



Ruminations on Transfer Taxes

You may find it difficult to compare gift vs. estate vs. generation skipping tax rates and how they are computed, especially considering the “inclusive” vs. “exclusive” treatment of various pieces. So, to make the process easier, I did a calculation that “normalizes” them to equivalent terms. Assume that you have already used up all of your exemptions and exclusions, and ignore the three-year lookback on transfer taxes paid, etc. If you give/leave funds to your spouse, there is no tax impact. However, if you choose to have your spouse get \$1,000,000 less, a portion will go to tax and a portion to heirs. This seems like a better way of thinking about the efficiency of those transfers because they are in the same terms.

In other words, at a “cost” of \$1,000,000 total, how much will the government get and how much will the children or grandchildren get? You might assume that the current rates, 35% for the generation skipping tax and 35% for gift/estate tax, will equal 70% if both apply; but it is a lot more complicated than that.

The short version below is ranked in order of efficiency:

<u>Type of Transfer</u>	<u>Effective Tax Rate</u>
Gift to Children	25.9%
Bequest to Children	35.0%
Gift to Grandchildren	41.2%
Bequest to Grandchildren	51.9%

Of course, many options are available for planning around those rates, but I do think the comparison is interesting, and I haven’t seen it laid out this way anywhere else. Also, if the asset is an IRA or something similar that is considered IRD (Income in Respect of a Decedent), you will have income taxes to contend with as well (and an offsetting deduction for the federal estate taxes attributable to the IRD asset).

Notes:

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This report was originally written in March, 2006 and was last reviewed/updated in August, 2011.

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