for federal estate and gift taxation was enacted. The Economic Growth and Tax Relief Reconciliation Act of 2001 then enacted a schedule of gradual increases in the unified credit and gradual decreases in the top estate tax rate through 2009. In 2010, it repealed the estate tax altogether, but just for that one year. Without future Congressional action, the 2001 federal estate tax rules would have been reinstated in 2011, but with a $1 million unified credit exemption equivalent (as scheduled to increase prior to the Act). Instead, further legislation extended the return to 2001 federal estate tax rules until 2013. Most recently, the Tax Cuts and Jobs Act of 2017 doubled the estate tax unified credit exemption equivalent from $5 million to $10 million ($12.06 million in 2022 as indexed for inflation). Without future Congressional action, however, the unified credit exemption equivalent will revert back to an inflation-adjusted $5 million in 2026.