Chapter 3: Basic Gift Tax Return Data

Inter Vivos Wealth Transfers, 1997 Gifts

by Martha Britton Eller

Like transfers of wealth at death, wealth transfers during life—called *inter vivos* wealth transfers—are subject to Federal taxation. Only gifts in excess of $10,000 were potentially taxable for Gift Year 1997. Because of this relatively high filing threshold, gift tax data extracted from Federal gift tax returns provide a glimpse into the economic behavior of predominantly wealthy Americans. Such behavior includes donors' transfers of money and other assets to gift recipients and the creation and continued funding of trusts, both of which are reported on gift tax returns. In order to learn more about those who file Federal gift tax returns, the Statistics of Income Division (SOI) of the Internal Revenue Service (IRS), an organization that extracts and publishes data from Federal tax and information returns, initiated the Gift Tax Panel Study. Information available from the study includes estimates of reported gift tax liabilities for Gift Year 1997, the composition of gifted assets in 1997, and the prevalence and size of valuation discounts claimed by donors, as well as data on the lifetime giving patterns of 1997 donors.

In the course of its gift tax study, SOI collected data from Federal gift tax returns filed by individuals who gave gifts during 1997 and reported those gifts to IRS in 1998. The population of 1997 donors included 218,008 individuals who transferred more than $31.1 billion in total gifts and reported $3.2 billion in net gift tax liability in 1998 [1]. Females comprised 53.3 percent of the gift tax filing population, and males comprised 46.7 percent of the population. Only 7.2 percent of the filing population actually reported a gift tax liability, and the average reported liability for those filers was $205,210. Donors gave a wide variety of gifts in 1997. The largest category of gifts was cash and cash management accounts, which made up more than a third of all gifts. The second and third largest categories of gifts were stock and real estate, respectively. While only a small percentage of donors, 10.1 percent, utilized discounts in the valuation of gifts, the size of total valuation discounts, $3.4 billion, was rather significant and represented 33.0 percent of the full value of discounted assets.

Prior to SOI's gift tax study, few data, besides broad totals from IRS revenue processing and collections, have been available for the gift tax filing population. SOI obtained and extracted data from post-1976 gift tax returns filed by donors included in the study, creating a retrospective panel of returns for selected donors. That is, both longitudinal data for years 1977 through 1997 and cross-sectional data for Gift Year 1997 have been collected. At this writing, only cross-sectional data have been analyzed. The panel study is the first in a series of annual gift tax studies that SOI will conduct in coming years. Future studies will provide cross-sectional gift tax data for a focus year of interest, as well as longitudinal gift tax data for a continuing sample of 1997 donors [2].

Background

The Federal gift tax is one of three taxes included in the current U.S. transfer tax system, which, simply stated, is a unified system that taxes transfers of property completed both during life and at death. The two other components of the U.S. transfer tax system are the estate tax, applied to the value of property transferred at death, and the generation-skipping transfer tax, applied to the value of property transferred to trust for the benefit of an individual or individuals two or more generations below that of the grantor, or donor.

The first Federal gift tax was introduced in the Revenue Act of 1924. The U.S. Congress imposed the 1924 tax after it realized that wealthy Americans could avoid the estate tax, introduced in 1916, by transferring wealth during their lifetimes. Tax-free *inter vivos* gifts effectively negated the estate tax's capacity to redistribute wealth accumulated by large estates and removed a source of revenue from the Federal government's reach.

The first gift tax was short-lived. Due to strong opposition against estate and gift taxes during the 1920's, Congress repealed the gift tax with the Revenue Act of 1926 [3]. Reintroduced in the Revenue Act of 1932, when the need to finance Federal spending during the Great Depression outweighed opposition to gift taxation, the 1932 gift tax allowed a grantor to transfer $50,000 tax-free during his or her life and allowed a $5,000 annual exclusion per gift recipient, or donee. The 1932 Act set gift tax rates

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The gift tax will remain, even after the repeal of the estate tax in 2010.

at three-quarters of estate tax rates, a level maintained until 1976, when Congress passed the Tax Reform Act (TRA) of 1976 and created the unified estate and gift tax framework that consisted of a "single, graduated rate of tax imposed on both lifetime gift and testamentary dispositions" [4]. The generation-skipping transfer tax was also introduced in TRA of 1976.

During the years since 1932, features such as a deduction for gifts to spouse and rules on split gifts, those gifts made jointly by a married couple, were introduced to gift tax law, but the predominant changes to the law were adjustments to the amount of annual exclusion and lifetime exemption. A gift is taxed under the law that is in effect during the year in which the gift is completed, or given. According to transfer tax law in effect for gifts completed in 1997, the focus of this article, a grantor was required to file a Federal gift tax return for transfers of property in excess of $10,000 per donee, and the lifetime giving threshold was $600,000. Under Internal Revenue Code (IRC) section 2511(a), the gift tax applies to a broad spectrum of gifts, "whether the gift is in trust or otherwise, whether the gift is direct or indirect, and whether the property is real or personal, tangible or intangible." Regulation 25.2511-1(c)(1) provides that a completed gift, one that is subject to tax, is "any transaction in which an interest in property is gratuitously passed or conferred upon another, regardless of the means or device employed."

While the definition of gift is quite broad, there are three types of transfers that are not recognized as "gifts" under the IRC, and individuals are not required to report these transfers: transfers to qualifying political organizations, direct payments to medical institutions or to individuals who provide medical care to third parties, and direct payments to educational institutions on behalf of third parties. Outright gifts to spouses and outright gifts to qualifying charitable organizations are also provided special treatment under the IRC. The IRC grants an unlimited deduction for all outright gifts to spouses, the marital deduction, as well as an unlimited deduction for all outright gifts to qualifying charitable organizations, the charitable deduction. There is no reporting requirement for outright gifts to spouses, while charitable gifts that exceed the annual exclusion must be reported.

With the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001, the U.S. Congress established tax law that will significantly alter the Federal transfer tax system as it is today. Between now and the end of the decade, the exemption amounts for the estate and gift taxes, currently combined through a unified system of taxation, will increase to $3.5 million and $1 million, respectively. The maximum estate and gift tax rate will gradually decrease as the decade progresses, and the generation-skipping transfer tax exemption will match the higher estate tax exemption beginning in 2004. In 2010, the estate and generation-skipping transfer taxes will be repealed, but the gift tax will be kept in place with a flat rate of 35 percent. The EGTRRA provisions will expire in 2011.

The 1997 Donor Population

The population of 1997 donors included 218,008 individuals who transferred more than $31.1 billion in total gifts and reported $3.2 billion in net gift tax liability in 1998 [5]. The gift tax population was more than twice the population of estates for which estate tax returns were filed in 1998: estates filed 97,856 returns in 1998, reported combined gross estates that totaled $173.8 billion, and reported $20.3 billion in net estate tax liability [6]. And the population of gift tax filers for 1997 gifts represented only a minute fraction of the total U.S. resident population in 1997, far less than 1 percent. Under the tax law in effect for wealth transfers completed in 1997, a donor was required to file a Federal gift tax return for transfers of property in excess of $10,000 per recipient, or donee, while an estate was required to file a Federal estate tax return if the gross value of assets transferred at death equaled or exceeded $600,000.

Unlike the estate tax population, which is comprised of a male majority, the majority of the gift tax population was female, as 53.3 percent of the population was female and only 46.7 percent was male (Figure A). The sex composition of the gift tax population may be the result of astute estate tax planning on the part of wealthy females and their financial planners. Since women, on average, outlive their male counterparts, they, more so than men,

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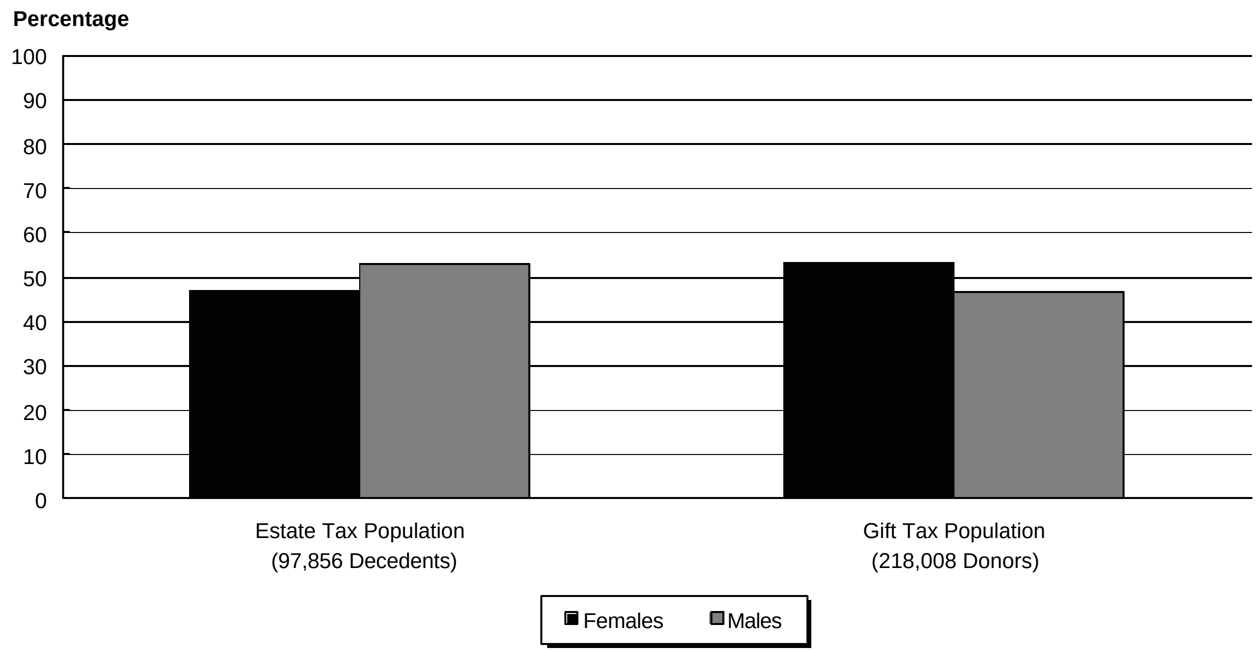
Figure A

Composition of Estate and Gift Tax Populations, by Sex



may attempt to reduce their potential taxable estates, for estate tax purposes, by giving gifts during life. This may explain their overriding presence in the donor population.

Donors who completed gifts in 1997 filed nontaxable returns in most cases. The overwhelming majority of donors, 92.8 percent, reported no gift tax liability, while only 7.2 percent of the population reported a tax liability (Figure B). And, although the population of donors who reported a tax liability was comprised of a female majority, women and men were almost equally likely to report a tax liability among their own subpopulations. Females reported a tax liability on 7.9 percent of their returns, and males reported a tax liability on 6.4 percent of their returns.

Married Donors

Federal gift tax law allows married couples to divide, or "split," gifts to third parties. By agreeing to split gifts, a couple doubles the value of the annual exclusion allowed under gift tax law, from $10,000 to $20,000 per donee. However, in order to qualify for split gifts, certain requirements must be met. For instance, both spouses must be citizens or residents of the United States, and they must be married to one another at the time of the gift. If a couple's marital status changes during the year of the gift, due to divorce or death, then no spouse may remarry and still elect to split gifts. In addition, agreeing to split gifts requires that all gifts to third parties, both taxable and nontaxable, must be split. When taxable gifts are given, the annual exclusion is doubled to $20,000, but, in turn, both spouses' available unified credits are depleted, according to Federal gift tax law in effect for 1997 gifts. Both the donor spouse and the consenting spouse must file gift tax returns unless certain requirements are met.

The gift tax filing population for 1997, some 218,008 donors, included donors who reported only their own gifts, donors who reported gifts of their own and gifts of their spouses, and donors who reported only gifts of their spouses. Of the 218,008 donors, 184,075 individuals gave gifts that totaled $32.3 billion, and 72,075 of those donors attributed half of their gifts to their spouses (Figure C). The total value of gifts attributed to spouses was $6.5 billion. In addition, 55,296 donors included $5.3 billion in spouses' gifts on their own gift tax returns.

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Figure B

Percentage of Taxable and Nontaxable Gift Tax Returns, 1997 Donors

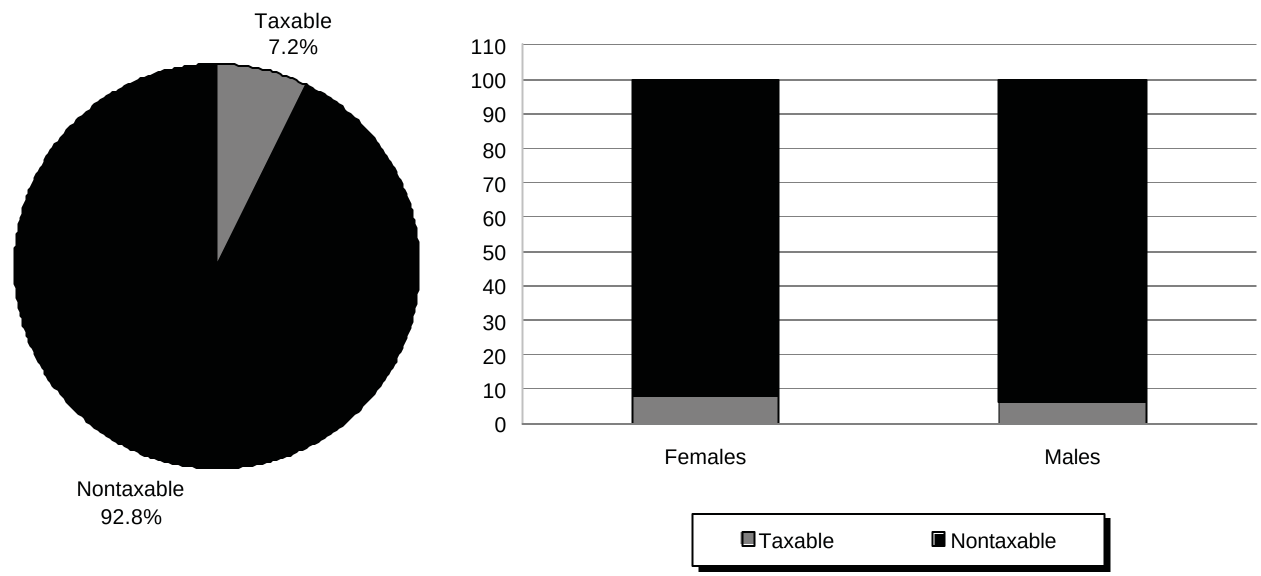
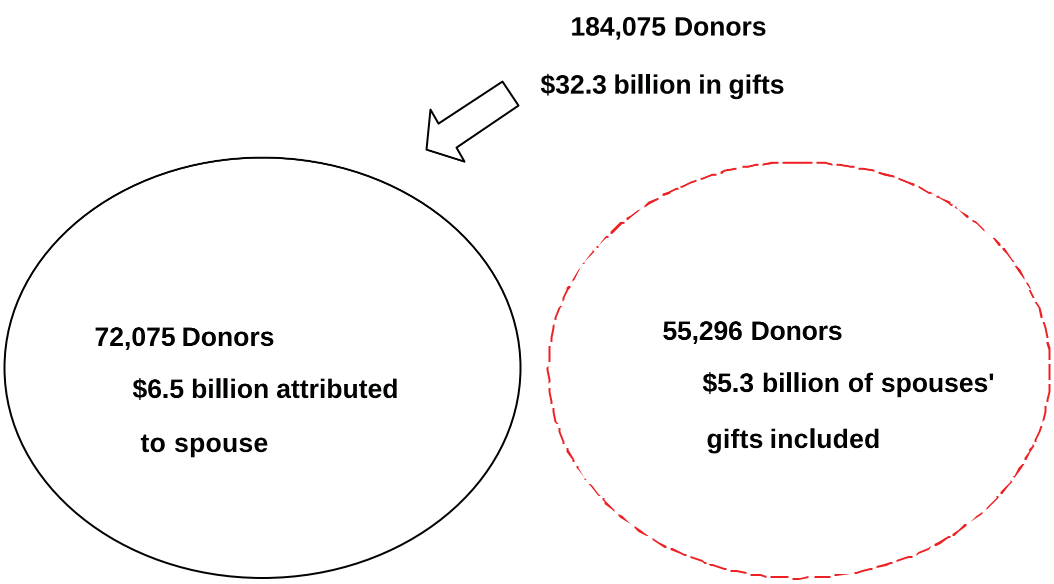


Figure C

Gift-Splitting in the 1997 Donor Population



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A donor is not obligated to report any outright gifts of present interest to his or her spouse under Federal gift tax law. However, a donor is required to report gifts to a spouse if the spouse is not a U.S. citizen at the time of the gift, if the gift was a terminable interest, such as a life or income interest in a trust, or if the gift was a future interest [7]. A donor is not required to report gifts of life interests with power of appointment, since those gifts essentially become the property of the receiving spouse, in that the receiving spouse may, for example, specify the distribution of income from a trust [8].

Gift tax law also provides for an unlimited marital deduction for all outright gifts to a spouse. Terminable gifts, however, do not typically qualify for the marital deduction. For Gift Year 1997, some 2,352 donors, or 1.1 percent of the donor population, deducted the value of gifts to their spouses. The amount of the deduction exceeded $816.5 million, or 2.6 percent of total gifts.

Gifts in 1997

Since the gift tax return requires donors to report transferred assets and the value of those assets, in addition to donor information, SOI has collected data on the asset composition of gifts and the method by which gifts were given, i.e., whether gifts were given directly or through trust. Donors who gave gifts in 1997 transferred assets to almost 690,000 gift recipients, including both individuals and trusts (Figure D). Females and males represented 47.7 percent and 47.0 percent of the recipient population, respectively, while trusts created or maintained through gifts, as well as unknown recipients, represented 5.3 percent of the donee population [9].

The largest category of gifts was cash and cash management accounts. Donors gave $11.8 billion in cash and cash management accounts, 36.4 percent of total gifts (Figure E) [10]. Donors' second largest category of gifts, at 33.7 percent of total gifts, was stock. Donors gave $3.6 billion in the stock of closely held corporations and $7.2 billion in publicly traded corporate stock. The third largest category of 1997 gifts was real estate, which includes the value of personal residences, commercial real estate, real estate partnerships, and other real estate. Donors

Figure D

Composition of Donee Population

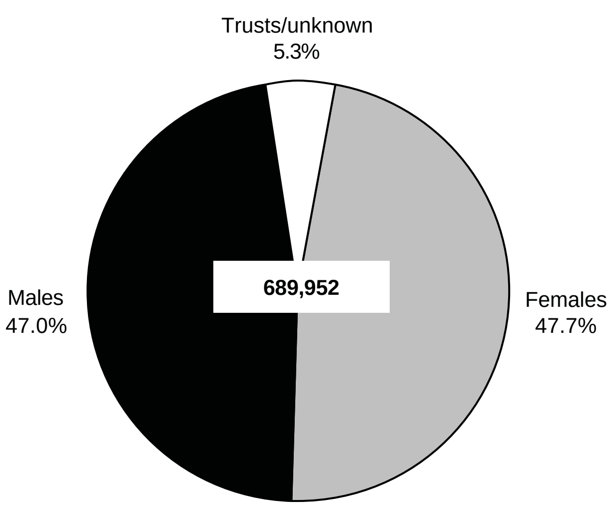
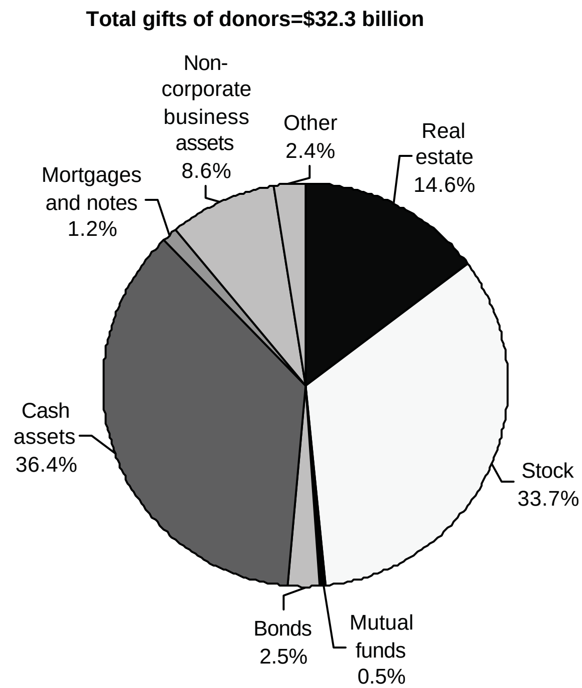


Figure E

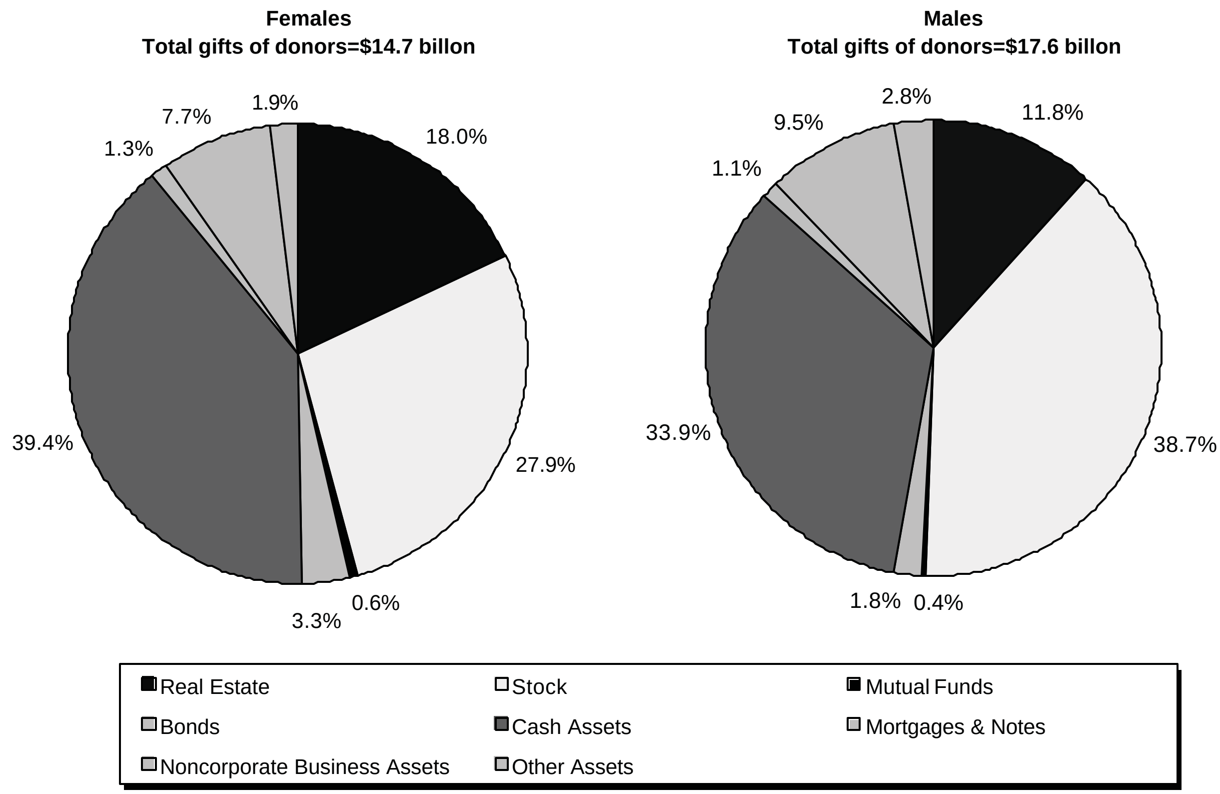
Asset Composition of Gifts



NOTE: Percentages do not add to 100 percent due to rounding

Figure F

Asset Composition of Gifts, by Sex of Donor



NOTE: Percentages do not add to 100 percent due to rounding

gave more than $4.7 billion in real estate, 14.6 percent of total gifts.

Although women comprised the majority of the donor population, they transferred gifts of lesser total value than the gifts of their male counterparts. Women gave $14.7 billion in total gifts, while men gave $17.6 billion in gifts (Figure F). Women and men also differed somewhat in the composition of their gifts. While both preferred cash, stock, and real estate assets more than other assets, they differed in their first and second preferences. Overall, in terms of the amount given, women preferred gifts of cash or cash management accounts, which represented 39.4 percent of their total gifts, and men predominantly gave gifts of stock, which represented 38.7 percent of their total gifts. The second largest category of gifts for women was stock, 27.9 percent of total gifts. For men, the second largest category was cash assets, 33.9 percent of gifts. Both women and men selected real estate assets as their third preference.

Donors' overall preference for giving cash foretells yet another preference—one for direct, or outright, gifts. Together, women and men transferred 68.6 percent of property through direct gifts, which allow recipients immediate and unrestricted access to gifted property (Figure G). The remaining gifts, 31.4 percent, were given through trust instruments, which typically restrict donees' access to underlying trust assets. About 12.0 percent of gifts were given through simple trusts that are established for the benefit of one individual. Other trusts, including family, marital, generation-skipping, and insurance trusts and excluding split-interest trusts, represented 12.5 percent of total gifts. The remaining gifts, 6.9 percent, were given through a variety of split-interest trusts, which are established by donors for the benefit

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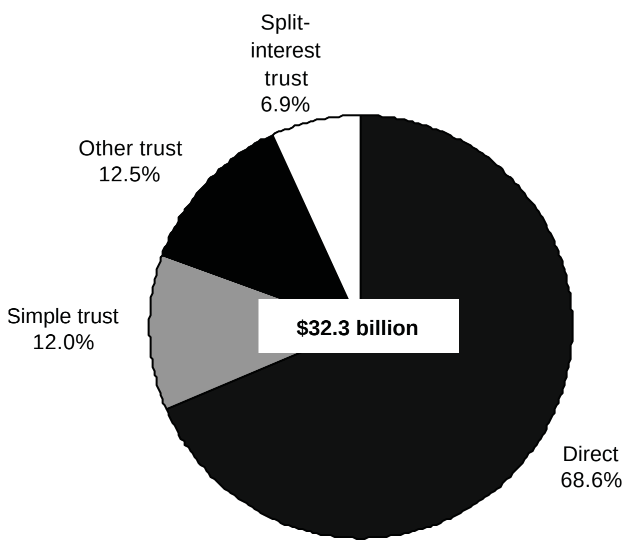
Figure G

Composition of Gifts, by Type of Instrument



of both charities and private individuals. Split-interest trusts include charitable lead trusts (annuity or unitrust), charitable remainder trusts (annuity or unitrust), and pooled income funds. Women, who tended to give cash gifts, had a higher preference for direct gifts than did men, who gave a higher percentage of gifts through trust (Figure H).

Use of Valuation Discounts

For gift tax purposes, transferred property is valued at fair market value on the date of the gift. Fair market value is the value at which property would pass from a willing seller to a willing buyer. However, the value of a property interest may be reduced, or discounted, from fair market value due to certain characteristics or qualities of the ownership interests in that property, such as lack of control or lack of marketability. The reduction or discounting from fair market value is known as "valuation discounting." Because the value of the transferred property is reduced by discounting, the amount of taxes owed on

Figure H

Composition of Gifts, by Sex of Donor and Type of Instrument

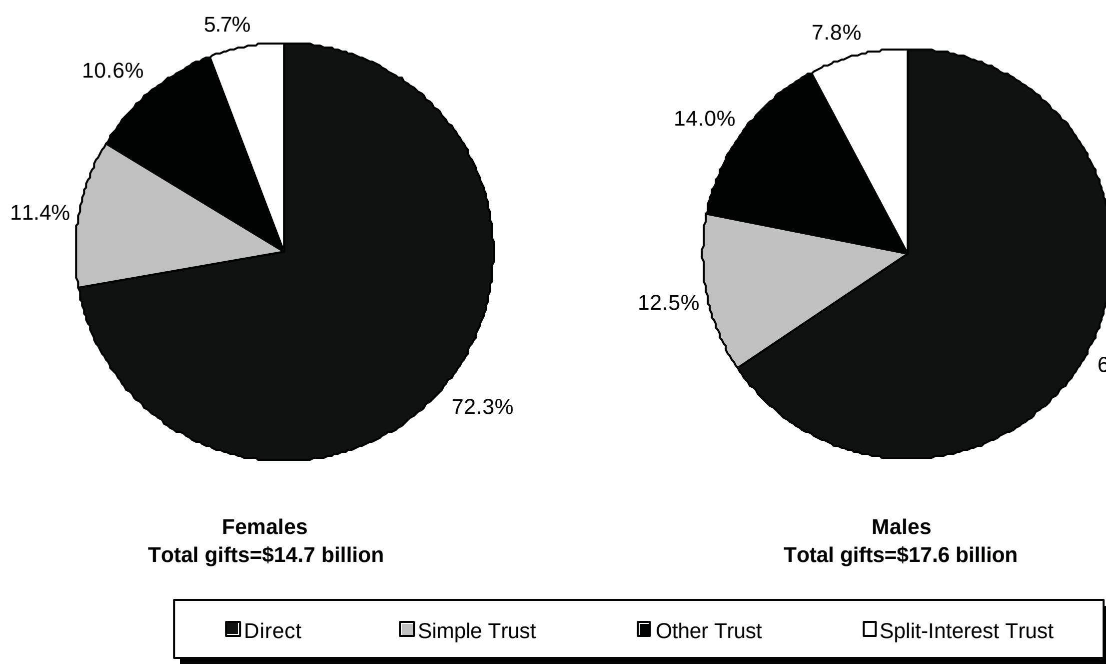


Figure I

Donors with Discounts: Full Value of Assets and Valuation Discounts, by Size of Valuation Discount

Size of valuation discount	Number of returns	Total assets, full value	Valuation discounts
	(1)	(2)	(3)
Total	**21,925**	**10,418,107,098**	**3,433,185,085**
Size of valuation discount:			
Less than $1,000	197	17,807,405	111,862
$1,000 under $2,000	123	2,166,862	198,086
$2,000 under $3,000	487	10,397,017	1,200,040
$3,000 under $4,000	121	4,779,272	453,521
$4,000 under $5,000	436	44,714,486	1,914,272
$5,000 under $6,000	46	12,459,370	251,142
$6,000 under $7,000	370	16,354,851	2,446,470
$7,000 under $8,000	206	8,589,484	1,521,321
$8,000 under $9,000	389	41,955,989	3,241,401
$9,000 under $10,000	369	32,452,886	3,531,298
$10,000 under $20,000	2,953	276,388,418	44,044,558
$20,000 under $30,000	3,120	297,225,092	80,324,052
$30,000 under $40,000	1,517	265,365,028	52,502,542
$40,000 under $50,000	1,339	234,207,282	61,317,452
$50,000 under $100,000	3,234	915,954,352	236,744,516
$100,000 under $150,000	1,736	766,578,383	218,160,563
$150,000 under $200,000	1,224	688,689,376	211,401,138
$200,000 under $250,000	770	564,353,069	173,006,883
$250,000 under $300,000	605	532,865,906	164,327,199
$300,000 under $350,000	613	529,079,904	198,460,838
$350,000 under $400,000	392	370,955,323	143,776,100
$400,000 under $450,000	357	399,080,921	151,217,597
$450,000 under $500,000	212	263,440,057	100,604,082
$500,000 under $550,000	197	261,603,667	102,998,626
$550,000 under $600,000	119	183,467,008	69,300,096
$600,000 under $650,000	111	187,582,494	69,311,400
$650,000 and above	682	3,489,593,198	1,340,818,031

the transfer of such property may also be reduced. Only 10.1 percent of the donor population utilized discounts in the valuation of gifts, but the size of total discounts was rather significant. For gifts completed in 1997, donors took $3.4 billion in valuation discounts, which represented 33.0 percent of the full value of discounted assets and 9.6 percent of the full value of all assets (Figure I). Donors took discounts of varying sizes, from less than $1,000 to more than $650,000. Donors who utilized discounts of $650,000 or more took more than $1.3 billion in total discounts, or 39.1 percent of all discounts for 1997 gifts.

Of the almost 690,000 donees who received gifts in 1997, about 13.5 percent received gifts that were discounted. Some gifts were discounted by relatively little, less than 20 percent, while others were discounted to a larger degree, 40 percent or more (Figure J). The majority of discounted gifts, 58.6 percent, were discounted between 20 percent and 40 percent, while 16.0 percent were discounted less than 20 percent, and 25.4 percent were discounted 40 percent or more.

Figure J

Size of Valuation Discounts as a Percentage of Full Value of Assets

Percentage of valuation discount	Valuation discount: Number of discounted gifts	Valuation discount: Amount of discount
All discounted gifts	**93,395**	**3,433,185,085**
Less than 20 percent	14,909	116,615,326
20 percent under 40 percent	54,799	1,744,410,845
40 percent or higher	23,687	1,572,158,914

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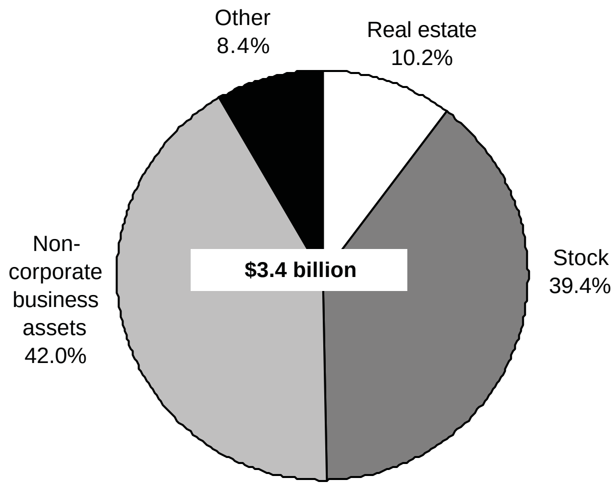
Figure K

Composition of Valuation Discounts, by Asset Type



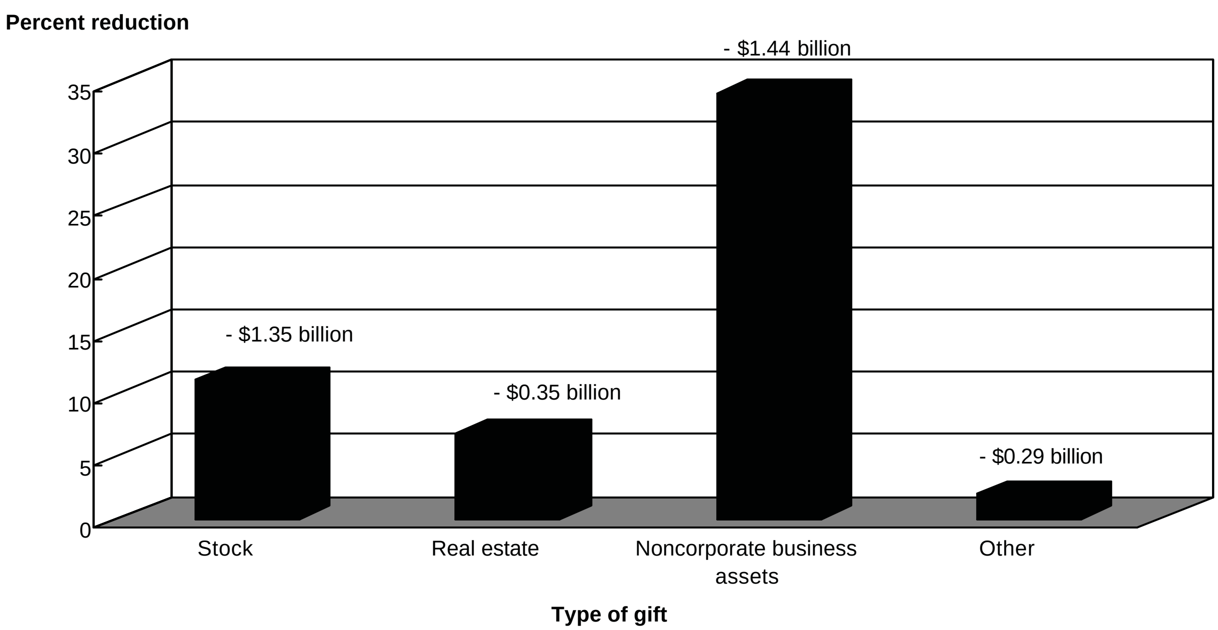
NOTE: Other category includes bonds, mortgages and notes, mutual funds, cash assets, depletables/intangibles, farm assets, and insurance.

Donors took valuation discounts on a wide variety of transferred assets. The largest percentage of discounts was applied to the value of noncorporate business assets, including limited and family limited partnerships and noncorporate business assets. These discounts represented 42.0 percent of all discounts and exceeded $1.44 billion (Figure K). Stock holdings were discounted $1.35 billion, or 39.4 percent of total discounts, the second largest category of discounts. The third largest category of discounts was the real estate category, which includes discounts on the value of personal residences, commercial real estate, real estate partnerships, and other real estate. Discounts taken on real estate assets totaled $348.9 million and represented 10.2 percent of total discounts.

The size of discounts varied widely across asset, or gift, categories. The largest reduction in value was applied to noncorporate business assets, which sustained a 34.1-percent decrease in value due to discounting (Figure L). The value of stock was reduced by 11.1 percent, due to discounting, and the value of real estate was reduced by 6.9 percent.

Figure L

Reduction in Value of Gifts Due to Discounts



Inter Vivos Wealth Transfers, 1997 Gifts

Data Sources and Limitations

The Gift Tax Panel Study is an exception to the usual design of SOI studies in which statistical samples are based on estimates of given populations of returns. Because SOI sampling of returns normally occurs immediately after IRS processing of returns for tax revenue purposes, the final population of returns is not known at the time of sample design and weekly selections. But the population of gift tax filers was known before the inception of the gift tax panel study, because the sample frame for the study was the 1998 IRS Returns Transaction File (RTF), a data file that contains all Tax Year 1997 gift tax returns that posted to the IRS Master File during revenue processing in 1998 [11].

The sampling frame for the Gift Tax Panel Study included 219,414 Federal gift tax returns filed for gifts completed in 1997. Based on budget and other constraints, a sample of 10,000 returns, or donors, was targeted. The sample design for the study is a random sample stratified by two variables: taxability status and size of total gifts (prior to the subtraction of annual exclusions and deductions in the calculation of total taxable gifts). Taxability status is divided into two categories: nontaxable (i.e., no gift tax liability reported) and taxable (i.e., gift tax liability reported). The second stratifier, size of total gifts, is divided into four or five categories, depending on taxability status. Each stratum is labeled with a sample code.

Neyman allocation is used to assign the designated sample to the stratum. A Bernoulli sample is selected independently from each stratum. In Bernoulli sampling, the sample size is a random number. For nontaxable returns, sampling rates vary from 0.9 percent, for returns with total gifts under $100,000, to 100 percent, for returns with $1 million or more in total gifts. For taxable returns, sampling rates vary from 12.6 percent, for returns with total gifts under $100,000, to 100 percent, for returns with total gifts of $1 million or more.

The sampling selection scheme for each noncertainty stratum is based on the Taxpayer Identification Number (TIN), which is the donor's SSN, as found on the return and the RTF. An integer function of the SSN, called the Transformed Taxpayer Identification Number (TTIN), is computed. The last four digits of the TTIN is a pseudorandom number. A return for which the pseudorandom number is less than the sampling rate multiplied by 10,000 is selected into the sample. Any returns with total gifts of $1 million or more were automatically selected. Because all post-1976 gift tax returns for each donor in the sample are included in the study, the total number of Federal gift tax returns in the panel is 46,300.

Each return in the sample is weighted to reflect its share of the population of 1998 filers who gave gifts in 1997. Because of the variation of the sample sizes, the post-stratification technique is used. The post-stratified weight is computed by dividing the population count of filed returns in a given stratum by the realized number of the sample return in that stratum. These weights are adjusted for missing returns. The weights range from 1.08 for the largest strata of nontaxable gifts to 120.05 for the smallest strata of taxable gifts. These weights are applied to the sample data to produce aggregate estimates for items of interest, such as total gifts, total deductions, and total taxes.

Summary

The population of tax filers for 1997 gifts, made up of 218,008 predominantly wealthy Americans, represented only a minute fraction of the total U.S. resident population in 1997, far less than 1 percent. Donors who gave gifts in 1997 and reported those gifts in 1998 transferred more than $31.1 billion in total gifts and reported $3.2 billion in net gift tax liability. The donor population was comprised of a female majority, as 53.3 percent of the population was female and only 46.7 percent was male. Most donors, 92.8 percent, reported no gift tax liability.

Donors transferred assets to almost 690,000 recipients, including both individuals and trusts. The largest category of gifts was cash and cash management accounts, which made up more than a third of all gifts. The second and third largest categories of gifts were stock and real estate, respectively. While only a small percentage of donors, 10.1 percent, utilized discounts in the valuation of gifts, the size of total valuation discounts, $3.4 billion, was rather significant and represented 33.0 percent of the full value of discounted assets.

Explanation of Selected Terms

Brief definitions of some terms used in text and figures are provided below:

Charitable deduction.--An unlimited charitable deduction is available for all outright transfers to qualified charities. The deduction is available for gifts to trust only if the trust meets certain requirements.

Gifts attributed to spouse.--Under Federal gift tax law, a donor is allowed to divide or "split" the value of gifts to third parties with his or her spouse, if certain requirements are met. "Gifts attributable to spouse" is the value of gifts that is split and reported on the consenting spouse's Federal gift tax return.

Included gifts of spouse.--This is the value of split gifts reported on the donor spouse's Federal gift tax return from the consenting spouse's return.

Marital deduction.--An unlimited marital deduction is available for all outright transfers to a donor's spouse. The deduction is available for gifts to trust only under limited circumstances in which (1) the spouse maintains some control of the gifted assets, such as a general power of appointment or (2) the gifted property is treated as "qualified terminable interest property," or (3) the spouse, other than the donor, is the only noncharitable beneficiary of a qualified charitable remainder trust.

Net gift tax.--This is the reported value of gift tax on current period gifts.

Nontaxable returns.--On nontaxable returns, taxpayers reported no net gift tax liability.

Taxable gifts, current period.--This is the amount of taxable gifts--total gifts less exclusions and deductions--for the current tax year.

Taxable gifts, prior periods.--This is the total amount of taxable gifts--total gifts less exclusions and deductions--for all prior tax years in which the donor transferred property.

Taxable returns.--On taxable returns, taxpayers reported a net gift tax liability.

Total gifts.--This is the value of total gifts reported by the donor after gifts have been split between the donor and the consenting spouse.

Total gifts of donor.--This is the dollar value of gifts given by the donor during the current tax year and reported on Schedule A of Form 709. Gifts include those subject to gift tax only and those subject to both gift and generation-skipping transfer taxes.

Total taxable gifts, all periods.--This is the amount of taxable gifts--total gifts less exclusions and deductions--for all periods, both prior and current.

Unified credit, applied.--This is the value of available unified credit that is applied to the gift tax liability in the current period.

Notes and References

[1] Married donors are allowed to split gifts to third parties, and the available $10,000 annual exclusion per donee is then doubled to $20,000. In most cases, both spouses must file a Federal gift tax return. There were 184,075 donors who reported gifts of their own, worth $32.3 billion; 72,075 donors who attributed half of their gifts to their spouses; and 55,296 donors who included their spouse's gifts on their returns. The value of total gifts referenced here is the value after gifts have been split between both spouses' returns; the population of donors with a value for total gifts is 218,008.

[2] Parts of this article are excerpts from Eller, Martha Britton, "Counting Gifts," *Trusts and Estates*, Vol. 142, No. 1, 2003.

[3] Zaritsky, Howard and Ripy, Thomas, *Federal Estate, Gift, and Generation Skipping Taxes: A Legislative History and Description of Current Law*, Congressional Research Service, Washington, D.C., Report No. 84-156A, 1984.

[4] Ibid.

[5] See footnote 1.

[6] These estate tax figures include returns filed in 1998 for multiple years of death, not just 1997. For detailed data on the estate tax filing population for Filing Year 1998, see Johnson, Barry W. and Jacob M. Mikow, "Federal Estate Tax Returns, 1998-2000," *Statistics of Income Bulletin*, Vol. 21, No. 4.

[7] A terminable interest is a property interest that expires, or terminates, at some point in the future. Life or income interests are examples of terminable interests. A future interest is a property interest that allows use or enjoyment of transferred property at some point in the future, rather than at present. Examples of future interests include reversions or remainder interests.

[8] Power of appointment may be defined as the right to freely distribute income and property from a trust.

[9] Trusts created in donees' names are included in the sex category appropriate to the donees. Only trusts created in donors' names and trusts with no specific donees are included in the 5.3 percent cited here.

[10] "Total gifts" here refers to total gifts of donor. It is the value of transferred assets reported on the Federal gift tax return; 184,075 donors reported gifts of their own, worth $32.3 billion.

[11] For more detailed information on the sample design and use of the IRS Returns Transaction File (RTF) as a sample frame, see Eller, Martha Britton and Tamara L. Rib, "The 1998 Gift Tax Panel Study: Using the IRS Returns Transaction File as a Sample Frame," *2001 Proceedings of the Section on Government Statistics and Section on Social Statistics*, American Statistical Association, Alexandria, VA.

NOTE: For additional gift tax data, including total gifts, deductions, credits, and net gift tax by size of current taxable gifts, see SOI's website: www.irs.gov/taxstats, click on "Statistical Publications," then "SOI Bulletins." Under "Articles and Data Releases," click on "Winter" for 2004. The additional data will be associated with this article.

ANALYSIS OF THE 1998 GIFT TAX PANEL STUDY

Martha Britton Eller and Tamara L. Rib, Internal Revenue Service
Presented at the 2002 American Statistical Association

The Federal gift tax is one of three taxes included in the U.S. transfer tax system, which, simply stated, is a unified system that taxes transfers of property completed both during life and at death. The two other components of the U.S. transfer tax system are the estate tax, applied to the value of property transferred at death, and the generation-skipping transfer tax, applied to the value of property transferred to trust for the benefit of an individual or individuals two or more generations below that of the grantor, or donor.

The first Federal gift tax was introduced in the Revenue Act of 1924. Congress imposed the 1924 tax after it realized that wealthy Americans could avoid the estate tax, introduced in 1916, by transferring wealth during their lifetimes, called *inter vivos* giving. Tax-free *inter vivos* gifts effectively negated the estate tax's capacity to redistribute wealth accumulated by large estates and removed a source of revenue from the Federal Government's reach (Johnson and Eller, 1998).

The first gift tax was short-lived. Due to strong opposition against estate and gift taxes during the 1920's, Congress repealed the gift tax with the Revenue Act of 1926 (Zaritsky and Ripy, 1984). Reintroduced in the Revenue Act of 1932, when the need to finance Federal spending during the Great Depression outweighed opposition to gift taxation, the 1932 gift tax allowed a grantor to transfer $50,000 during his or her life and allowed a $5,000 annual exclusion per gift recipient, or donee. The 1932 Act set gift tax rates at three-quarters of the estate tax rates, a level maintained until 1976, when Congress passed the Tax Reform Act (TRA) of 1976 and created the unified estate and gift tax framework that consisted of a "single, graduated rate of tax imposed on both lifetime gift and testamentary dispositions" (Zaritsky and Ripy, 1984). The generation-skipping transfer tax was also introduced in TRA of 1976.

During the years since 1932, features such as the marital deduction and rules on split gifts were introduced to gift tax law, but the predominant changes to the law were adjustments to the amount of lifetime exemption and annual exclusion. A gift is taxed under the law that is in effect during the year in which the gift is completed, or given. According to transfer tax law in effect for gifts completed in 1997, the focus of this paper, a grantor was required to file a Federal gift tax return (Form 709) for transfers of property in excess of $10,000 per donee, and the lifetime unified credit--equal to the tax on the lifetime-giving threshold for 1997, $600,000--was $192,800. Under Internal Revenue Code (IRC) section 2511(a), the gift tax applies to a broad spectrum of gifts, "whether the gift is in trust or otherwise, whether the gift is direct or indirect, and whether the property is real or personal, tangible or intangible." Regulation 25.2511-1(c)(1) provides that a completed gift, one that is subject to tax, is "any transaction in which an interest in property is gratuitously passed or conferred upon another, regardless of the means or device employed."

Gift tax data extracted from Federal gift tax returns provide a glimpse into the economic behavior of predominantly wealthy Americans. Such behavior includes donors' transfers of money and other assets to gift recipients and the creation and continued funding of trusts, both of which are reported on gift tax returns. Since individuals are required to file annual returns for gifts completed during a prior calendar year, it is possible to construct a panel of gift tax returns filed during life for a subset of U.S. taxpayers, thereby capturing the lifetime giving patterns exhibited by the group.

The Statistics of Income Division (SOI) of the Internal Revenue Service (IRS), an organization that extracts and publishes data from Federal tax and information returns, initiated the 1998 Gift Tax Panel Study in order to examine gift tax revenue, as well as the lifetime giving patterns of wealthy Americans. At the close of the study, SOI will have obtained and extracted data from post-1976 returns filed by donors included in the study, creating a retrospective panel of returns for selected donors. Resultant data will facilitate the research of lifetime giving patterns and patterns of trust creation and maintenance, among other goals.

The 1998 Gift Tax Panel Study is an exception to the usual design of SOI studies in which statistical samples are based on estimates of given populations of returns. Because SOI sampling of returns normally occurs immediately after IRS processing of returns for tax revenue purposes, the final population of returns is not known at the time of sample design and weekly selections. But the population of gift tax filers was known before the inception of the study because the sample frame for the study was the 1998 IRS Returns Transaction File (RTF), a data file that contains all Tax Year 1997 gift tax returns that posted to the IRS Master File during revenue processing in 1998.

This paper will present the results of the 1998 Gift Tax Panel Study. Total gifts, net gift tax, and other variables will be examined by sex and taxability status. The sample design, weighting, and, of course, future plans will also be addressed.

Sampling Design and Estimation

The sampling frame for the 1998 Gift Tax Panel Study included 219,414 Federal gift tax returns filed for gifts completed in 1997. Based on budget and other constraints, a sample of 10,000 returns, or donors, was targeted. The sample design for the study is a random sample stratified by two variables: taxability status and size of total gifts (prior to the subtraction of annual exclusions and deductions in the calculation of total taxable gifts). Taxability status is divided into two categories: nontaxable (i.e., no gift tax liability reported) and taxable (i.e., gift tax liability reported). The second stratifier, size of total gifts, is divided into four or five categories, depending on taxability status. Each stratum is labeled with a sample code.

Neyman allocation is used to assign the designated sample to the stratum. A Bernoulli sample is selected independently from each stratum. In Bernoulli sampling, the sample size is a random number. For nontaxable returns, sampling rates vary from 0.9 percent, for returns with total gifts under $100,000, to 100 percent, for returns with $1 million or more in total gifts. For taxable returns, sampling rates vary from 12.6 percent, for returns with total gifts under $100,000, to 100 percent, for returns with totals gifts of $1 million or more.

The sampling selection scheme for each noncertainty stratum is based on the Taxpayer Identification Number (TIN), which is the donor's Social Security number (SSN), as found on the return and the RTF. An integer function of the SSN, called the Transformed Taxpayer Identification Number (TTIN), is computed. The last four digits of the TTIN is a pseudorandom number. A return for which the pseudorandom number is less than the sampling rate multiplied by 10,000 is selected into the sample. Any returns with total gifts of $1 million or more were automatically selected. Because all post-1976 gift tax returns for each donor in the sample are included in the study, the total number of Federal gift tax returns in the panel is 46,300.

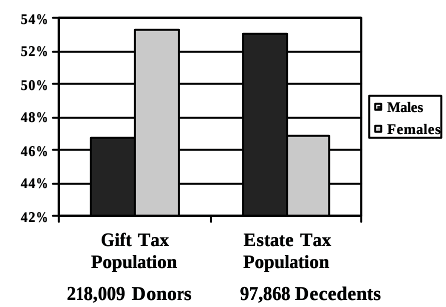
Each return in the sample is weighted to reflect its share of the population of 1998 filers who gave gifts in 1997. Because of the variation of the sample sizes, the post-stratification technique is used. The post-stratified weight is computed by dividing the population count of filed returns in a given stratum by the realized number of the sample return in that stratum. These weights are adjusted for missing returns. The weights range from 1.08 for the largest strata of nontaxable gifts to 120.05 for the smallest strata of taxable gifts. These weights are applied to the sample data to produce aggregate estimates for items of interest, such as total gifts, total deductions, and total taxes.

Results

Characteristics of the Donor Population

There were 218,009 donors required to file Federal gift tax returns in 1998 for gifts completed in 1997. These donors gave more than $31.1 billion in total gifts to gift recipients, or donees, and they reported $3.2 billion in net gift tax liability. The majority of the donor population was female, as 53.3 percent of the population was female, and only 46.7 percent was male (see Figure 1). The sex composition of the gift tax filing population is dissimilar to that of the estate tax filing population, which was comprised of 53.1 percent males and 46.9 percent females in Filing Year 1998. Since women, on average, outlive their male counterparts, they may attempt to reduce their potential taxable estates, for estate tax purposes, by giving gifts during life, according to astute estate tax planning practices. This may explain women's overriding presence in the donor population.

Figure 1: Comparison of Gift and Estate Tax Populations, By Sex

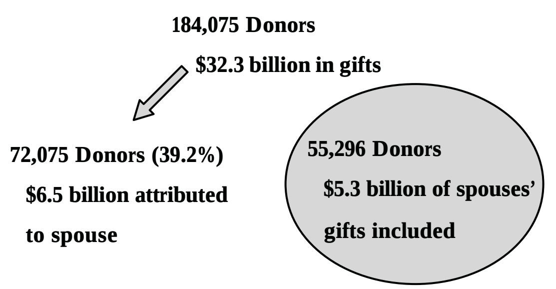


Married Donors

Federal gift tax law allows married couples to split gifts to third parties if certain requirements are met. For instance, both spouses must be citizens or residents of the United States, and they must be married to one another at the time of the gift. If a couple's marital status changes during the year of the gift, due to divorce or death, then no spouse may remarry and still elect to split gifts. In addition, agreeing to split gifts requires that all gifts to third parties, both taxable and nontaxable, must be split. When taxable gifts are given, the annual exclusion is doubled to $20,000, but, in turn, both spouses' available unified credits are depleted, according to Federal gift tax law in effect for 1997 gifts. Both the donor spouse and the consenting spouse must file gift tax returns unless certain requirements are met.

In the 1997 donor population, 184,075 individuals gave gifts that totaled $32.3 billion, and 72,075 of those donors attributed half of their gifts to their spouses (see Figure 2). The total value of gifts attributed to spouses was $6.5 billion. In addition, 55,296 donors included $5.3 billion in spouses' gifts on their own gift tax returns.

Figure 2: Gift-Splitting in the 1997 Donor Population



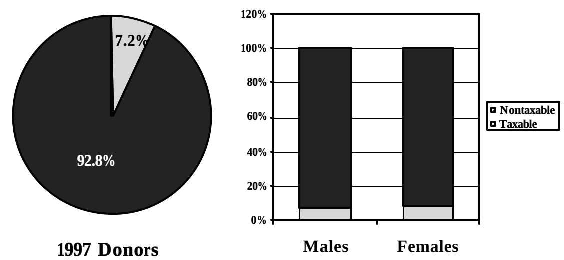
A donor is not obligated to report any outright gifts of present interest to his or her spouse under Federal gift tax law. However, a donor is required to report gifts to a spouse if the spouse is not a U.S. citizen at the time of the gift; if the gift was a terminable interest, such as a life or income interest in a trust; or if the gift was a future interest. A donor is not required to report gifts of life interests with power of appointment, since those gifts essentially become the property of the receiving spouse, in that the receiving spouse may, for example, specify the distribution of income from a trust.

Gift tax law also provides for an unlimited marital deduction for all outright gifts to a spouse. Terminable gifts, however, do not typically qualify for the marital deduction. For Gift Year 1997, 2,352 donors, or 1.1 percent of the donor population, deducted the value of gifts to their spouses. The amount of the deduction exceeded $816.5 million, or 2.6 percent of total gifts.

Taxability of Gift Tax Returns

The overwhelming majority of 1997 donors reported no gift tax liability in 1998. Of the 218,009 returns filed in 1998, 202,295, or 92.8 percent, were nontaxable, while only 15,714, or 7.2 percent, were taxable, i.e., reported a gift tax liability. Male and female donor populations were almost equally likely to report a tax liability. Males reported a tax liability on 6.4 percent of returns, while females reported a tax liability on 7.9 percent of returns (see Figure 3).

Figure 3: Percentage of Taxable & Nontaxable Returns



As age data become available, the gift tax population will be examined by age of donor.

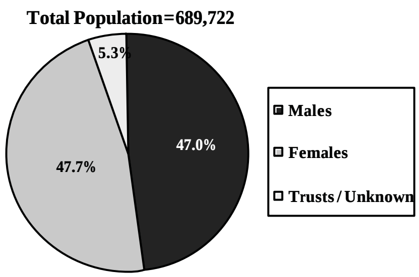
Analysis of Gifts and the Donee Population

The Federal gift tax return is a rich source of data on the transfer of wealth during life. Schedule A of Form 709, the gift tax return, is a listing of all gifts from a donor to his or her donees. In most cases, Schedule A's gift description includes the name of the donee and, therefore, the sex of the donee; the type of asset that was gifted; the amount of the gift (before the annual exclusion is subtracted); the method by which the gift was given, i.e., direct or through trust; and, in some cases, the relationship of the donee to the donor. If the donee was a trust, for example, a charitable trust, some trust detail, such as the type of trust, may also be available.

SOI-edited data are the only sources of donee and gift information from Federal gift tax returns. IRS Master File or Returns Transaction File (RTF) data do not contain this valuable information. In the course of the 1998 Gift Tax Panel Study, SOI extracted detailed donee and asset data from each Federal gift tax return included in the study. Assets, the building blocks of total gifts, were assigned to one of several asset categories.

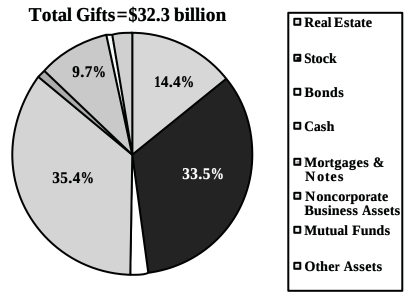
Donors who gave gifts in 1997 transferred assets to almost 690,000 recipients, including both individuals and trusts. Males and females were equally likely to receive gifts. Males were the recipients of direct gifts or gifts through trust in 47.0 percent of cases, while females received gifts, direct and through trust, in 47.7 percent of cases (see Figure 4). Gifts given in the creation or maintenance of trusts for the benefit of organizations or gifts to recipients of unknown sex occurred in 5.3 percent of cases.

Figure 4: Donee Population, By Sex of Donee



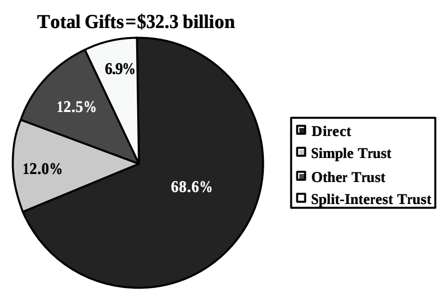
The 1997 donor population gave $11.4 billion in cash assets, including cash management accounts, to donees. This category of assets represented the largest percentage, 35.4 percent, of total gifts completed in 1997 (see Figure 5). The second largest category, narrowly following cash, was stock. Gifts of stock comprised 33.5 percent of total gifts. Donors gave $7.0 billion in corporate stock and $3.7 billion in the stock of closely held corporations. The third largest category of gifts was real estate, which includes the value of personal residences, commercial real estate, real estate partnerships, and other real estate. Real estate assets comprised 14.4 percent of total gifts, as donors gave $4.6 billion in real estate to donees. The fourth largest category, noncorporate business assets, which includes limited and family limited partnerships and other noncorporate assets, comprised 9.7 percent of total gifts.

Figure 5: Asset Composition of Gifts to Donees



Because SOI extracted data on the method by which gifts were given, it is possible to examine gift tax data for 1997 donors by type of gift instrument. The majority of gifts were direct or outright, 68.6 percent (see Figure 6). The remaining gifts, 31.4 percent, were given through trust instruments. About 12.0 percent of gifts were given through simple trusts, trusts that are typically established for the benefit of one individual. Other trusts, excluding split-interest trusts, represented 12.5 percent of total gifts. The remaining gifts, 6.9 percent, were given through a variety of split-interest trusts, which are established by donors for the benefit of both charities and private individuals. Split-interest trusts include charitable lead trusts (annuity or unitrust), charitable remainder trusts (annuity or unitrust), and pooled income funds.

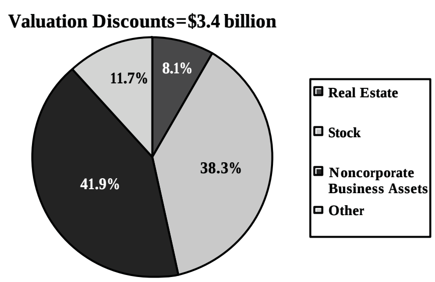
Figure 6: Percentage of Gifts, By Type of Instrument



Minority and marketability discounting techniques are used in estate tax planning to reduce the value of transferred wealth and, thereby, reduce the amount of transfer taxes owed by grantors. While much discounting occurs for business assets, discounting techniques, in many cases, are also applied to other, non-business assets. The total value of minority and marketability discounts applied to

1997 gifts was $3.4 billion, or 10.7 percent of total gifts (see Figure 7). The largest percentage of discounts, 41.9 percent, was applied to the value of noncorporate business assets, including limited and family limited partnerships and noncorporate business assets. The value of minority and marketability discounts for these assets reached $1.4 billion. Stock holdings were discounted at $1.3 billion, or 38.3 percent of total discounts. The third largest category of discounts was the other category, which includes various assets, such as mutual funds, bonds, farm assets, and depletable and intangible assets. Discounts taken on other assets totaled $401.5 million and represented 11.7 percent of all discounts. The value of real estate minority discounts reached $280.4 million, making that category the fourth largest, 8.2 percent of total discounts.

Figure 7: Composition of Valuation Discounts, By Gift Type

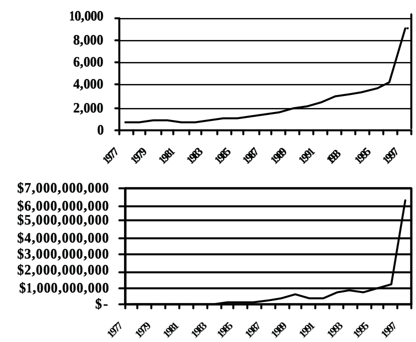


Future Plans

In the spring of 2003, SOI will initiate a study of Federal gift tax returns that will examine Gift Year 2002 and Filing Year 2003. The new study will also include a subsample of returns selected in the 1998 study. This design will allow us to follow a panel of 1998 gift donors into the future. For the small sub-sample of 1998 donors, we will be able to extract data from returns filed between 1998 and 2003.

This paper has presented results for Gift Year 2002. However, in the course of the 1998 Gift Tax Panel Study, data for all gifts given by 1997 donors between 1977 and 1997 were collected. Figure 8 presents an unweighted number of returns for 1997 donors in each year, 1977 through 1997, as well as an unweighted total for current period gifts. The number of returns filed and the amount of gifts began to increase in the middle of the 20-year period. However, in each year, there were returns that were unavailable to SOI for processing. For each 1997 donor, the number and specific years of missing returns were recorded. This information, along with RTF available from 1988 to present, will be used to impute for missing values.

Figure 8: Number and Amount of Current Period Gifts, 1977-1997



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Zaritsky, Howard and Thomas Ripy (1984), *Federal Estate, Gift, and Generation Skipping Taxes: A Legislative History and Description of Current Law*, Congressional Research Service, Washington, D.C., Report Number 84-156A.

Wealth Transfers, 2005 Gifts

by Darien Jacobson and Melissa Laine

The Federal transfer tax system, a mechanism for taxing the transfer of assets from one person to another, includes three major components: the estate tax, the generation-skipping transfer tax, and the gift tax. The gift tax, reported on IRS Form 709, *United States Gift (and Generation-Skipping Transfer) Tax Return*, is incurred for property transfers during the donor's life, *inter vivos* transfers, whereas the estate tax is assessed or incurred on property transferred after death. The purpose of this article is to explore data derived from gift tax returns filed in 2006, demonstrative of gifts given in 2005.[1]

Gift tax data provide valuable information on donors, who are primarily wealthy Americans. These data, the result of statistical studies completed by the Statistics of Income (SOI) Division of the Internal Revenue Service (IRS), are tabulated for each filing year and come directly from Form 709.[2]

The total population of 2005 donors was 261,104, who transferred $38.5 billion in total gifts to selected donees, or gift recipients. Donors transferred a broad range of assets, including cash, publicly traded stock, real estate, and others. Of the gift tax returns filed, only 2.9 percent reported a tax liability.

Different types of gift-giving vehicles were used to transfer assets from donor to donee. Direct, or outright, transfers comprised 76.3 percent of total assets given. Simple trusts, defined by the Internal Revenue Code as a trust that must distribute all income annually, comprised 7.3 percent of total assets given. Female donors gave a total of $21.7 billion in gifts, while males gave $16.8 billion.[3]

Background

The Federal gift tax, part of the U.S. transfer tax system that also includes estate and generation-skipping transfer taxes, was enacted in the Revenue Act of 1924.[4] Federal transfer taxes are incurred or assessed when property is transferred during life or after death.

The Revenue Act of 1924 provided a foundation for the initial structure of gift taxation by establishing giving-ceilings for both annual and lifetime gifts. The annual exemption rule, or the amount a donor may transfer during a year without incurring tax liability, was set at $500, while the lifetime exemption, the total amount that a donor may give away during his or her lifetime without tax liability, was set at $50,000.

The gift tax was repealed in 1926, but this hiatus would prove to be short-lived. Wide-spread depression in the 1930s led the U.S. Government to find alternate sources of funding, and the gift tax was reinstated with the passage of the Revenue Act of 1932.[5] The tax rates were set at three-fourths of the estate tax rates, which continued until 1976 when the transfer tax system underwent a broad revision.[6]

The Tax Reform Act of 1976 created a unified gift and estate tax framework "consisting of a single, graduated rate of tax imposed on both lifetime gifts and testamentary dispositions."[7] Gift tax rates increased as donors made successive taxable gifts throughout their lives, ending with the highest rates imposed on transfers made at the time of death.[8] The Tax Reform Act of 1976 also merged the estate and gift tax exclusions into a single gift and estate tax lifetime credit. While this credit may be used to reduce tax liability for *inter vivos* wealth transfers, any remaining credit may be used to offset estate taxes incurred at the time of death.[9]

A gift is taxed based on the year in which the gift is transferred or completed. While the Taxpayer Protection Act of 1997 indexed the annual exemption for gift taxes, initially set at $10,000 in 1998, broader changes were made to the transfer tax system in the new millennium.[10] The Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001 gradually increased the lifetime exemption amounts for

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[1] Approximately 95 percent of gifts reported on Filing Year 2006 returns were given in 2005.

[2] For more information, see the SOI Gift Tax page at http://www.irs.gov/taxstats/indtaxstats/article/0,,id=96464,00.html

[3] The remainder of gifts were given by donors of undetermined sex.

[4] Luckey, John R., "A History of Federal Estate, Gift, and Generation-Skipping Taxes," April 9, 2003, Congressional Research Service, Library of Congress, p. 8.

[5] Ibid, p. 9.

[6] Ibid, p. 11.

[7] Ibid, p. 11-12.

[8] Ibid, p. 12.

[9] P.L. 94-455.

[10] P.L. 105-34.

gift taxes to $1,000,000, with a maximum tax rate of 35 percent.[11] While the other two components of the transfer tax system, the estate tax and generation-skipping transfer tax, will be repealed at the end of 2009 without further legislation, the gift tax will remain intact. The EGTRRA provisions will expire in 2011, and the gift tax exemption amounts and maximum tax rates will revert to 2001 tax law levels.

Throughout the era of gift taxation, many components have been introduced that altered the calculation of tax. In 1948, the marital deduction was enacted, allowing interspousal gifts without tax liability. Along with the marital deduction, the split-gift rule was established, allowing the nondonor spouse to elect to be treated as having made half of the total transfer.[12]

Three types of transfers are not defined as "gifts" and, therefore, are not subject to the gift tax under the Internal Revenue Code (IRC). First, gifts to political organizations are not taxed when they meet the criteria of IRC section 527(e) (1). Second, gifts of tuition made to a qualifying educational institution on behalf of an individual are not taxable, as long as the payment is made directly to the educational institution. Finally, the gift tax does not apply to the amount of medical expenses on behalf of an individual, paid directly to the individual or to the medical institution that provided care.

2005 Gifts

The Statistics of Income Division collects data directly from IRS Form 709, which requires a donor to specify all assets transferred during a given calendar year. These include a broad range of assets, such as cash, real estate, trusts, and artwork. Also collected are data on the specific gift-giving mechanism through which assets were given. These mechanisms could include (but are not limited to) direct, or outright, gifts and gifts through trust.

The population of 2005 donors filed 261,104 gift tax returns, which documented the transfer of more than $38.5 billion in total gifts. Of these gift returns filed, 253,440, or 97.1 percent, were nontaxable (Figure A). A total of $1.7 billion in gift tax liability was incurred on the other 7,664 returns filed for gifts given in 2005.

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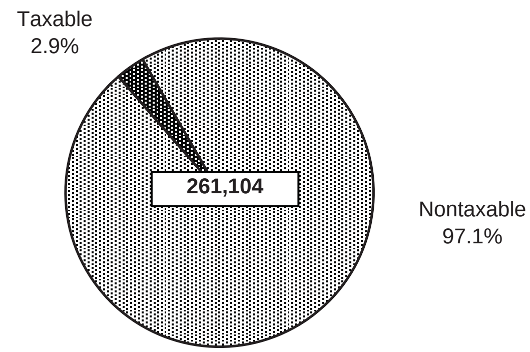
Figure A

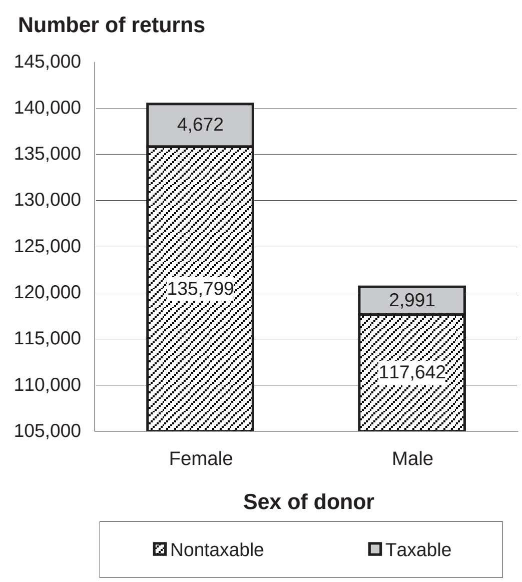
Percentage of Taxable and Nontaxable Gift Tax Returns, 2005 Gifts



When the donor population is examined by sex, females comprised the majority, filing 53.8 percent of gift tax returns, and males comprised the remainder, filing 46.2 percent in 2005. For the filing year, females and males filed nearly equal percentages of nontaxable returns; 96.7 percent of returns filed by females and 97.5 of returns filed by males incurred no tax liability (Figure B).

Figure B

Taxable and Nontaxable Gift Tax Returns, 2005 Donors



[11] P.L. 107-16.

[12] Luckey, John R., "A History of Federal Estate, Gift, and Generation-Skipping Taxes," April 9, 2003, Congressional Research Service, Library of Congress, p. 11.

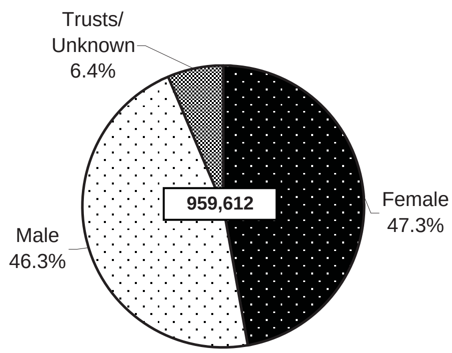
Wealth Transfers, 2005 Gifts

Statistics of Income Bulletin | Summer 2008

The 2005 donee population included 959,612 individuals, organizations, and trusts that received gifts in 2005. Females received 47.3 percent of total gifts, while males received slightly fewer, 46.3 percent (Figure C). The remainder of gifts were given to trusts, organizations, or unknown donees.

Figure C

Composition of Donee Population, 2005



The gift tax return requires that donors specify the gift mechanism that they used to transfer assets to their selected recipients. While many of these 2005 gifts were given directly, donors also used simple trusts, insurance trusts, split-interest trusts, and 529-trusts. While direct gifts become the donee's property immediately, gifts through trust may be contingent on a specified future event.

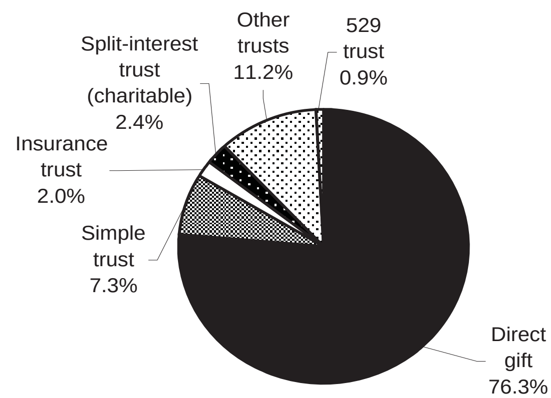
Simple trusts comprise a majority of trusts used for gifted assets. Simple trusts are predominantly trusts, insurance trusts, split-interest trusts, and 529-trusts. While direct gifts become the donee's property immediately, gifts through trust may be contingent on a specified future event.

Simple trusts comprise a majority of trusts used for gifted assets. Simple trusts are predominantly established for the benefit of a single individual. Another widely used gift mechanism is an insurance trust. The purpose of a life insurance trust is for a policyholder to transfer ownership of the insurance policy to the trust in order to remove the policy from his or her estate, thereby avoiding possible estate taxation. A third type of gift mechanism is the split-interest trust, which has dual recipients: a private beneficiary and a charity.[13] Finally, a 529-trust allows a donor to save specifically for the educational costs of a named beneficiary. Along with direct gifts, these trust instruments make up the majority of vehicles by which gifted assets are transferred.

For gifts given in 2005, most assets were transferred by direct gift. Direct gifts comprised 76.3 percent of total gifts, for a total of $29.4 billion in asset transfers. Second were simple trusts, which transferred $2.8 billion in assets, or 7.3 percent of total assets (Figure D). Other trusts, which comprised 11.2 percent of asset transfers, included family, personal, marital, personal residence, generation-skipping, and other unspecified trusts.

Figure D

Transfer Method of Gifts, 2005



NOTE: Percentages may not add to total due to rounding.

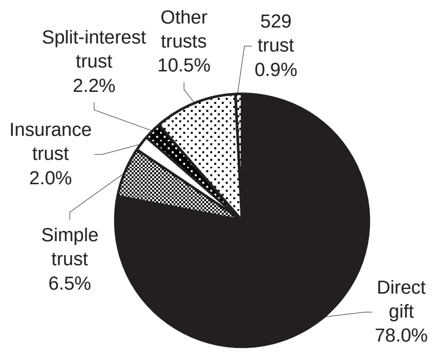
Although the gift method used by females and males were similar, females used direct gifts more than males, for 78.0 percent and 74.0 percent of asset transfers, respectively. Females and males used 529-trusts at the same rate, 0.9 percent of total asset transfers. More men than women used simple trusts, at 8.3 percent and 6.5 percent of total asset transfers, respectively (Figure E).

A broad range of assets were transferred from donor to donee, including (but not limited to) cash, publicly traded or closely held stock, real estate, part-

[13] For more information on split-interest trust data, please see: http://www.irs.gov/taxstats/charitablestats/article/0,,id=97066,00.html

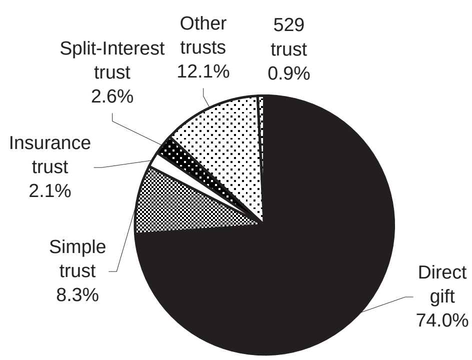
Figure E

Transfer Method of Gifts, Female Donors, 2005



NOTE: Percentages may not add to total due to rounding.

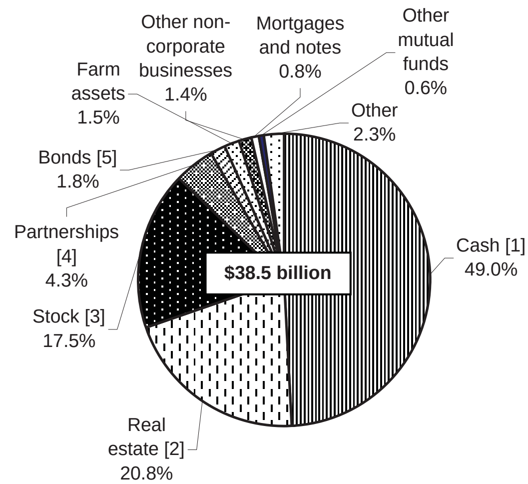
Transfer Method of Gifts, Male Donors, 2005



NOTE: Percentages may not add to total due to rounding.

Figure F

Asset Composition of Gifts, 2005



[1] Cash includes both cash and cash management accounts.
[2] Real estate includes improved real estate, personal residence, vacant land, real estate partnerships, farm land, and real estate mutual funds.
[3] Stock includes publicly traded and closely held stock.
[4] Partnerships include limited partnerships and family limited partnerships.
[5] Bonds include State and local bonds, bond funds, Federal savings bonds, other Federal bonds, corporate bonds, and foreign bonds.

nerships, bonds, mutual funds, art, and insurance. A total of $38.5 billion in gifts was given in 2005. The most common gift was cash, which comprised $18.9 billion, or 49.0 percent of total gifts given. Gifts of cash included both cash and cash management accounts. The second largest asset transferred was real estate, which includes personal residences, improved real estate, and vacant land; real estate partnerships; farmland; and real estate mutual funds. Gifts of real estate totaled $8.0 billion, or 20.8 percent of total gifts reported for 2005. The third most gifted asset was stock, including both publicly traded and closely held stock, comprising 17.5 percent of assets, for a total gift amount of $6.7 billion (Figure F).

Similar analysis may be completed by donor sex. Men and women show different preferences in gift giving. Figure G shows that cash was the largest asset given overall, with female donors giving more cash than their male counterparts. Females gave a total of $10.9 billion in cash, while male donors gave $8.0 billion. Females transferred more cash as a percentage of their total assets than males, or 50.4 percent and 47.3 percent, respectively. When comparing real estate gifts by sex, females gave greater amounts of real estate assets, or $4.6 billion, which was 20.0 percent of total assets given. Males gave $3.2 billion in real estate, or 19.6 percent of total assets given. Finally, stock was the third largest asset given by both males and females, although males gave a larger portion of their total gifts, 19.5 percent, in stock. Figure G shows comparisons between the dollar amounts and percentages of assets given by men and women.

Use of Valuation Discounts

For gift tax purposes, transferred property is valued at fair market value on the date of the gift. Fair market value is the value at which property would pass from a willing seller to a willing buyer. However, the value of the property interest may be reduced, or discounted, from fair market value due to certain characteristics or qualities of the ownership interest, such as lack of control or marketability. This reduc-

Figure G

Asset Composition of Gifts by Sex, 2005

[Money amounts are in thousands of dollars]

Female		Assets gifted	Male	
Percent of total	Amount		Percent of total	Amount
50.4	10,922,605	Cash [1]	47.3	7,950,426
21.4	4,629,750	Real estate [2]	20.0	3,368,554
16.0	3,458,007	Stock [3]	19.5	3,275,397
3.8	820,785	Partnerships [4]	5.0	832,670
2.0	435,595	Bonds [5]	1.3	215,714
1.3	278,579	Farm assets	1.9	313,399
1.3	274,331	Other non-corporate businesses	1.5	255,138
1.0	219,291	Mortgages and notes	0.6	93,471
0.7	149,691	Other mutual funds	0.4	74,174
2.2	485,997	Other	2.5	426,872
100.0	**21,674,631**	**Total**	**100.0**	**16,805,815**

[1] Cash includes both cash and cash management accounts.
[2] Real estate includes improved real estate, personal residence, vacant land, real estate partnerships, farm land, and real estate mutual funds.
[3] Stock includes publically traded and closely held stock.
[4] Partnerships include limited partnerships and family limited partnerships.
[5] Bonds include State and local bonds, bond funds, Federal savings bonds, other Federal bonds, corporate bonds, and foreign bonds.

tion in value for tax purposes is known as "valuation discounting" and reduced the amount of taxes owed on the transfer of property.[14]

In 2005, valuation discounts were applied to 16.5 percent of gifts for a total of $3.1 billion in discounts. Most rates of discount were between 20 percent and 40 percent (Figure H).

Figure H

Size of Valuation Discounts as a Percentage of Full Value of Assets

Percentage of valuation discount	Number of discounted gifts	Amount of discount
All discounted gifts	**130,695**	**3,138,723,801**
Less than 20 percent	18,247	132,683,160
20 percent under 40 percent	84,336	1,774,089,573
40 percent or higher	28,112	1,231,951,068

Donors took discounts of varying sizes, ranging from less than $1,000 to greater than $650,000. Donors who used discounts of $650,000 or more took $725.0 million in total discounts, or 23.1 percent of all discounts taken (Figure I).

Crummey Asset Donors

Under 2005 tax law, a donor may give up to $11,000 to a single entity, person, or trust in a year without tax implications. For example, a donor may transfer $11,000 in cash to a simple trust and not incur tax on that transfer. Two court cases, however, further expanded nontaxable gifts with the use of trust powers.

The first case, *Crummey v. Commissioner* (1968), legitimized the use of Crummey powers by exercising the idea of a "present interest."[15] Present interest means that donees have the ability to exercise rights to use gifts at the same time the gifts are transferred to them from the donor. Normally, a donor may give up to the annual exclusion to a single entity, such as a person or a trust, without tax liability. Giving more than $11,000 to a single entity would generate a tax liability. For example, a donor may set up a simple trust for a named beneficiary in 2005 and place $11,000 in cash assets into the trust without being taxed on that asset transfer, but a $12,000 gift would be taxable. Using Crummey powers, however, that same donor could give more than the annual exclusion to the trust, as long as the total value given to each beneficiary was under $11,000. Here, beneficiaries must have a present interest in the trust, shown

[14] Britton Eller, Martha, "Inter Vivos Wealth Transfers, 1997 Gifts," *Statistics of Income Bulletin*, Publication 1136, Winter 2003-2004.
[15] Bittker, Boris I; Elias Clark; and Grayson McCouch (2005), *Federal Estate and Gift Taxation*. 9th edition, Thompson West, Minneaplis.

Figure I

Donors with Discounts: Full Value of Assets and Valuation Discounts, by Size of Valuation Discount

Size of valuation discount	Number of returns	Total assets, full value	Valuation discount
	(1)	(2)	(3)
Total	**261,104**	**41,612,965,844**	**3,138,723,800**
Less than $1,000	226,709	30,929,289,020	421,770
$1,000 under $2,000	570	11,454,353	1,012,944
$2,000 under $3,000	794	15,420,314	1,935,883
$3,000 under $4,000	934	38,825,842	3,466,426
$4,000 under $5,000	451	10,025,827	2,045,749
$5,000 under $6,000	679	29,949,205	3,468,902
$6,000 under $7,000	1,034	50,644,991	6,734,051
$7,000 under $8,000	1,143	64,375,341	8,444,875
$8,000 under $9,000	914	53,498,448	7,770,305
$9,000 under $10,000	405	26,059,767	3,744,794
$10,000 under $20,000	6,494	535,975,306	92,412,414
$20,000 under $30,000	4,170	426,045,810	101,650,395
$30,000 under $40,000	2,511	347,048,510	85,577,702
$40,000 under $50,000	2,251	383,057,395	100,287,751
$50,000 under $100,000	4,765	1,274,167,206	333,767,813
$100,000 under $150,000	2,280	961,347,675	279,782,908
$150,000 under $200,000	1,243	928,270,105	215,077,891
$200,000 under $250,000	773	558,336,856	173,448,900
$250,000 under $300,000	539	485,427,893	149,434,871
$300,000 under $350,000	536	516,200,476	173,560,068
$350,000 under $400,000	495	556,694,080	184,171,883
$400,000 under $450,000	434	520,251,536	185,269,654
$450,000 under $500,000	123	161,393,143	57,875,669
$500,000 under $550,000	182	257,922,210	95,266,885
$550,000 under $600,000	109	160,693,822	62,212,308
$600,000 under $650,000	136	201,316,106	84,919,222
$650,000 and above	430	2,109,274,606	724,961,764

by having reasonable time to exercise the power to remove assets. Thus, the same donor who gave $11,000 to a single entity could now give $33,000 to the same trust as long as there were three beneficiaries who exhibit present interests, which is shown by donees having the option of removing and using gifted assets at the time of transfer.

The second case went further by expanding the scope of beneficiaries who may exercise Crummey powers. In *Cristofani's Estate v. Commissioner (1991)*, the court ruled that contingent remainder beneficiaries, usually a grandchild or second-generation beneficiary named by the trust, could also be treated as having present interests, maintaining that they were also given adequate time to exercise their right to remove their portions of assets from the trust.[16]

SOI tabulates data on returns that report Crummey powers. In 2005, a total of $1.6 billion of assets was given to trusts that claimed Crummey powers, or single entity trusts that received gifts of greater than the annual exclusion. Cash, at $1.0 billion, was the most utilized asset for these trusts. The second largest asset type for which these powers were used was stock, for a total of $268.8 million in stock gifts. Finally, real estate transfers to trusts with Crummey powers had the third highest use (Figure J).

Figure J

Asset Composition of Gifts for Crummey Powers Donors, 2005

[Money amounts are in thousands of dollars]

Asset type	Amount
Cash	1,042,574
Stock	268,810
Real estate	114,080
Partnerships	81,930
Other noncorporate assets	33,089
Other	32,020
Other mutual funds	8,646
Farm assets	1,566
Mortgages and notes	1,450
Bonds	684

Data demonstrating the types of trusts using Crummey powers are shown in Figure K. Not surprisingly, simple trusts compromise the majority of trusts using Crummey powers, for a total of 36 percent. Second are family trusts, which comprise 23 percent of trusts using Crummey powers.

Summary

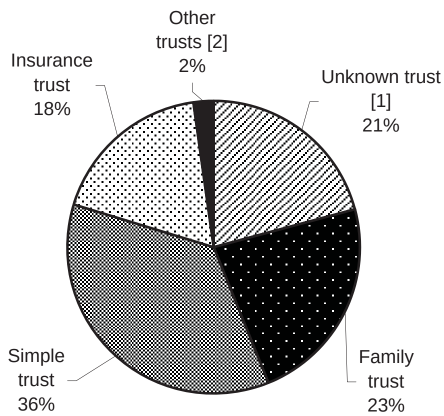
A total of 261,104 gift returns were filed in 2006 for gifts given in 2005. A total of $38.5 billion in assets were transferred from donors to donees. As a result, $1.7 billion in gift tax liability were reported. Only 2.9 percent of returns were taxable.

Females represented 47.3 percent of the donee population, while males represented 46.3 percent. The remaining 6.4 percent represented trusts and donees with unknown identities. Gifts of cash were the preferred choice for both female and male donors; cash assets comprised 49.0 percent of total gifts.

[16] Ibid.

Figure K

Trusts Utilizing Crummey Powers, 2005



[1] Unknown trust types include trusts in which the taxpayer does not specify the type of trust on Form 709.
[2] Other trust types include: generation-skipping trusts, marital trusts, personal residence trusts, charitable remainder unitrusts, grantor retained annuity trusts, and 529 educational trusts.

Following cash, real estate was the second most frequently gifted asset, in 20.8 percent of asset transfers.

In 2005, donors used a variety of mechanisms to complete their transfers of assets. Direct gifts comprised the bulk of transfers, as 76.3 percent of gifts were given outright.

Data Sources and Limitations

The data used for this article are based on a sample of 9,037 gift tax returns that were filed in 2006. The majority of the returns filed in 2006, approximately 95 percent, recorded gifts given in 2005. Therefore, these returns can be used to represent the behaviors of gift-givers in 2005.

The sample design for the study is a stratified probability sample with two stratifying variables: taxability status and size of total gifts (prior to the subtraction of annual exclusions and deductions in the calculation of total taxable gifts). Taxability status is divided into two categories: nontaxable (i.e., no gift tax liability reported) and taxable (i.e., gift tax liability reported). The second stratifier, size of total gifts, is divided into four or five categories, depending on taxability status. Each stratum is labeled with a sample code.

Each return in the sample is weighted to reflect its share of the population of returns filed in 2006. Because of the variation of the sample sizes, post-stratification is used. The post-stratified weight is computed by dividing the realized population count of filed returns in a given stratum by the realized number of sample returns in that stratum. These weights are adjusted for missing returns, rejected returns, and outliers. These weights are applied to the sample data to produce aggregate estimates for items of interest, such as total gifts and total taxes.

Explanation of Selected Terms

Brief definitions of some terms used in text and figures are provided below:

Beneficiary—The recipient of income or assets from a trust, will, or life insurance policy.

Cash management accounts—Also known as financial or asset management accounts, these are accounts offered by brokerages. Money in the account can be invested in various assets, and check-writing privileges are normally part of the account.

Charitable deduction—An unlimited charitable deduction is available for all outright transfers to qualified charities. The deduction is available for gifts to trust only if the trust meets certain requirements.

Contingent beneficiary—A contingent beneficiary is one whose bequest is reliant on some occurrence outside the control of the transferor. It often refers to an eventual beneficiary of property in which someone else has a life interest. The bequest in such a case is contingent on: (1) the contingent beneficiary living longer than the person with the life interest, and (2) there being some property left for the contingent beneficiary to inherit.

Crummey power—Under current gift tax law, the gift tax exclusion is only available on gifts of present, not future, interests. Therefore, when a trust is created as a life and a remainder interest, the remainder interest is not eligible for the gift tax exclusion. The Crummey Power allows a person with a future interest in the trust to withdraw up to the annual exclusion amount from the trust for a short period every year. This converts the future interest into a present interest, making the exclusion available.

Direct trust—A direct trust is an express trust, as distinguished from a constructive or implied trust.

An express trust is created or declared in express terms, usually in writing, as distinguished from one inferred by law from the conduct or dealings of the parties. It is directly created for specific purposes in contrast to a constructive or resulting trust, which is created by direct and positive acts of the parties, by some writing or deed, or will, or by words expressly or implicitly evincing an intention to create a trust.

Generation-Skipping (transfer) taxes— The 1976 Tax Reform Act imposes a generation-skipping transfer tax on: (1) transfers under trusts (or similar arrangements) having beneficiaries in more than one generation below that of the transferor, and (2) direct transfers to beneficiaries more than one generation below that of the transferor. The tax is imposed (with certain exemptions) on the occurrence of any one of three taxable events: a taxable termination, a taxable distribution (including distributions of income), and a direct skip (an outright transfer to or for the benefit of a person at least two generations below that of the transferor).

Insurance trust—A trust set up with the proceeds of a life insurance policy.

Net gift tax—This is the reported value of gift tax on current period gifts.

Nontaxable returns—Gift tax returns on which taxpayers reported no net gift tax liability.

Partnership—A type of business entity in which two or more people pool their funds and talents and share in the profits and losses of an enterprise.

Taxable gifts, current period—These are the amount of taxable gifts—total gifts less exclusions and deductions—for the current tax year.

Taxable gifts, prior period—These are the amount of taxable gifts—total gifts less exclusions and deductions—for all prior tax years in which the donor transferred property.

Taxable returns—Gift tax returns on which taxpayers reported a net gift tax liability.

Total gifts—These are the value of total gifts reported by the donor after gifts have been split between the donor and the consenting spouse.

Total gifts of donor—These are the dollar value of gifts given by the donor during the current tax year and reported on Schedule A of Form 709. Gifts include those subject to gift tax only and those subject to both gift and generation-skipping transfer taxes.

Total taxable gifts, all periods—These are the amount of taxable gifts—total gifts less exclusions and deductions—for all periods, both prior and current.

Trust—A trust is an arrangement whereby the right to property is held by one party, the "trustee" (or manager), for the benefit of another (the "beneficiary"). The person who sets up the trust (and provides its assets) is called the "grantor."

2007 Gifts

by Melissa J. Belvedere

The Federal transfer tax system comprises three components: the estate tax, the gift tax, and the generation-skipping transfer tax. Transfer taxes are indirect taxes levied on the right to transfer property from one person to another, as opposed to direct taxes imposed on the property itself. *Inter vivos* transfers, or transfers made within the donor's life, are subject to the gift tax, and are reported on IRS Form 709, *United States Gift (and Generation-Skipping Transfer) Tax Return.* The estate tax, however, is levied on transfers made at death.

This article presents statistical data collected from gift tax returns filed in 2008, as representative of gift transfers made during 2007, and collected by the Internal Revenue Service's Statistics of Income Division.[1]

The population of 2007 donors was 257,485. Donors transferred a total of $45.2 billion through *inter vivos* gifts. A wide range of asset types was gifted to donees, but 86.7 percent of all gifts were in the form of cash, real estate, and stock. The vast majority of returns filed, 96.3 percent, were nontaxable; the total amount of gift taxes incurred on the remaining 3.7 percent was $2.8 billion.

A variety of methods were used to gift property to donees. The most popular method was a direct transfer, which accounted for 74.3 percent of all gifts. Additional gifts were given through trusts. Of gifts-to-trusts, family trusts and simple trusts were the two forms used most frequently, accounting for 4.5 percent and 4.3 percent, respectively, of the total amount of gifts. Male and female recipients were almost evenly represented, with the majority (75.4 percent) of donees being children and grandchildren.

Background

Although subsequent legislation altered the gift tax, the tax originated with the Revenue Act of 1924.[2] While the estate tax framework had been created in 1918, the gift tax was not incorporated into the transfer tax system until 1924. The tax rate applicable to gifts was the same as for the estate tax, and the act established lifetime and annual exclusions. The lifetime exemption, or the total amount a donor can transfer during his or her lifetime without incurring tax, was set at $50,000; the annual exclusion, or the amount a donor could give tax-free to any single recipient within a single year, was set at $500 per donee.

The gift tax was repealed in 1926; however, the financial pressures of the Great Depression of the 1930s led to its reinstatement in 1932. Notably, the gift tax rate was set at 75 percent of the estate tax rate, and gifts to charitable organizations were exempted from tax. Additional financial strain owing to the continuance of the Depression, and, later, World War II, prompted Congress to increase revenue by raising estate tax rates and lowering the lifetime exemption several times throughout the 1930s and 1940s. Rates on gifts, which were still set at a percentage of the estate tax rate, rose as well. In 1948, another Revenue Act introduced marital deductions and gift-splitting to the gift tax. The marital deduction allowed limited interspousal gifts without tax liability, meaning that a donor could take as a marital deduction an amount up to half of adjusted gross estate. The split-gift rule allowed the donor spouse to elect to consider half of a gift transfer as having been made by the nondonor spouse, effectively doubling the amount which could be given to any one recipient without incurring tax liability.

The Tax Reform Act of 1976 introduced significant restructuring of the estate and gift taxes. This act created a unified system of estate and gift taxation "consisting of a single, graduated rate of tax imposed on both lifetime gifts and testamentary dispositions"; gift tax rates increased as each successive gift increased the cumulative gift amount made during a donor's lifetime, such that the highest rate was applied to transfers made at death.[3] Additionally, the unified credit was created, merging the previously separate estate tax and gift tax lifetime exemptions. Importantly, however, the gift tax annual exclusion was retained. This unified credit is used to offset tax liability arising from gifts during the donor's life, with any unused credit applied to the estate tax liability at death. Generation-skipping transfers were also taxed for the first time.

Melissa J. Belvedere is an economist with the Special Studies Special Projects Section. This article was prepared under the direction of Melissa Ludlum, Chief.

[1] Approximately 94 percent of returns filed in 2008 were for gifts made in 2007.

[2] Luckey, John R., "A History of Federal Estate, Gift, and Generation-Skipping Taxes," April 9, 2003, Congressional Research Service, Library of Congress, p. 8.

[3] Ibid, p. 12.

Various, comparatively minor, modifications were made to the transfer tax system between 1976 and 2001; perhaps the most significant change was the indexing of the annual exclusion amount as a result of the Taxpayer Protection Act of 1997. More significant changes to the transfer tax system were made by the Economic Growth and Tax Relief Reconciliation Act of 2001. In addition to various changes made to the estate tax (most notably eliminating the estate tax entirely in 2010, only to have it brought back in 2011 with a much lower exemption amount), the act increased the lifetime exemption amount for gift taxes to $1 million and lowered the maximum tax rate to 35 percent.

Under current tax law, the gift tax annual exclusion amount for 2007 was $12,000. This means that, in 2007, donors could give up to $12,000 to any single recipient without incurring tax; there was no limit on the number of recipients who could receive a gift. Therefore, a donor could, for example, give $60,000 to five separate recipients, which could be either individuals or trusts, completely tax-free.

2007 Gifts

There were a total of 257,485 gift tax returns filed in 2008. 247,932 returns, or 96.3 percent, were nontaxable; the remaining 9,553, or 3.7 percent, were taxable (Figure A). Taxable returns are those which incur tax after adjusting for both annual exclusions and lifetime exemptions. Female donors filed 51.8 percent of all gift tax returns, of which 4.2 percent were taxable; male donors filed 48.2 percent of all returns, of which 3.1 percent were taxable.

Figure A

Number of Gift Tax Returns Filed, by Tax Status and Sex of Donor, Filing Year 2008

[All figures are estimates based on a sample]

Donor sex	Tax status		
	All returns	Taxable	Nontaxable
	(1)	(2)	(3)
Total	**257,485**	**9,553**	**247,932**
Female	133,413	5,662	127,751
Male	124,072	3,891	120,181

The reported total amount of gifts was $45.2 billion (Figure B). There were marital deductions claimed in the amount of $1.2 billion, and charitable deductions in the amount of $6.5 billion. The amount of total taxable gifts made in the current period, by all donors, was $28.1 billion. Of the resultant current period gift tax liability of $2.8 billion, female donors reported $1.9 billion, while male donors reported the remaining $0.9 billion in tax liability. (For a more detailed explanation of cumulative gifts and current period gifts, see Selected Terms and Concepts.)

Figure B

Total Gifts, Exclusions, Deductions, and Taxable Gifts, 2007

[All figures are estimates based on a sample – money amounts are in thousands of dollars]

Item	Amount
Total gifts [1]	45,213,996
Annual exclusions [2]	9,452,995
Total deductions	7,697,255
Marital deduction	1,177,436
Charitable deduction	6,519,819
Current taxable gifts [3]	28,097,083

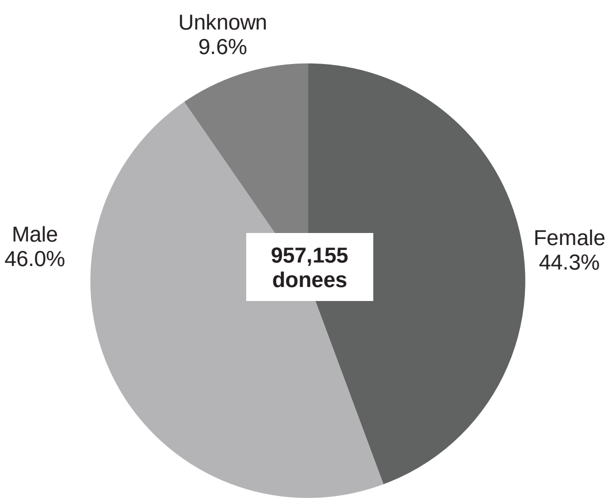
[1] This value is based on the amount reported on Form 709, part 4, line 1, and reflects the value of total gifts reported by the donor after gifts have been split between the donor and consenting spouse.
[2] This value is based on the amount reported on Form 709, part 4, line 2.
[3] This value is based on the amount reported on Form 709, part 4, line 11.
NOTE: Detail may not add to total due to rounding and taxpayer reporting discrepancies.

There were a total of 957,155 gift recipients in 2007 (Figure C). There were slightly more male donees than female, 46.0 percent versus 44.3 percent, respectively. Approximately 9.6 percent of all gift recipients were trusts, organizations, or cases where the donee's gender was unknown. The majority of gifts were to children and grandchildren, which comprised 51.4 percent and 24.0 percent, respectively, of gift recipients. Spouses, siblings, parents, and other relatives each comprised between 1.0 percent and 3.3 percent of the total number of donees. Charitable recipients were 1.1 percent of the total number (Figure D).

In addition to the amount of gifts transferred and characteristics of the recipients, data are also collected regarding the method of transfer used. Most gifts (74.3 percent, or $33.6 billion) were direct gifts, meaning recipients had full and immediate access to the gift (Figure E). By comparison, gifts-through-trust are often contingent on some future event to

Figure C

Composition of Donees, by Sex, 2007



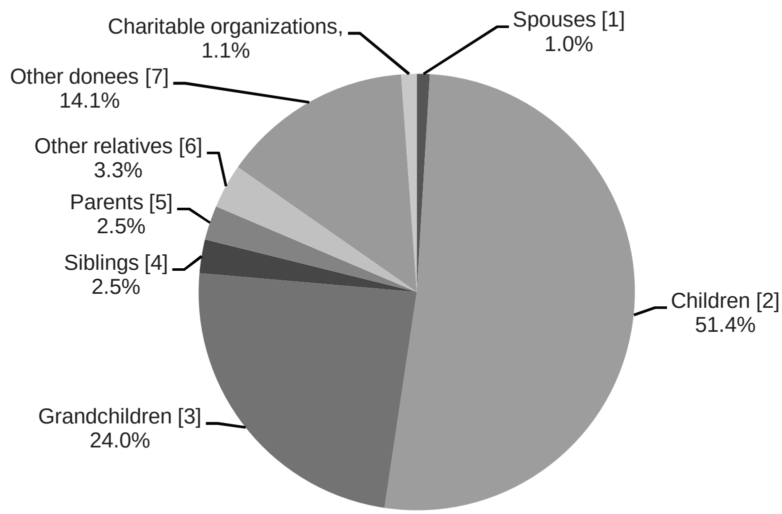
NOTE: Detail may not add to 100 percent due to rounding.

trigger disbursements to recipients. The most frequently used trust vehicles were family trusts (4.5 percent of total gifts, or 17.5 percent of total gifts through trust), which allow the donor to pass wealth through generations of descendants. Simple trusts—usually established for the benefit of one individual, and which must distribute all income generated each year—were used in 4.3 percent of cases, or 16.8 percent of total gifts through trust. Split-interest trusts of all types, characterized by having both charitable and noncharitable beneficiaries, were used in 13.7 percent of gifts through trusts.

Cash was the predominant type of asset gifted; it made up $20.9 billion, or 46.2 percent, of the total amount of gifts (Figure F). Gifts of corporate stock were the second largest type of asset gifted, comprising 23 percent, or $10.6 billion, of the total, while real estate was the third largest type of gift ($7.7 billion, or 17.0 percent). Considered by the sex of the donor, women were more apt to give cash (49.6

Figure D

Relationship of Donees to Donors, 2007

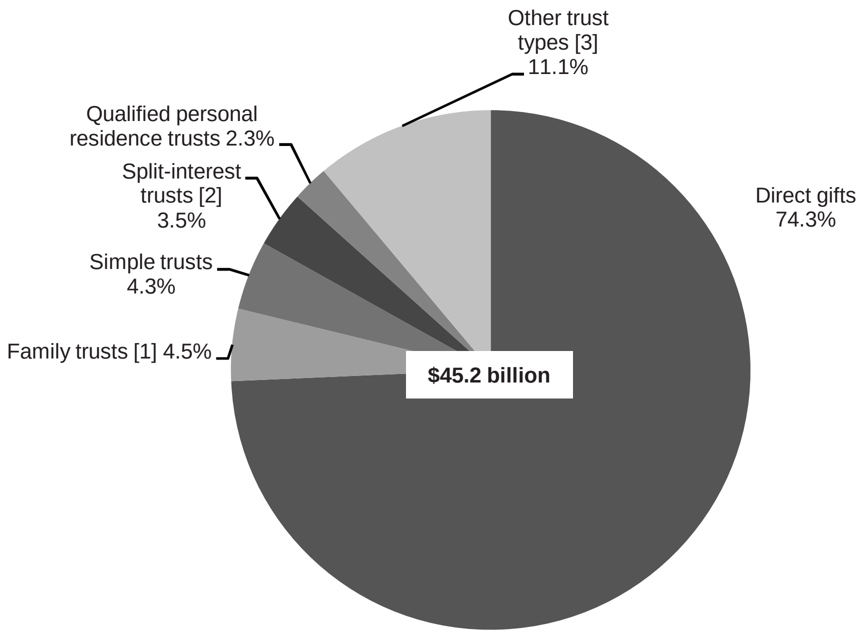


[1] Spouses includes current and divorced spouses/life partners.
[2] Children includes children by blood, adopted children, foster children, step-children, and sons- and daughters-in-law.
[3] Grandchildren includes grandchildren by blood, adopted grandchildren, foster grandchildren, step-grandchildren, grandchildren-in-law, and great-grandchildren.
[4] Siblings include siblings by blood, adopted siblings, foster siblings, step-siblings, half-siblings, and siblings-in-law.
[5] Parents include parents by blood, adopted parents, foster parents, step-parents, parents-in-law, and grandparents.
[6] Other relatives includes nieces and nephews, grand-nieces or grand-nephews, cousins (second cousins, etc.), and aunts and uncles.
[7] Other donees includes other individuals whose relationship is not specified and unidentified organizations.
NOTE: Detail may not add to 100 percent due to rounding.

2007 Gifts

Figure E

Method of Gift Transfer, 2007



[1] Family trusts include children's trusts and bypass trusts.
[2] Split-interest trusts include charitable remainder unitrusts, charitable remainder annuity trusts, charitable lead trusts, pooled income funds, unknown charitable remainder trusts, and unknown split-interest trusts.
[3] Other trust types include insurance trusts, marital trusts, 529 trusts, grantor retained annuity trusts, generation skipping trusts, and unknown trusts.
NOTE: Detail may not add to 100 percent due to rounding.

percent, or $12.0 billion) as a gift than men (42.3 percent, or $8.9 billion). However, men were more likely to give stock as a gift (28 percent, or $5.9 billion) compared with 19.3 percent, or $4.7 billion, by women (Figure G).

Gift taxes are calculated based on the fair market value of the transferred assets, as of the date of transfer. However, there are certain circumstances under which the value of the assets may be reduced, a practice known as valuation discounting. Generally, assets are discounted due to certain characteristics of the ownership that result in a lack of control or marketability. For 2007, valuation discounts of $3.4 billion were taken on 94,703 gifts (Figure H). The majority of the discount rates taken were between 20 percent and 40 percent.

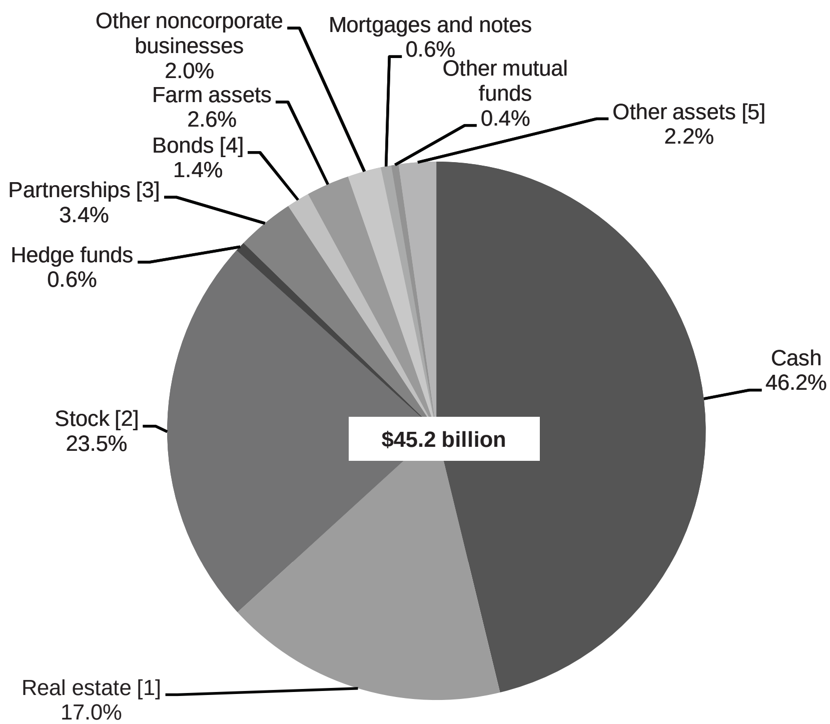
Focus on Crummey Powers and Family Limited Partnerships

In order for a gift to qualify for the annual exclusion, the recipient must be able to enjoy the full benefit of the gift immediately; this is known as having a present interest. If the recipient is unable to enjoy the benefit of the gift immediately, it is considered a gift of future interest and, as such, does not qualify for the annual exclusion. This can create issues if, for example, a parent wishes to fund a trust for children using annual gifts, for use when the children reach the age of majority.

In such situations, an irrevocable trust with Crummey powers can be used to convert the children's future interest into a present interest, thus allowing the parents to take advantage of the annual exclusion as well as the control afforded by the trust. Under Crummey powers, first legitimized in the 1968 case *Crummey v. Commissioner*, the trustee is required to notify beneficiaries when the trust has been funded with an annual gift. Beneficiaries then have the right to withdraw their shares of the gift for a limited period of time; it is this right to withdraw the annual gift amount which creates the present interest necessary to qualify for the annual exclusion.

Figure F

Asset Composition of Gifts, 2007



[1] Real estate includes personal residences, vacant land, improved real estate, farm land, real estate partnerships, and real estate mutual funds.
[2] Stock includes publicly traded and closely held stock.
[3] Partnerships include family limited partnerships and undefined limited partnerships.
[4] Bonds includes state and local bonds, Federal savings bonds, other Federal bonds, corporate and foreign bonds, and bond funds.
[5] Other assets includes annuities, retirement assets, futures, face value of insurance policies, art, depletable/intangible property, and other assets.

If, however, the beneficiary does not exercise withdrawal rights, the gift remains in the trust and subject to the distribution conditions established in the trust documents. Crummey powers were expanded some years later, with *Cristofani's Estate v. Commissioner* in 1991, which allowed contingent remainder beneficiaries (such as grandchildren) to also be considered as having present interest.

As part of the process of collecting data on gifts and the method of transfer, Statistics of Income also compiles data on gifts using Crummey powers. For gifts in 2007, $3.3 billion were gifted through trusts with Crummey powers. The vast majority of these gifts were in cash, totaling $2.0 billion, or 61.5 percent of the total amount (Figure I). Stock and gifts of partnerships were the second and third most common assets gifted, comprising $478.2 million (14.5 percent) and $289.1 million (8.8 percent), respectively.

Family limited partnerships (FLPs) are another interesting tool used when gifting assets. An FLP is an estate planning tool modeled on a regular limited partnership, in which family business or investment assets are pooled to enable wealth management across multiple generations. The creator of an FLP can then gift shares of the limited partnership interest in the FLP to other family members. FLPs are a useful tool for reducing tax liability, because the value of the gifted shares are often discounted, meaning that the value for tax purposes of the shares is significantly less than the fair market value of the underlying assets themselves. FLP assets are subject to discounts for both lack of control and marketability, because the limited partnership interests convey no control over the partnership, and there is no real market for those interests. Gifting shares of FLPs also removes assets from a donor's estate, thus reducing the tax liability at death.

Figure G

Asset Composition of Gifts, by Sex of Donor, 2007

[All figures are estimates based on a sample – money amounts are in thousands of dollars]

Type of assets gifted	Female		Male	
	Amount	Percent of total	Amount	Percent of total
	(1)	(2)	(3)	(4)
Total	**24,180,501**	**100.00**	**21,033,495**	**100.00**
Cash	12,003,255	49.64	8,886,309	42.25
Real estate [1]	4,317,335	17.85	3,377,992	16.06
Stock [2]	4,674,472	19.33	5,940,488	28.24
Hedge funds	173,504	0.72	92,726	0.44
Partnerships [3]	825,499	3.41	727,381	3.46
Bonds [4]	359,027	1.48	264,539	1.26
Farm assets	565,150	2.34	599,456	2.85
Other noncorporate businesses	417,261	1.73	493,881	2.35
Mortgages and notes	196,714	0.81	86,666	0.41
Other mutual funds	125,866	0.52	75,222	0.36
Other assets [5]	522,417	2.16	488,834	2.32

[1] Real estate includes personal residences, vacant land, improved real estate, farm land, real estate partnerships, and real estate mutual funds.
[2] Stock inclues publicly traded and closely held stock.
[3] Partnerships include family limited partnerships and undefined limited partnerships.
[4] Bonds include state and local bonds, Federal savings bonds, other Federal bonds, corporate and foreign bonds, and bond funds.
[5] Other assets includes annuities, retirement assets, futures, face value of insurance policies, art, depletable/intangible property, and other assets.

Figure H

Size of Valuation Discounts as a Percentage of Full Value of Assets, 2007

[All figures are estimates based on a sample – money amounts are in thousands of dollars]

Percentage of valuation discount	Number of discounted gifts	Amount of discount
All discounted gifts	**94,703**	**3,354,520**
Less than 20 percent	17,446	220,367
Between 20 and 40 percent	64,826	2,048,717
Greater than 40 percent	12,430	1,085,436

Assets identified as part of an FLP accounted for $1.4 billion, or 3.0 percent, of the amount of total gifts (Figure I). As opposed to the overall total of gifts (which consisted mostly of cash and, to a lesser extent, stock) or gifts with Crummey powers (which very heavily favored cash), FLP assets were mostly real estate and stock. Real estate accounted for 31.5 percent of all FLP-identified assets; stock accounted for 30.07 percent. Farm assets, which made up the third most valuable category of assets, were only 8.42 percent of the total.

Data Sources and Limitations

All statistics presented in this article are taken from a sample of 9,259 returns filed during Calendar Year 2008. Approximately 94 percent of gifts reported on these Filing Year 2008 returns were given during Calendar Year 2007. Therefore, Filing Year 2008 returns are considered a reasonable reflection of 2007 donors and gifts.

The Gift Tax Study is an annual study based on a stratified random sample of Forms 709, *United States Gift (and Generation-Skipping Transfer) Tax Return*. Returns are stratified by both tax status and the size of total gifts. Tax status (either taxable or nontaxable) is determined based on the presence or absence of gift tax liability, as reported on Part 2, line 15. The size of total gifts is determined based on the amount of total gifts reported, prior to subtractions for annual exclusions, marital deductions, and charitable deductions.

Taxable returns are subdivided into five strata depending on the size of total gifts; nontaxable returns are subdivided into four strata. Sampling rates for taxable returns ranged from 6.07 percent for returns with total gifts less than $100,000, to 100 percent for returns with gifts of $1,000,000 or more. Sampling

Figure I

Asset Compostion of Gifts Utilizing Crummey Powers and Gifts as Part of Family Limited Partnerships, 2007

[All figures are estimates based on samples – money amounts are in thousands of dollars]

Type of assets gifted	All gifts		Crummey powers		Family Limited Partnerships	
	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total
	(1)	(2)	(3)	(4)	(5)	(6)
Total	**45,213,996**	**100.00**	**3,302,590**	**100.00**	**1,356,306**	**100.00**
Cash	20,889,564	46.20	2,031,575	61.51	49,591	3.66
Real estate [1]	7,695,328	17.02	230,483	6.98	426,583	31.45
Stock [2]	10,614,960	23.48	478,241	14.48	407,856	30.07
Hedge funds	266,230	0.59	16,609	0.50	90,230	6.65
Partnerships [3]	1,552,880	3.43	289,058	8.75	44,917	3.31
Bonds [4]	623,566	1.38	42,609	1.29	75,932	5.60
Farm assets	1,164,607	2.58	37,870	1.15	114,195	8.42
Other noncorporate businesses	911,142	2.02	59,211	1.79	21,650	1.60
Mortgages and notes	283,380	0.63	28,089	0.85	52,110	3.84
Other mutual funds	201,088	0.44	20,150	0.61	50,120	3.70
Other assets [5]	1,011,251	2.24	68,695	2.08	23,122	1.70

[1] Real estate includes personal residences, vacant land, improved real estate, farm land, real estate partnerships, and real estate mutual funds.
[2] Stock inclues publicly traded and closely held stock.
[3] Partnerships include family limited partnerships and undefined limited partnerships.
[4] Bonds include state and local bonds, Federal savings bonds, other Federal bonds, corporate and foreign bonds, and bond funds.
[5] Other assets includes annuities, retirement assets, futures, face value of insurance policies, art, depletable/intangible property, and other assets.

rates for nontaxable returns ranged from 0.11 percent for returns with less than $100,000 in total gifts, to 100 percent for returns with $1,000,000 or more in total gifts. There were 3,800 taxable returns and 5,459 nontaxable returns included in the final sample.

Poststratified weights were applied to each return in the final sample in order to produce population estimates of financial data. These weights were computed by dividing the actual population count of filed returns by the actual sample count of returns for a given sample stratum. Weights have been adjusted to account for missing returns, rejected returns, and outliers. The magnitude of sampling error for selected data items, as measured by the coefficients of variation, is shown in Figure J.

Selected Terms and Concepts

Annual exclusion—The annual amount of gifts, to any single beneficiary, which are exempt from Federal gift taxation. For 2007, the annual exclusion amount was $12,000.

Beneficiary—The recipient of income or assets from a trust, will, or life insurance policy.

Charitable deduction—For outright transfers to qualified charitable organizations, donors are entitled to take an unlimited charitable deduction for the total amount of the transfer. For gifts to trust, charitable deductions are allowed only when certain legal requirements are met.

Crummey trust—A type of trust arrangement which allows the grantor to utilize simultaneously the annual gift tax exclusion as well as the long-term

Figure J

Coefficients of Variation for Selected Data, by Tax Status, 2008

Item	All returns	Taxable	Nontaxable
	(1)	(2)	(3)
Number of returns	0.35	0.74	0.03
Female donors	4.63	2.09	4.84
Male donors	4.98	2.82	5.14
Marital deduction [1]	3.01	2.47	3.40
Charitable deduction [2]	1.79	2.53	2.53
Total gift tax [3]	0.46	0.46	N/A
Total amount of gifts [4]	0.81	0.77	1.06

N/A – Not applicable.
[1] This value is based on the amount reported on Form 709, part 4, line 6.
[2] This value is based on the amount reported on Form 709, part 4, line 7.
[3] This value is based on the amount reported on Form 709, part 2, line 15.
[4] This value is based on the amount reported on Form 709, part 4, line 1.

financial protection and control inherent in a trust. First legitimized by *Crummey v. Commissioner* in 1968, and expanded further by *Cristofani's Estate v. Commissioner* in 1991, a Crummey trust essentially transforms future gifts-through-trust into a "present interest" for beneficiaries, by allowing beneficiaries and contingent future beneficiaries the right, for a limited time, to withdraw funds up to the annual exclusion amount.

Cumulative gifts—The Tax Reform Act of 1976 introduced a graduated framework for asset transfers, both during life and at death. Each successive gift adds to the cumulative gift amount; the final transfer contributing to the cumulative amount is a bequest at death. The tax rate on gifts was progressive, meaning that the highest tax rate was applied to transfers at death. In 1976, the highest tax rate on total cumulative gifts was 70 percent; under current law, the highest rate applied to total cumulative gifts in 2007 was 45 percent.

Donee—The same as a gift recipient, a donee is a person or entity receiving a gift.

Marital deduction—For transfers of property between spouses, either during their lifetimes or at death, the donor may take an unlimited marital deduction for the amount of the transfer. That is to say, one individual may transfer an unlimited amount of assets to a spouse tax-free.

Nontaxable return—Gift tax returns with no gift tax liability reported on Part 2, line 15.

Partnership—An unincorporated business arrangement whereby two or more people manage a business, share the profits, and are equally liable for the debts. The partnership itself is not liable for income taxes, but, instead, the partners must report income and losses on their individual tax returns.

Taxable gifts—The amount of total gifts less annual exclusions and marital and charitable deductions.

Taxable return—Gift tax returns reporting a positive amount of gift tax liability on Part 2, line 15.

Trust—A legal entity in its own right, established and governed by a trust agreement, which is created when one party (the grantor or settler) transfers ownership of assets to the trust under the control of a trustee, for the benefit of a third party (the beneficiary).

Table 1. Gift Tax Returns Filed in 2008: Total Gifts of Donor, Deductions, Credits, and Net Tax on Current Period Gifts

[All figures are estimates based on a sample–money amounts are in whole dollars]

Tax status and size of taxable gifts, current period	Total gifts [1]		Total annual exclusions		Total included amount of gifts		Marital deduction [2]	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
All returns	**257,485**	**45,213,996,401**	**244,347**	**9,452,994,769**	**171,879**	**35,760,999,166**	**1,354**	**1,177,436,266**
Less than $2,500	104,590	6,941,072,876	104,105	3,951,041,301	18,984	2,990,030,471	675	758,393,831
$2,500 under $5,000	7,163	438,931,192	6,223	316,217,063	7,163	122,714,457	*5	*12,989,989
$5,000 under $10,000	9,463	705,614,317	9,447	375,938,725	9,463	329,675,695	73	17,839,073
$10,000 under $25,000	24,203	1,480,686,481	22,382	876,260,326	24,203	604,425,158	36	61,122,492
$25,000 under $50,000	26,721	2,051,019,086	25,769	848,993,620	26,721	1,202,025,507	55	21,622,799
$50,000 under $75,000	15,076	2,254,440,057	14,140	475,718,501	15,076	1,778,721,516	92	23,129,667
$75,000 under $100,000	10,881	1,380,653,891	9,074	348,387,798	10,881	1,032,266,205	10	23,938,218
$100,000 under $250,000	29,860	6,148,960,295	27,061	1,027,705,885	29,860	5,121,254,224	224	34,682,832
$250,000 under $500,000	16,694	6,851,843,372	14,775	589,308,239	16,694	6,262,534,874	78	91,215,502
$500,000 under $1,000,000	10,631	8,518,350,164	9,394	458,437,547	10,631	8,059,912,176	86	87,989,832
$1,000,000 or more	2,203	8,442,424,672	1,976	184,985,765	2,203	8,257,438,884	20	44,512,031
All nontaxable returns	**247,932**	**33,205,261,560**	**235,196**	**8,557,112,794**	**162,327**	**24,648,146,279**	**1,218**	**1,035,012,803**
Less than $2,500	104,002	6,829,180,502	103,533	3,893,172,332	18,396	2,936,007,093	**659	**761,469,445
$2,500 under $5,000	6,872	379,113,569	5,949	290,172,162	6,872	88,941,712	**	**
$5,000 under $10,000	9,035	534,917,346	9,035	340,930,118	9,035	193,987,296	**77	**39,874,688
$10,000 under $25,000	23,538	1,310,535,425	21,733	804,439,931	23,538	506,094,497	**	**
$25,000 under $50,000	26,013	1,894,345,652	25,094	779,968,104	26,013	1,114,377,550	*45	*10,321,233
$50,000 under $75,000	14,440	1,498,727,885	13,521	417,934,040	14,440	1,080,793,862	*83	*20,260,528
$75,000 under $100,000	10,481	1,253,172,156	8,674	306,067,895	10,481	947,104,346	**215	**41,557,124
$100,000 under $250,000	28,098	5,483,416,974	25,366	867,792,456	28,098	4,615,624,306	**	**
$250,000 under $500,000	15,518	6,062,286,103	13,640	477,981,318	15,518	5,584,304,555	65	43,915,694
$500,000 under $1,000,000	9,437	7,400,900,678	8,270	358,132,099	9,437	7,042,768,132	67	80,906,766
$1,000,000 or more	499	558,665,267	383	20,522,339	499	538,142,932	6	36,707,325
All taxable returns	**9,553**	**12,008,734,842**	**9,151**	**895,881,976**	**9,553**	**11,112,852,887**	**137**	**142,423,463**
Less than $2,500	588	111,892,373	572	57,868,969	588	54,023,378	**21	**9,914,375
$2,500 under $5,000	291	59,817,622	275	26,044,901	291	33,772,746	**	**
$5,000 under $10,000	428	170,696,971	412	35,008,608	428	135,688,399	**32	**39,086,877
$10,000 under $25,000	666	170,151,056	649	71,820,395	666	98,330,661	**	**
$25,000 under $50,000	708	156,673,433	676	69,025,515	708	87,647,957	*10	*11,301,566
$50,000 under $75,000	636	755,712,172	620	57,784,462	636	697,927,654	*9	*2,869,139
$75,000 under $100,000	400	127,481,735	400	42,319,903	400	85,161,859	**19	**17,063,926
$100,000 under $250,000	1,762	665,543,320	1,695	159,913,429	1,762	505,629,918	**	**
$250,000 under $500,000	1,176	789,557,268	1,135	111,326,921	1,176	678,230,320	13	47,299,809
$500,000 under $1,000,000	1,193	1,117,449,485	1,125	100,305,448	1,193	1,017,144,044	19	7,083,066
$1,000,000 or more	1,704	7,883,759,405	1,593	164,463,426	1,704	7,719,295,952	14	7,804,706

Footnotes at end of table.

2007 Gifts

Table 1. Gift Tax Returns Filed in 2008: Total Gifts of Donor, Deductions, Credits, and Net Tax on Current Period Gifts—Continued

[All figures are estimates based on a sample—money amounts are in whole dollars]

Tax status and size of taxable gifts, current period	Charitable deduction [3]		Total deductions		Taxable gifts, current period [4]		Taxable gifts, prior periods [5]	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
All returns	**7,775**	**6,519,818,619**	**9,059**	**7,697,255,246**	**167,237**	**28,097,083,463**	**117,356**	**73,913,664,680**
Less than $2,500	5,296	2,216,824,631	5,948	2,975,218,811	14,342	14,854,024	46,814	23,303,883,410
$2,500 under $5,000	56	84,586,283	60	97,576,272	7,163	25,138,185	3,476	1,354,509,549
$5,000 under $10,000	266	241,819,757	332	259,658,829	9,463	70,016,865	6,644	1,718,010,299
$10,000 under $25,000	235	155,091,407	266	216,213,920	24,203	388,211,239	13,877	4,430,449,022
$25,000 under $50,000	260	229,491,168	312	251,113,968	26,721	950,911,539	13,516	13,816,712,572
$50,000 under $75,000	275	759,193,265	361	782,322,931	15,076	996,398,585	5,786	2,739,774,232
$75,000 under $100,000	207	72,303,143	214	96,241,361	10,881	936,024,818	3,697	2,533,626,909
$100,000 under $250,000	397	330,058,010	616	364,740,842	29,860	4,756,546,481	11,982	8,183,880,364
$250,000 under $500,000	364	311,689,334	434	402,904,836	16,694	5,860,121,486	6,602	4,862,333,645
$500,000 under $1,000,000	269	241,938,617	348	329,928,441	10,631	7,732,880,978	3,706	3,280,571,194
$1,000,000 or more	149	1,876,823,003	169	1,921,335,034	2,203	6,365,979,264	1,256	7,689,913,484
All nontaxable returns	**7,022**	**3,074,733,036**	**8,199**	**4,109,746,208**	**157,685**	**20,538,442,373**	**108,323**	**47,877,269,565**
Less than $2,500	**5,272	**2,225,139,850	**5,908	**2,986,609,643	13,754	14,324,461	46,226	22,207,973,126
$2,500 under $5,000	**	**	**	**	6,872	24,057,064	3,185	913,853,748
$5,000 under $10,000	**382	**216,494,575	**455	**256,369,284	9,035	66,963,404	6,216	971,012,334
$10,000 under $25,000	**	**	**	**	23,538	376,749,105	13,228	2,800,884,775
$25,000 under $50,000	217	179,120,250	259	189,441,484	26,013	924,936,066	12,808	12,354,147,537
$50,000 under $75,000	215	103,245,712	298	123,506,239	14,440	957,287,622	5,150	1,014,255,098
$75,000 under $100,000	**464	**154,939,108	**675	**196,496,232	10,481	901,001,499	3,297	1,399,394,845
$100,000 under $250,000	**	**	**	**	28,098	4,465,230,860	10,264	3,955,190,213
$250,000 under $500,000	276	104,290,689	338	148,206,382	15,518	5,436,098,171	5,429	1,865,391,779
$500,000 under $1,000,000	183	89,067,269	248	169,974,035	9,437	6,872,794,096	2,521	395,166,112
$1,000,000 or more	12	2,435,583	18	39,142,908	499	499,000,024	0	0
All taxable returns	**752**	**3,445,085,583**	**860**	**3,587,509,038**	**9,553**	**7,558,641,090**	**9,033**	**26,036,395,114**
Less than $2,500	**80	**76,271,065	**100	**86,185,439	588	529,563	588	1,095,910,284
$2,500 under $5,000	**	**	**	**	291	1,081,121	291	440,655,801
$5,000 under $10,000	**119	**180,416,589	**143	**219,503,465	428	3,053,461	428	746,997,964
$10,000 under $25,000	**	**	**	**	666	11,462,134	649	1,629,564,248
$25,000 under $50,000	43	50,370,918	52	61,672,484	708	25,975,473	708	1,462,565,035
$50,000 under $75,000	60	655,947,553	64	658,816,692	636	39,110,962	636	1,725,519,134
$75,000 under $100,000	**140	**247,422,045	**156	**264,485,970	400	35,023,319	400	1,134,232,064
$100,000 under $250,000	**	**	**	**	1,762	291,315,621	1,718	4,228,690,152
$250,000 under $500,000	88	207,398,645	96	254,698,454	1,176	424,023,315	1,173	2,996,941,867
$500,000 under $1,000,000	86	152,871,348	99	159,954,406	1,193	860,086,882	1,185	2,885,405,082
$1,000,000 or more	137	1,874,387,420	151	1,882,192,126	1,704	5,866,979,240	1,256	7,689,913,484

Footnotes at end of table.

Table 1. Gift Tax Returns Filed in 2008: Total Gifts of Donor, Deductions, Credits, and Net Tax on Current Period Gifts—Continued

[All figures are estimates based on a sample—money amounts are in whole dollars]

Tax status and size of taxable gifts, current period	Total taxable gifts, all periods		Tax on current period gifts		Tax on prior taxable gifts		Tax on total taxable gifts	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)
All returns	**206,182**	**102,010,749,117**	**167,145**	**9,628,435,053**	**116,490**	**27,816,318,544**	**205,279**	**37,444,753,509**
Less than $2,500	53,287	23,318,738,522	14,250	3,392,800	45,910	8,144,511,243	52,384	8,147,904,018
$2,500 under $5,000	7,163	1,379,647,734	7,163	5,651,329	3,476	502,862,883	7,163	508,514,212
$5,000 under $10,000	9,463	1,788,027,202	9,463	17,541,445	6,644	587,504,096	9,463	605,045,553
$10,000 under $25,000	24,203	4,818,660,265	24,203	96,386,503	13,877	1,542,023,865	24,203	1,638,410,513
$25,000 under $50,000	26,721	14,767,624,127	26,721	248,456,700	13,516	5,621,684,928	26,721	5,870,141,608
$50,000 under $75,000	15,076	3,736,172,836	15,076	247,935,458	5,786	1,028,068,306	15,076	1,276,003,784
$75,000 under $100,000	10,881	3,469,651,693	10,881	253,603,240	3,697	925,726,801	10,881	1,179,330,056
$100,000 under $250,000	29,860	12,940,426,942	29,860	1,427,397,645	12,020	3,015,948,782	29,860	4,443,346,077
$250,000 under $500,000	16,694	10,722,454,923	16,694	1,911,951,406	6,602	1,802,816,737	16,694	3,714,768,226
$500,000 under $1,000,000	10,631	11,013,452,137	10,631	2,677,858,161	3,706	1,303,453,055	10,631	3,981,311,221
$1,000,000 or more	2,203	14,055,892,737	2,203	2,738,260,366	1,256	3,341,717,848	2,203	6,079,978,241
All nontaxable returns	**196,629**	**68,415,712,874**	**157,592**	**6,348,439,878**	**107,457**	**17,055,632,560**	**195,727**	**23,404,072,401**
Less than $2,500	52,698	22,222,298,659	13,662	3,169,619	45,322	7,716,501,729	51,796	7,719,671,369
$2,500 under $5,000	6,872	937,910,812	6,872	5,192,564	3,185	337,131,226	6,872	342,323,790
$5,000 under $10,000	9,035	1,037,975,777	9,035	16,241,648	6,216	299,186,698	9,035	315,428,325
$10,000 under $25,000	23,538	3,177,633,882	23,538	91,580,635	13,228	880,856,130	23,538	972,436,918
$25,000 under $50,000	26,013	13,279,083,619	26,013	237,268,999	12,808	5,044,071,588	26,013	5,281,340,545
$50,000 under $75,000	14,440	1,971,542,721	14,440	230,980,355	5,150	324,394,537	14,440	555,374,970
$75,000 under $100,000	10,481	2,300,396,307	10,481	238,362,065	3,297	460,653,484	10,481	699,015,571
$100,000 under $250,000	28,098	8,420,421,165	28,098	1,303,124,341	10,302	1,304,717,329	28,098	2,607,841,353
$250,000 under $500,000	15,518	7,301,489,739	15,518	1,730,962,325	5,429	577,617,297	15,518	2,308,579,702
$500,000 under $1,000,000	9,437	7,267,960,170	9,437	2,319,003,121	2,521	110,502,542	9,437	2,429,505,650
$1,000,000 or more	499	499,000,022	499	172,554,206	0	0	499	172,554,206
All taxable returns	**9,553**	**33,595,036,243**	**9,553**	**3,279,995,174**	**9,033**	**10,760,685,984**	**9,553**	**14,040,681,109**
Less than $2,500	588	1,096,439,863	588	223,181	588	428,009,515	588	428,232,649
$2,500 under $5,000	291	441,736,922	291	458,765	291	165,731,657	291	166,190,422
$5,000 under $10,000	428	750,051,425	428	1,299,797	428	288,317,398	428	289,617,228
$10,000 under $25,000	666	1,641,026,382	666	4,805,868	649	661,167,735	666	665,973,595
$25,000 under $50,000	708	1,488,540,508	708	11,187,701	708	577,613,340	708	588,801,063
$50,000 under $75,000	636	1,764,630,115	636	16,955,103	636	703,673,769	636	720,628,814
$75,000 under $100,000	400	1,169,255,386	400	15,241,175	400	465,073,316	400	480,314,485
$100,000 under $250,000	1,762	4,520,005,777	1,762	124,273,305	1,718	1,711,231,453	1,762	1,835,504,725
$250,000 under $500,000	1,176	3,420,965,184	1,176	180,989,081	1,173	1,225,199,440	1,176	1,406,188,524
$500,000 under $1,000,000	1,193	3,745,491,967	1,193	358,855,040	1,185	1,192,950,513	1,193	1,551,805,571
$1,000,000 or more	1,704	13,556,892,715	1,704	2,565,706,160	1,256	3,341,717,848	1,704	5,907,424,035

Footnotes at end of table.

Table 1. Gift Tax Returns Filed in 2008: Total Gifts of Donor, Deductions, Credits, and Net Tax on Current Period Gifts—Continued

[All figures are estimates based on a sample—money amounts are in whole dollars]

Tax status and size of taxable gifts, current period	Maximum unified credit		Unified credit previously used		Available unified credit [6]		Specific exemption amount	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
	(25)	(26)	(27)	(28)	(29)	(30)	(31)	(32)
All returns	**257,461**	**88,883,384,204**	**112,473**	**12,675,866,562**	**250,073**	**76,207,513,353**	**1,876**	**9,136,915**
Less than $2,500	104,590	36,144,962,386	44,082	5,570,103,561	102,543	30,574,856,495	1,257	1,940,503
$2,500 under $5,000	7,163	2,477,127,926	3,476	240,265,191	6,919	2,236,862,680	*35	*2,264,021
$5,000 under $10,000	9,463	3,272,322,690	6,644	379,152,804	9,081	2,893,168,945	*39	*180,674
$10,000 under $25,000	24,187	8,363,868,058	13,013	1,023,766,021	23,679	7,340,101,865	*48	*206,017
$25,000 under $50,000	26,721	9,240,017,212	13,474	1,242,356,546	26,215	7,997,660,607	*39	*195,451
$50,000 under $75,000	15,076	5,161,913,495	4,750	489,456,542	14,608	4,672,456,873	*18	*105,310
$75,000 under $100,000	10,881	3,762,677,464	3,736	511,820,891	10,587	3,250,856,509	*26	*82,583
$100,000 under $250,000	29,853	10,290,037,803	11,909	1,584,207,899	28,607	8,705,829,566	208	3,329,053
$250,000 under $500,000	16,694	5,749,427,353	6,453	887,865,826	16,071	4,861,561,339	98	348,229
$500,000 under $1,000,000	10,631	3,660,907,121	3,677	407,925,142	10,189	3,252,981,927	48	226,577
$1,000,000 or more	2,202	760,122,697	1,259	338,946,137	1,574	421,176,547	59	258,496
All nontaxable returns	**247,932**	**85,598,440,653**	**103,398**	**9,830,029,142**	**246,446**	**75,768,407,343**	**1,565**	**5,592,803**
Less than $2,500	104,002	35,941,607,780	43,494	5,366,810,831	102,515	30,574,794,619	d	d
$2,500 under $5,000	6,872	2,376,507,042	3,185	141,797,360	6,872	2,234,709,644	d	d
$5,000 under $10,000	9,035	3,124,254,588	6,216	231,128,900	9,035	2,893,124,748	d	d
$10,000 under $25,000	23,538	8,139,333,202	12,363	799,767,623	23,538	7,339,565,427	d	d
$25,000 under $50,000	26,013	8,995,045,576	12,766	998,766,929	26,013	7,996,278,591	d	d
$50,000 under $75,000	14,440	4,941,991,611	4,114	271,337,452	14,440	4,670,654,082	d	d
$75,000 under $100,000	10,481	3,624,378,212	3,336	374,963,481	10,481	3,249,414,670	d	d
$100,000 under $250,000	28,098	9,687,322,749	10,154	1,001,035,926	28,098	8,686,286,505	d	d
$250,000 under $500,000	15,518	5,345,351,093	5,278	534,043,733	15,518	4,811,307,189	d	d
$500,000 under $1,000,000	9,437	3,250,094,601	2,493	110,376,907	9,437	3,139,717,669	d	d
$1,000,000 or more	499	172,554,200	0	0	499	172,554,200	d	d
All taxable returns	**9,529**	**3,284,943,551**	**9,075**	**2,845,837,420**	**3,628**	**439,106,010**	**311**	**3,544,112**
Less than $2,500	588	203,354,606	588	203,292,730	*28	*61,876	d	d
$2,500 under $5,000	291	100,620,884	291	98,467,831	*46	*2,153,036	d	d
$5,000 under $10,000	428	148,068,102	428	148,023,904	*47	*44,198	d	d
$10,000 under $25,000	649	224,534,856	649	223,998,399	141	536,438	d	d
$25,000 under $50,000	708	244,971,636	708	243,589,617	202	1,382,016	d	d
$50,000 under $75,000	636	219,921,884	636	218,119,090	168	1,802,791	d	d
$75,000 under $100,000	400	138,299,252	400	136,857,410	106	1,441,839	d	d
$100,000 under $250,000	1,756	602,715,054	1,756	583,171,973	510	19,543,061	d	d
$250,000 under $500,000	1,176	404,076,260	1,176	353,822,093	553	50,254,150	d	d
$500,000 under $1,000,000	1,193	410,812,521	1,184	297,548,236	752	113,264,258	d	d
$1,000,000 or more	1,703	587,568,497	1,259	338,946,137	1,075	248,622,347	d	d

Footnotes at end of table.

Table 1. Gift Tax Returns Filed in 2008: Total Gifts of Donor, Deductions, Credits, and Net Tax on Current Period Gifts—Continued

[All figures are estimates based on a sample—money amounts are in whole dollars]

Tax status and size of taxable gifts, current period	Unified credit, applied		Net tax on current period gifts		Generation skipping transfer tax		Total tax [7]	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
	(33)	(34)	(35)	(36)	(37)	(38)	(39)	(40)
All returns	**161,000**	**6,784,110,690**	**9,553**	**2,843,346,627**	**207**	**38,518,872**	**9,667**	**2,881,865,538**
Less than $2,500	13,678	3,169,754	588	223,044	0	0	589	223,046
$2,500 under $5,000	6,905	5,196,300	291	455,028	0	0	291	455,028
$5,000 under $10,000	9,081	16,285,846	428	1,255,599	0	0	428	1,255,599
$10,000 under $25,000	23,673	92,090,815	666	4,295,685	0	0	666	4,295,685
$25,000 under $50,000	26,196	238,496,408	708	9,960,257	d	d	725	10,114,984
$50,000 under $75,000	14,591	232,678,386	636	15,257,069	0	0	636	15,257,069
$75,000 under $100,000	10,561	239,721,321	400	13,881,919	d	d	438	15,298,575
$100,000 under $250,000	28,559	1,322,424,208	1,762	104,973,387	d	d	1,800	105,914,978
$250,000 under $500,000	16,041	1,781,064,356	1,176	130,887,036	d	d	1,197	134,099,930
$500,000 under $1,000,000	10,174	2,432,057,748	1,193	245,531,428	d	d	1,193	248,428,671
$1,000,000 or more	1,540	420,925,549	1,704	2,316,626,174	d	d	1,704	2,346,521,973
All nontaxable returns	**157,591**	**6,348,439,846**	**0**	**0**	***114**	***5,201,245**	**115**	**5,201,247**
Less than $2,500	**20,533	**8,362,181	0	0	0	0	d	d
$2,500 under $5,000	**	**	0	0	0	0	d	d
$5,000 under $10,000	9,035	16,241,648	0	0	0	0	d	d
$10,000 under $25,000	23,538	91,580,635	0	0	0	0	d	d
$25,000 under $50,000	26,013	237,268,999	0	0	d	d	d	d
$50,000 under $75,000	14,440	230,980,355	0	0	0	0	d	d
$75,000 under $100,000	10,481	238,362,065	0	0	d	d	d	d
$100,000 under $250,000	28,098	1,303,124,313	0	0	d	d	d	d
$250,000 under $500,000	15,518	1,730,962,325	0	0	d	d	d	d
$500,000 under $1,000,000	9,437	2,319,003,121	0	0	d	d	d	d
$1,000,000 or more	499	172,554,204	0	0	d	d	d	d
All taxable returns	**3,409**	**435,670,844**	**9,553**	**2,843,346,627**	**93**	**33,317,627**	**9,553**	**2,876,664,290**
Less than $2,500	**50	**3,872	588	223,044	0	0	d	d
$2,500 under $5,000	**	**	291	455,028	0	0	d	d
$5,000 under $10,000	*47	*44,198	428	1,255,599	0	0	d	d
$10,000 under $25,000	136	510,180	666	4,295,685	0	0	d	d
$25,000 under $50,000	183	1,227,409	708	9,960,257	d	d	d	d
$50,000 under $75,000	151	1,698,031	636	15,257,069	0	0	d	d
$75,000 under $100,000	80	1,359,256	400	13,881,919	d	d	d	d
$100,000 under $250,000	462	19,299,896	1,762	104,973,387	d	d	d	d
$250,000 under $500,000	524	50,102,031	1,176	130,887,036	d	d	d	d
$500,000 under $1,000,000	736	113,054,627	1,193	245,531,428	d	d	d	d
$1,000,000 or more	1,041	248,371,345	1,704	2,316,626,174	d	d	d	d

*Indicates that estimates should be used with caution because of the small number of sample returns on which they were based.

**Indicates that data were combined to prevent disclosure of individual taxpayer data.

d—Data deleted to prevent disclosure of individual taxpayer data. However, the data are included in the appropriate totals.

[1] This is the value of total gifts reported by the donor after gifts have been split between the donor and the consenting spouse.

[2] An unlimited marital deduction is available for all outright transfers to a donor's spouse. The deduction is available for gifts to trusts only under limited circumstances.

[3] An unlimited charitable deduction is available for all outright transfers to qualified charities. The deduction is available for gifts to trusts only if the trust meets certain requirements.

[4] This is the amount of taxable gifts (total gifts less exclusions and deductions) for the current year.

[5] This is the amount of taxable gifts (total gifts less exclusions and deductions) for all prior tax years in which the donor transferred property.

[6] This is the value of available unified credit that is applied to the gift tax liability in the current period.

[7] This is the reported value of gift tax on current period gifts.

NOTES: Detail may not add to totals due to rounding, as well as to taxpayer reporting discrepancies and processing tolerances. "Number" shown in Columns 1, 3, 5, etc. refers to the number of returns.