

A COMMISSION REPORT

*Coordination of  
State and Federal  
Inheritance, Estate,  
and Gift Taxes*

ADVISORY COMMISSION ON  
INTERGOVERNMENTAL RELATIONS  
JANUARY 1961





# TYPES OF STATE DEATH TAXES

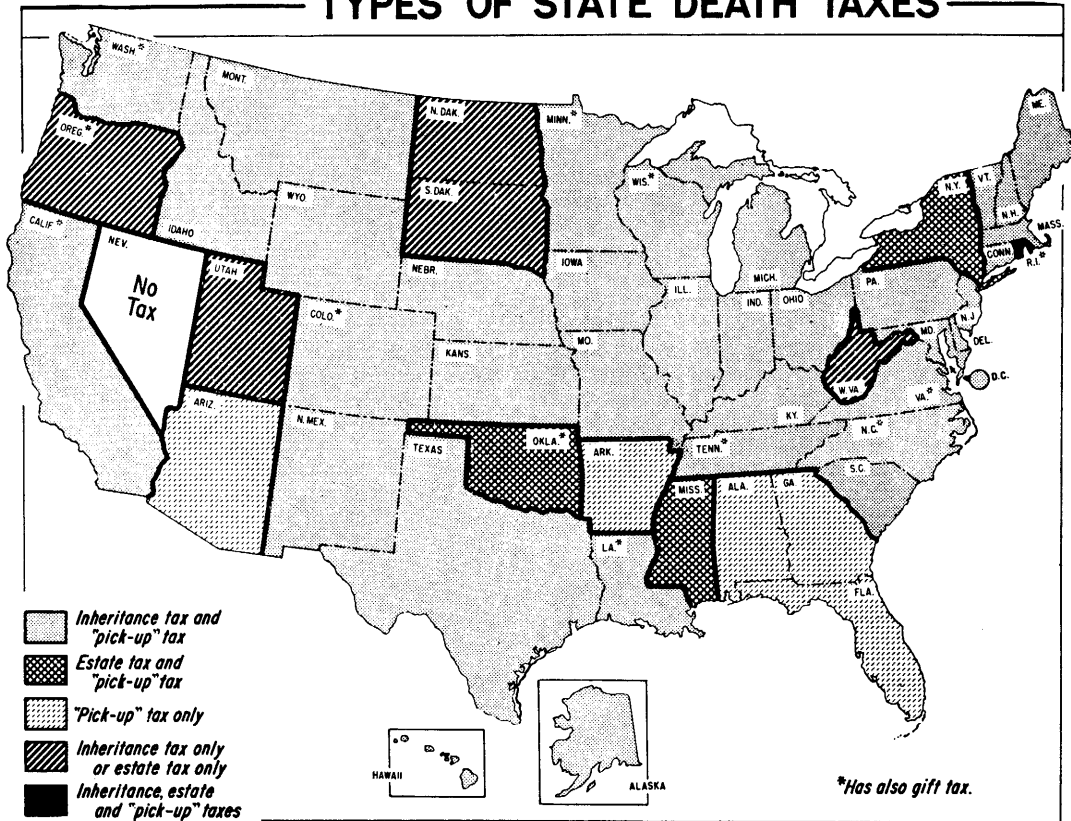


FIGURE 1



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Estate, and Gift Taxes***

**ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS**

**JANUARY 1961**

## ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

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<sup>1</sup> Membership on the Commission expired January 20, 1961.

<sup>2</sup> Resigned January 1961.

<sup>3</sup> Membership on the Commission expired January 2, 1961.

<sup>4</sup> Replaced by John Anderson, Jr., Governor of Kansas, January 19, 1961.

## PREFACE

Public Law 86-380 places on the Advisory Commission on Intergovernmental Relations the duty, among others, to recommend, within the framework of the Constitution, the most desirable allocation of governmental functions, responsibilities, and revenues among the several levels of government; and to recommend methods of coordinating and simplifying tax laws and administrative practices in order to achieve a more orderly and less competitive fiscal relationship between the levels of government and reduce the burden of compliance for taxpayers.

This report pertains to inheritance, estate, and gift taxation. In selecting it as its first project in the area of tax coordination and simplification, the Commission was influenced by several considerations.

The coordination achieved between Federal and State death taxes (inheritance and estate taxes) in 1926, by granting taxpayers a credit against their Federal estate tax liability for death taxes paid to States, has become obsolete during the intervening 35 years. The need for updating it has been urged for some years by legislators, State officials, the legal and accounting professions, and by students of taxation. Spokesmen for the States feel particularly aggrieved because Federal estate tax changes enacted in 1932 and thereafter markedly reduced the States' proportionate share of this revenue area. The existing Federal-State death tax system is characterized by interstate diversity. Its excessive complexity aggravates taxpayers' compliance and tax enforcement burdens. Occasionally multiple taxation results. While cooperation between State and Federal tax administrations is well advanced, the opportunities for effective joint utilization of enforcement resources have not been fully developed. A new coordination effort affords an opportunity to move forward in all of these directions.

The Federal tax system encourages the distribution of wealth during the lifetime of its owner by imposing lower taxes on gifts during life than on bequests at death. This reduces the size of the tax base to which State death taxes apply. Unlike the Federal Government, however, most States have not imposed gift taxes because they are administratively impracticable. Some States, in any event, would be unable to make effective use of them without the protective umbrella of Federal legislation. The gift tax is the essential complement of the Federal estate tax. A new coordination effort should allow for the effect of the gift tax on the States' death tax revenues.

A rearrangement of Federal-State death tax relations would make some, albeit small, contribution to the tax collections of the States and they have an urgent need for more revenue. More importantly, it would revitalize an intergovernmental arrangement to which the States attach symbolic significance far and above its dollar and cent value. While the rearrangement of intergovernmental tax relations will necessarily entail some loss of estate tax revenues to the Federal Government, it is possible to spread the impact of that loss over several years and to limit it to magnitudes compatible with budgetary conditions in prospect for the near future.

The estate tax credit has already received preliminary attention from the Joint Federal-State Action Committee which initiated the collection of some of the basic data required for an analysis of alternative solutions. This Commission has fallen heir to both the problem and the data which bear upon it.

These considerations make the inheritance, estate, and gift taxes a logical starting point for implementing the Commission's statutory mandate to facilitate intergovernmental tax coordination and simplification. We respectfully submit the conclusions and recommendations contained herein to the President, the Congress, the Governors and the legislatures of the States.

This report was adopted at a meeting of the Commission held in Washington, D.C., on January 18, 1961.

FRANK BANE, *Chairman.*



## ACKNOWLEDGMENTS

The staff work for this report was conducted by Mr. L. L. Ecker-Racz, Research Associate. In developing the report, Mr. Ecker-Racz benefited from assistance and advice generously provided by several agencies, organizations and individuals. The Commission desires to express its appreciation to the State inheritance and estate tax administrators and to the District Directors of Internal Revenue for their calculations of the effect of alternative tax credit methods on State tax liabilities; to the Statistics Division, Internal Revenue Service, for processing these data and for preparing a variety of special tabulations from Federal estate tax returns; to the Tax Analysis Staff, Office of the Secretary of the Treasury, for revenue estimates and comparative data on State taxes; to the National Tax Association's Committee on Intergovernmental Fiscal Relations (Professor A. G. Buehler, Chairman) and to the National Association of Tax Administrators (Mr. Charles F. Conlon, Executive Secretary) for criticism and counsel at several stages of the development of this report; and to the economists and other individuals too numerous to list here who interrupted their teaching and other duties on short notice to review a draft of this report.

F.B.



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# Part I





# *Chapter 1*

## STATEMENT OF THE PROBLEM

The overlapping of State and National taxes on transfers of property at death, imposed either on the estate of the decedent or on the shares of his heirs, has been well-nigh universal for over a generation. A death tax has been a permanent feature of the National tax system since 1916 and of practically every State tax system almost that long. Indeed, some of the State inheritance taxes date from the past century. Since 1931 Nevada has been the only State without such a tax.

Tax overlapping is limited to Federal and State governments; local governments are not involved. While some local governments share in State revenues from this tax and, in a few States administer it, such taxes are everywhere State imposed and apply uniformly in all political subdivisions within a State.

Governments in the United States currently derive about \$2 billion a year from inheritance, estate, and gift taxes. This represents less than 2 percent of their total tax collections. The yield of these taxes more than doubled during the past 10 years. Data for recent years are presented in Table 1. Separate data for death (inheritance and estate) and gift taxes are shown in Appendix Tables A and B.

Since 1926 the relationship between National and State taxes has been governed by the Federal credit for taxes paid to States. The credit has in some measure influenced the development of State taxes. However, it has not shaped the State taxes to the extent originally anticipated. It could not do so because at the time of its adoption (1926) the death tax rates of some of the States already exceeded the maximum credit by wide margins. Moreover, after 1926 the scope of the credit was rigidly held to its original proportions during a period when the Federal taxes on property transfers were substantially increased. In

TABLE 1.—*Death and Gift Tax Collections, in Relation to Total Tax Collections for Selected Years, 1927-60*

[Dollar amounts in millions]

Fiscal year  (1)	All governments		State and local		State and local as percent of all governments  (4) ÷ (2)
	Amount  (2)	Percent of all taxes  (3)	Amount <sup>1</sup>  (4)	Percent of all taxes  (5)	
1927.....	\$196	2.1	\$106	1.7	54.1
1932.....	189	2.4	148	2.4	78.3
1936.....	494	4.7	117	1.7	23.7
1940.....	470	3.7	113	1.4	24.0
1946.....	810	1.7	141	1.4	17.4
1950.....	866	1.7	168	1.1	19.4
1951.....	904	1.4	196	1.1	21.7
1952.....	1,029	1.3	211	1.1	20.5
1953.....	1,103	1.3	222	1.1	20.1
1954.....	1,181	1.4	247	1.1	20.9
1955.....	1,173	1.4	249	1.1	21.2
1956.....	1,471	1.6	310	1.2	21.1
1957.....	1,711	1.7	346	1.2	20.2
1958.....	1,760	1.8	367	1.2	20.9
1959.....	1,680	1.7	347	1.1	20.7
1960.....	2,025	( <sup>2</sup> )	419	( <sup>2</sup> )	20.7

<sup>1</sup> Local government collections included only for 1957 (\$8 million) and 1958 (\$16 million).

<sup>2</sup> Not available.

Source: Bureau of the Census, Governments Division.

consequence, States wishing to increase their death tax revenues had to do so outside the Federal tax credit. They imposed taxes on small estates exempt from Federal taxation and, particularly in the lower tax brackets, imposed higher taxes than taxpayers could credit against their Federal tax liability. During this period also (in 1932) the gift tax became an integral part of the Federal tax system without any corresponding adjustment in the State's share of tax revenues.

Tax collection statistics reflect these developments. State and local governments' share of the total revenues from death and gift taxes declined from 78 percent in 1932 to 21 percent in 1960. While they increased in amount, the relative contribution of these taxes to the total tax revenues of State and local governments declined from 2.4 percent in 1932 to 1.1 percent in 1959.

Present National-State death tax relations are viewed with concern by spokesmen for the National and State Govern-

# STATE AND FEDERAL DEATH TAX COLLECTIONS

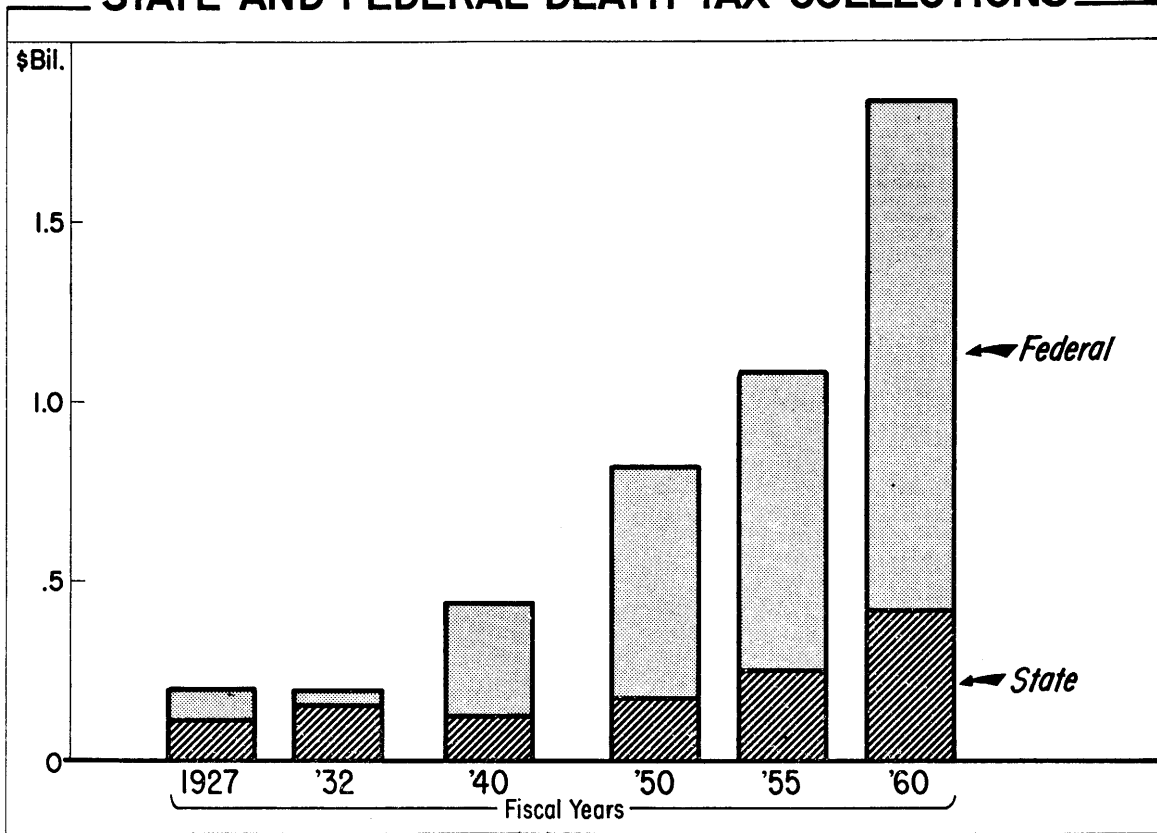


FIGURE 2.

ments, tax students and tax practitioners. Their dissatisfaction pertains in part to the States' relatively small share of inheritance, estate, and gift tax revenues, a relation generally associated with the narrow scope of the Federal tax credit. In part it pertains to the failure of the present credit arrangement to produce an integrated Federal-State tax structure without excessive complexity in terms of taxpayers' compliance and tax administration.

Those preoccupied with the effectiveness of the Federal form of government cloak these complaints with greater significance than revenue considerations alone would warrant. Because the estate tax credit represents the one outstanding effort to coordinate overlapping Federal and State taxes, they view its success or failure as symbolic of the ability of our Federal form of governmental organization to adapt itself to changing times.

Proposals for improved coordination have been widely discussed, particularly since the Second World War. They cover the full gamut from the Federal Government vacating the field for exclusive State use to proposals that the States vacate it for exclusive Federal use, possibly with Federal-State revenue sharing or in exchange for another tax source.

The issues involved are economic and administrative on the one hand and political on the other.

Economic considerations point in the direction of an integrated Federal-State death and gift tax structure with a minimum of interstate diversity to distort rational market decisions respecting the location of economic activity. Economic considerations counsel against intrusion of State tax differentials in the decisions as to where Americans settle, do business, and establish their domicile for taxation purposes. Economic considerations embrace also the claims of State governments for a larger share of the revenue produced by these taxes. Indeed, in a broader sense, they concern the total contribution of this group of taxes to combined governmental tax revenues.

Increasing the States' revenue appears to have been one of the primary motivations of the Joint Federal-State Action Committee in selecting this area of taxation for priority attention. Another was tax simplification. Those preoccupied with the administration of these taxes and with tax compliance look to the rearrangement of Federal-State relations to produce a sim-

pler total tax structure with less diversity between the provisions of the Federal estate tax and the 49 separate State tax structures which add significantly (some would say unnecessarily) to the task of tax collectors, taxpayers, and taxpayers' counsel.

Political considerations, in turn, are enmeshed in the enduring issues surrounding the role of the States in the Federal system, their sovereign right to shape their own tax systems and to engage in experimentation within the wide latitude afforded by the Constitution, their corollary obligation to assume political responsibility, and to satisfy a democratic society's compulsion to keep decision making close to the people.

Passage of time has enhanced the public's attachment to these values. But it has also enhanced the difficulties in the path of their realization, especially in the area here under consideration: the taxation of property passing from one generation to the next. As the economy grows more truly national, the accumulation of private property becomes increasingly more national. The utilization of markets, raw materials, labor and managerial skills—the sources of private wealth—recognizes no State lines. A State's jurisdiction to tax an estate turns to a large extent on the domicile of the decedent, a factor which may bear no relationship to the geographic origin of his wealth and which can be changed at personal will. The States, at the same time, claim a proprietary interest in death taxes because they were first to develop them and because the decedent's privilege to transfer property to his heirs is controlled by State law.

The Commission's investigations have made it clear that few, possibly no two, of these political, economic, and administrative considerations point to the same remedy; that a solution will necessarily involve an accommodation of conflicting objectives; that to the extent possible the accommodation should take place within the general framework of existing institutions, if for no other reason than because the implementation of any revision in the tax credit may involve as many as 50 State legislatures in addition to the Congress.

We approach the quest for improved coordination of State and National death taxes with a predilection for existing institutions because the present interrelationship, built around the Federal tax credit, has squatter's rights derived from 35 years of occupancy. A departure from established patterns would necessarily require a reorientation on the part of State legislators, administrators, tax practitioners, and students of taxation.

The status quo, albeit convenient, can be too costly, however. We recognize that if the interrelationship of State and National death taxes centered on the tax credit proves incompatible with the essential objectives of coordinated tax relations in a Federal system, it will inevitably have to yield to a more compatible arrangement. If that is likely to be the case, the problem might as well be faced here and now. It is for this reason that the Commission believes it necessary to evaluate all principal Federal-State tax coordination possibilities. Only in this way can the claims of the tax credit device for retention be objectively appraised.

The Commission believes the following criteria to be germane to the evaluation of proposals for coordinating State and National inheritance and estate taxes:

1. Will it help to strengthen State government:
    - a. By preserving freedom of tax action for the States and by affording them full latitude to exercise political responsibility?
    - b. By increasing State inheritance and estate tax revenues and their year-to-year stability?
    - c. By increasing the States' share of total death tax collections?
    - d. By helping to safeguard the States against destructive tax competition? and
    - e. By reducing jurisdictional conflicts between States?
  2. Will it preserve the freedom of the Congress to shape and reshape the Federal estate and gift taxes to accord with requirements of national policy as they emerge?
  3. Will it preserve the combined contribution of these taxes to Federal, State and local revenue requirements?
  4. Will it ease the task of taxpayer compliance and State tax administration by reducing interstate and Federal-State tax diversity and complexity?
  5. Will it facilitate a fair distribution of death tax revenues among the States?
  6. Is it compatible with established and familiar institutions? and
  7. Will it avoid undesirable economic or social effects?
- Some of these criteria have been central to much of the debate on intergovernmental tax relations for nearly a half cen-

ture and require no justification. While we hold no brief for the particular order in which they are here listed, that order has doubtless been influenced by the contemporary scene: a concern for the preservation of vital State governments, the States' pressing need for additional revenue, and the symbolic importance they attach to their traditional role in death taxation.

Our emphasis on preserving the combined yield of State and Federal death tax revenues (Criterion 3) carries no specific implications for the relative contribution of death taxes to total governmental revenues. We are mindful of the existence of a volume of opinion that existing estate tax rates are excessive and discourage the accumulation of private wealth. We are equally mindful of the contrary view, held by many students of taxation, that the contribution of these taxes to governmental revenues is entirely too small and should be increased. Happily this issue falls outside this Commission's sphere of responsibility. It is the responsibility of the National and State legislatures and executives. It is precisely because it is not our responsibility that we deem it essential to make certain that the proposals we advance for Federal-State tax coordination in no way compromise executive and legislative freedom to determine the relative roles of the different taxes in the American revenue system. It is for this reason also that we deem it important to preserve freedom for Congressional tax action (Criterion 2).

In Part II below we examine the alternative courses of action with respect to the coordination of State and Federal taxes on transfers of property from one generation to the next in the light of the above enumerated criteria. We begin with an examination of the development of intergovernmental death tax relations and the present interrelationship between State and National taxes. This is followed by an examination of alternative ways of revising the Federal credit for taxes paid to States. Most suggestions for attaining the States' revenue objective take this form. This, in turn, is followed by a consideration of other possible Federal-State arrangements, including separation of revenue sources, tax sharing, and tax supplements.

The findings and recommendations of the analysis contained in Part II are summarized in Chapter 2. That summary is necessarily brief and can be understood fully only with benefit of the analysis which follows it.

## *Chapter 2*

### CONCLUSIONS AND RECOMMENDATIONS

This Commission begins its efforts to facilitate intergovernmental tax coordination and simplification—part of its legislative mandate under Public Law 86-380—with the inheritance, estate, and gift taxes. This is an appropriate starting place.

Transfers of property incident to death are taxed by the National Government and by all but one of the States. Tax overlapping is nationwide. Gift taxes on property transferred during life are an integral part of this structure.

The interrelationship of the State and National death taxes centers around the tax credit for taxes paid to States allowed under the Federal estate tax, an arrangement which constitutes the one major legislative effort to coordinate State and Federal taxation. The performance of the estate tax credit as an intergovernmental tax coordinator is cloaked with far greater significance than the revenue importance of these taxes would suggest. It is widely viewed as a gauge of the ability of this Federalism to coordinate its constituent members into a cohesive entity able to serve the needs of a dynamic society.

The estate tax credit is an invention born of necessity.

Although several States carried inheritance taxes on their statute books before the turn of this century, they “discovered” these taxes only later, after one or two of their members demonstrated that they can be effectively enforced and their burden “fairly” distributed with benefit of a centralized tax administration and a comprehensive concept of property. Differences in State attitudes toward the desirability of death taxes, however, were quick to develop. By the middle of the 1920s, some had strengthened their death taxes. A few, on the other hand, had moved in the opposite direction and were actively bidding for the residents of other States by offers of immunity from



death taxation. State leadership recognized that interstate tax competition, if left unchecked, would destroy inheritance and estate taxation for all of them. At about the same time, the Congress was actively considering proposals to reduce or entirely repeal the Federal estate tax which had been enacted on the eve of World War I (1916). The coincidence of these events produced the Federal tax credit. (Chapter 3.)

The Revenue Act of 1926 was shaped for the needs of two of these contending groups: for the States desiring to preserve the tax and for the advocates of Federal tax reduction. It raised the Federal estate tax exemption to \$100,000 and reduced tax rates. It effectively reduced the remaining Federal tax further by allowing 80 percent of it to be offset with receipts for State death taxes. Thus, it became a matter of indifference whether a State did or did not impose a tax below this floor. The combined State and Federal liability was in either event the same. The credit enabled any State to divert to its treasury 80 cents of every tax dollar otherwise payable to the Federal Government. Every State save one elected to do so.

Sponsors of the tax credit mechanism expected it to generate uniformity among State tax provisions. Some sought to insure this result by making it a condition of eligibility for the credit. They did not prevail. Uniformity was not achieved and subsequent events stimulated additional diversity.

The increase in the Federal estate tax exemption deprived the new credit of such effectiveness as it had in the area where the States obtained much of their revenue. Their own exemptions were typically far below \$100,000, especially for bequests to distant relatives and strangers. Frequently, their rates on medium size estates were in excess of those accommodated by the credit.

The States responded to the Revenue Act of 1926 by insuring for themselves the full benefits of the Federal credit where it applied, and by retaining their own taxes beyond it.

Subsequent Congressional legislation undermined further the capacity of the tax credit to integrate State and Federal taxes. In 1932 and on several later occasions Federal tax rates were raised and exemptions reduced, but the revenues produced by these tax increases were reserved for the National Treasury.

# FEDERAL ESTATE TAX AND CREDIT: PRESENT LAW

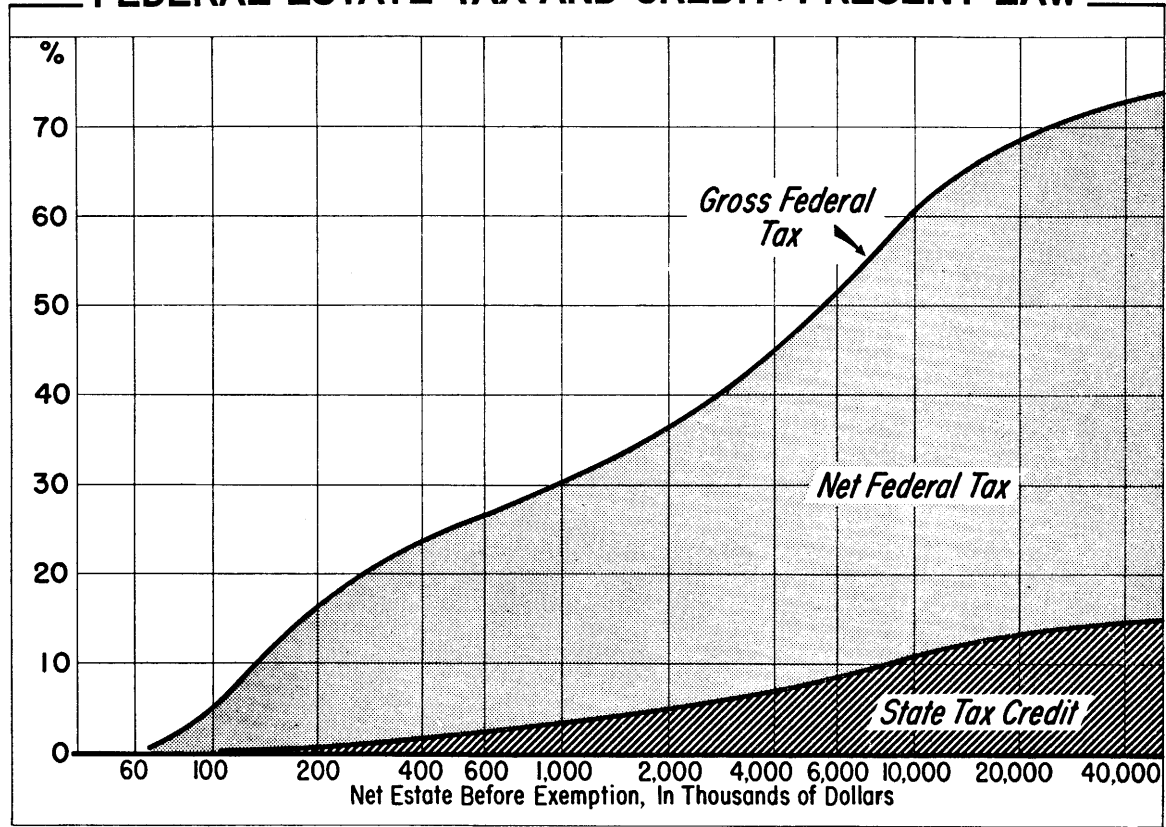


FIGURE 3.

States seeking to augment their death tax revenues could do so only over and above the tax credit. Some elected this course. The result is the interstate tax variety described at various stages of this report. (Chapter 4.)

The tax credit has now been in operation for 35 years. Developments since its adoption have seriously impaired such effectiveness as it had at its inception. Dissatisfaction is widespread.

The States feel wronged because their share of the yield of these taxes has declined from around 80 percent to about 20 percent. Spokesmen for the National Government are concerned because interstate tax differentials intrude on decisions as to where Americans settle and do business. Taxpayers complain of overlapping taxes and of multiple taxation because two or more States occasionally seek to exercise tax jurisdiction over the same property. Tax practitioners and tax administrators decry the excessive complexity and variety in State and Federal tax provisions and definitions. Students of taxation lament that heterogeneity mars the death tax structure's usefulness as an instrument of public policy.

A rearrangement of Federal-State death tax relations has been pressed from all sides for many years. Special commissions, State officials, and national organizations of tax practitioners, tax administrators, businessmen, and economists have all requested remedies. (Appendix A.)

State governments are hopeful that a rearrangement of intergovernmental tax relations will relieve their pressing need for revenues. This it could do, but not materially, because the aggregate contribution of these taxes to Federal, State, and local tax collections is less than 2 percent. In only two States did the share of these taxes in 1960 exceed 5 percent of State collections. This very circumstance, however, should facilitate agreement on a tax coordination remedy for it permits proposals to be evaluated in terms of principles, unclouded by compelling dollar and cent considerations.

The objectives of State-Federal death tax coordination are detailed at several points in this report and need not be restated here. We seek an arrangement which will recognize the States' claim for a larger share of these revenues and the Na-

tion's needs for an integrated tax system compatible with its policy goals. We seek a tax structure taxpayers will find reasonable and understandable and administrators and practitioners logical, economical, and operable. We seek an arrangement consistent with the constitutional values treasured by the constituency of this Federal form of governmental organization. These objectives are not attainable in full measure. If they were, the remedy would not have been so long delayed. A solution will necessarily involve accommodation of conflicting objectives and viewpoints but such accommodation is the hallmark of democratic processes.

An improvement in State and Federal death tax relations within the framework of present tax rates will necessarily involve some loss of revenue for the National Government. The States lay claim to a larger share of the yield of these taxes and the historical facts support their claim. As already indicated, however, the amount involved will not be large in Federal budgetary terms. The loss moreover will take place gradually over a period of several years as State legislatures make the required adjustments in their tax laws.

National strength requires an immediate start toward the coordination of overlapping taxes. That start is long overdue and its claim on the National Treasury is strong.

*Recommendation No. 1. Accordingly, this Commission recommends to the President and the 87th Congress the consideration of a plan for the coordination of State and National inheritance and estate taxes as soon as practicable.<sup>1</sup>*

\* \* \* \* \*

Our search for the means to integrate State and National

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<sup>1</sup> Mr. John Burton adds the following comment in which Governor Hollings concurs:

"The information presented in this document makes it very clear that estates and gifts are not a very satisfactory object of State taxation. States cannot operate in the area effectively without the protective umbrella of the Federal tax credit and the amount of revenue involved is too small to justify duplicate tax administration and duplicate compliance burdens on taxpayers. In our search for less tax overlapping, less interstate tax competition, and more economical tax administration, we may want to give consideration to reserving estate and gift taxation for the Federal Government and placing at the disposal of States other tax areas they can administer more economically and efficiently. However, I concur in these recommendations because in light of the history of this subject, they go about as far as appears practicable at this time."

death taxes has embraced a wide range of coordination instruments, including not only the tax credit device but other techniques as well.

This report examines five possible modifications of the tax credit, each of which is capable of increasing the States' share of death tax revenues.

Alternative No. 1 would leave unchanged the scope of the tax credit (in terms of the size of estates to which it applies). It would increase, however, the amount of the credit uniformly in all cases where it now applies. The result would be a new tax credit which represents a rising proportion of Federal tax liability as the size of the estate increases.

Alternative No. 2 would leave the present credit unchanged but would supplement it with a second credit. The supplement would be equal to a uniform percentage of net Federal tax liability after the present credit.

Both Alternatives No. 1 and No. 2 retain salient features of the now obsolete 1926 Federal rate and exemption structure which governs the present credit. The first would allow no credit in the lower tax brackets to which the States logically attach great importance. The second would compound this deficiency with needless complexity by adding a second tax credit computation. These are compelling considerations.

Alternative No. 3 would scrap the present tax credit and substitute one calculated as a specified percentage of Federal tax liability. It would adapt the design of the credit provided under the 1926 Act to the current Internal Revenue Code. Its computation would pose no problems for taxpayers, but the year-to-year stability of State revenues would not be improved.

These considerations, discussed in more detail in Chapter 5, argue against the first three alternatives.

Alternatives No. 4 and No. 5 would replace the present tax credit with a two-bracket credit. It would allow a relatively high credit in the lower tax brackets and a low credit in the remaining brackets. This would contribute significantly to the stability of the States' revenues because small and medium size estates are the hard core of their tax bases. Large estates occur irregularly and in many States rarely, if at all. By the same token it would increase the relative shares of the small, particu-

larly less industrialized States, without affecting the high income States excessively. These are important advantages.

This report contains calculations illustrating the effect of different credit patterns on the revenues of the Federal Government and the several States. It, however, makes no recommendations on the size of the tax credit. That is a policy decision for the President and the Congress to make. Their decision will necessarily be affected by the amount of revenue from this tax source the National Government can forgo. Each of the alternatives, including the two-bracket credit, can be adjusted to match any revenue amount so determined. Our illustrations of the two-bracket credit are based on an 80 percent credit for the lower brackets in order to maximize stability of the States' revenues and on a 20 percent credit for the higher brackets. The latter approximates the maximum credit allowed under present law to all, even the very large estates.

*Recommendation No. 2. Accordingly, this Commission recommends that the Federal estate tax credit for taxes paid to States provided under Section 2011 of the Internal Revenue Code of 1954 be replaced with a two-bracket credit to earmark for the States a large share of Federal tax liabilities in the lower tax brackets and a small share in the higher brackets.*

\* \* \* \* \*

Our description of the several tax credit possibilities is necessarily in terms of Federal-State tax liabilities since one of the major considerations involved in selecting a tax credit pattern is the proportion of the revenue yield of the Federal tax reserved for the States. It is essential, however, that the statutory formulation of the new credit be separated from Federal tax liability and expressed in terms of its own rates.

An independent statutory definition of the tax credit would contribute to the financial independence of the States and the stability of their revenues by freeing the credit, which serves as the floor under States taxes, from the automatic influence of changes in Federal tax rates and exemptions. It would contribute also to the legislative freedom of the National Government. Effect on State revenues would cease to be a consideration in evaluating Federal legislative proposals.

*Recommendation No. 3. Accordingly, this Commission recommends that the statutory formulation of the new Federal estate tax credit be expressed in terms of an independent schedule (as a percentage of the amount of taxable estate in each bracket), on the pattern of the present credit provision (Section 2011 of the Internal Revenue Code, reproduced in Table M).*

\* \* \* \* \*

It is emphasized at several stages of this report that, contrary to the general belief, an increase in the Federal credit will not automatically increase State revenues. Unless States increase their taxes to parallel the increase in the Federal credit, a substantial part of it will be absorbed in Federal tax reduction.

State taxes now exceed the present credit, on the average, by over 150 percent; in some States by substantially more, especially in the lower and middle tax brackets. As a result, present State taxes leave most estates with tax receipts which they are unable to utilize fully against the tax credits allowed under present Federal law. They would have these receipts available for application against a new, enlarged Federal tax credit.

States would be free, of course, to increase their taxes to parallel the additions to the Federal tax credit and to capture their revenue equivalent for their treasuries without increasing aggregate (Federal and State) death taxes. This, however, is unlikely to occur to any significant degree. The initial effect of the higher tax credit would be a form of Federal tax reduction and States would be under pressure not to nullify it by State tax adjustments, lest they discourage the in-migration of well-to-do residents from other States. This likelihood has been urged upon us by State officials.

This Commission is mindful of the existence of a volume of opinion that existing tax rates should be reduced. It is equally mindful of the contrary view. The issue of tax reduction, however, falls within the purview of National and State executives and legislatures, not this Commission. Indeed, it is our responsibility to make certain that apart from essential structural tax changes, our proposals for Federal-State tax coordination do not compromise in any way executive and legislative freedom to determine tax levels. For this reason we rank high the re-

quirement that our proposal leave unchanged the contribution of death taxes to aggregate governmental revenues.

To insure that the revenues involved in an increase in the Federal tax credit are conserved for the States, eligibility for the credit will have to be limited to taxpayers in those States which have made corresponding adjustments in their taxes. It will be necessary to require that each State increase the annual yield of its death tax system by an amount approximately equal to the aggregate reduction in Federal taxes paid on the estates of its decedents as a result of the increase in the Federal credit. These adjustments will pose technical problems, more for some States than others. A few will be able to accomplish them simply by amending their present "pick-up" taxes; most, however, will have to revise their tax rates. The new tax levels, moreover, will need to be maintained long enough, say five years, to insure that they become established.

The requirement that the States adjust their tax laws will necessarily delay the effective date of the Federal legislation with a corresponding delay in its impact on the Federal budget.

*Recommendation No. 4. Accordingly, this Commission recommends that the legislative enactment to implement Recommendations No. 2 and No. 3 make the availability of the new credit (to taxpayers in individual States) conditional upon certification by the Governor to the Secretary of the Treasury that the estimated annual revenue level of his State's death taxes has been raised in an amount corresponding to the estimated aggregate increase in the tax credits on Federal estate returns filed from his State. This Commission further recommends that the States be required to maintain these higher tax rate levels for a period of five years.<sup>2</sup>*

\* \* \* \* \*

At several stages in this report, we decry the unnecessary complexity of the present aggregation of State and Federal

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<sup>2</sup> STAFF NOTE: The objective of Recommendation No. 4 is to preserve aggregate State and Federal tax collections in each State. This will necessarily perpetuate existing tax rate differentials between States. It would be possible to achieve both ends, to preserve aggregate national collections and to mitigate interstate tax rate differentials, only by altering the distribution of total State collections among the States.



death taxes. Much of the support for revising the estate tax credit is motivated by the expectation that this will afford an opportunity for tax simplification. We believe it necessary to make clear that our foregoing recommendations, standing alone, will not materially advance this cause.

The existing diversity in death taxes is the product of several factors. One is the multiplicity of taxing jurisdictions. Another is the natural inclination of each to shape its own statutory provisions. Still another is the use of the estate tax at the national level and inheritance taxes by the States, some in combination with estate taxes.

The estate tax applies to the entire estate of the decedent. It is therefore simpler and more productive. The inheritance tax is believed by some to be fairer because it differentiates on the basis of the relationship of the heirs to the decedent (even though it disregards the amount of wealth already in the heir's possession). Bequests to remote relatives and strangers are taxed more heavily than those to close kin. However, the inheritance tax raises difficult valuation problems particularly if life estates, contingencies and remainders are involved and, therefore, is costlier to administer.

Advocates of State inheritance taxation do not always recognize that an estate's aggregate tax burden is generally not affected significantly by whether the State employs an inheritance or an estate tax. Subtle differentiations in State rates and exemptions, based on the relationship between decedent and heir, tend to be neutralized because the aggregate State tax is ultimately raised to the level of the credit, especially for large estates. With the increased credit here recommended this will more generally be the case.

This Commission has given careful consideration, as did the National Committee on Inheritance Taxation which sponsored the original 80 percent credit in 1925, to the question whether the States should be required to substitute estate taxes for their inheritance taxes as a condition of eligibility for the tax credit. Developments during the intervening 35 years have confirmed the wisdom of the National Committee's conclusion in favor of the States substituting estate tax laws for their inheritance tax

laws and of the members of Congress who at that time urged that only estate type taxes be eligible for the Federal tax credit.

There is no escaping the fact that the present complexity in Federal-State death taxation is due largely to the prevalence of inheritance type taxes among the States. Scope or differentiation in tax rates on the basis of the relationship between the decedent and his heirs invites unlimited variation among States.

This Commission assigns high priority to the criterion that States be afforded latitude to shape their tax systems to accord with their preferences. Realism, however, compels us to temper this criterion in the light of the public's aversion to tax complexity and its insistence on tax simplification. Indeed, we would be hard pressed to make a compelling case for transferring a portion of estate tax revenues from the Federal Treasury to the States under present circumstances unless in the process taxpayer compliance burdens were reduced through tax simplification.

This view derives support also from the growing recognition that the theoretical superiority of inheritance taxes is not at all clear, partly because the estate tax is itself quite compatible with more favorable tax treatment of some categories of heirs than others (widows and orphans vs. more remote relatives). The principal vehicle for such differentiation, particularly in the smaller estates where it is especially important, is the exemption. States wishing to differentiate between heirs can do so readily within the framework of an estate tax by prescribing higher exemptions for some heirs than for others. Some States' estate taxes already contain such differentiation, as does the Federal estate tax and several State laws with respect to property passing to the surviving spouse (the marital deduction).

We note also that some States are already considering the replacement of inheritance taxes with the simpler estate taxes, a change, incidentally, made by Canada as of January 1, 1959.

*Recommendation No. 5. Accordingly, this Commission recommends that the higher Federal estate tax credit (Recommendations Nos. 2 and 3) be limited to estate type State taxes, as distinguished from inheritance taxes. The cause of simplification would be further served if the States adopted uniform*

*estate tax provisions, preferably along the lines of the Federal law.*

A few States would automatically satisfy the requirement of Recommendation No. 5 because they now employ estate taxes similar in structure to the Federal tax. Most States, however, would have to enact new legislation, a process which would require some time. A comparable situation would exist with respect to Recommendation No. 4 which would require each State to increase the aggregate annual revenue level of its death tax system. In the interest of fairness, therefore, the effective date of the new tax credit legislation should be made prospective. If it were enacted in 1961, for example, the legislation might be made applicable to estate tax returns of decedents dying after December 31, 1963.

\* \* \* \* \*

This Commission recognizes that some of the coordination techniques it has examined and bypassed in its near-term recommendations, notably separation of revenue sources and revenue sharing, offer a more direct and faster route to tax simplification than the program here proposed (Chapter 6). It is not unlikely that after a more generous tax credit has been enacted and a higher State tax collection level established, some States will prefer to forgo their independent death taxes with their duplicate compliance and administration in exchange for a corresponding share of Federal collections. At present, however, such revenue sharing arrangements would be practicable only in the few States which generally limit their taxes to the amount of the Federal credit.

A share of Federal collections corresponding to the tax credit would not provide most States with adequate revenue, because they derive important amounts of revenue from estates exempt from Federal tax and untouched by the tax credit. For this reason a revenue sharing arrangement consistent with the conservation of the States' revenues would be practicable only if accompanied by a reduction in the Federal exemption for the benefit of the States, to take the place of their own taxes on small estates. A development in the direction of Federal collection with State sharing of death taxes would constitute a significant step toward a unified and integrated death tax system.

However, it would be practicable only if participated in by a substantial majority of the States. Because of Constitutional reasons, Federal collections of death taxes (on behalf of the States) from small estates below the present exemption could be undertaken only on a nationwide basis. It could not be undertaken on a State-by-State basis.

*Recommendation No. 6. Accordingly, this Commission recommends that when and if a consensus develops among the States in favor of central collection and State sharing of death taxes, the development should be facilitated. Specifically, the States should be afforded an option to forgo their independently imposed death taxes with the Federal estate tax credit in return for an allocate share of Federal collections.<sup>3</sup>*

This Commission recognizes that differences in political attitudes toward tax rate levels contribute to interstate tax variety and may hinder progress toward uniformity even in the long run. These differences in political attitudes have been discernible for some time and may prove to be the controlling barrier to the eventual integration of Federal and State death taxes with unified administration. In these circumstances it would be appropriate to consider whether in addition to central collection and State sharing of death tax collections, the National Government could not undertake to collect for the few States which might request it, a supplemental State tax equal to a specified percentage of the Federal tax. While there is no precedent for such State supplements to a National tax, the device is proving eminently successful for the collection of local supplements to State sales taxes. In the case of a relatively small revenue producer, the cause of administrative efficiency may outweigh the objection in principle to tax supplements.

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<sup>3</sup> Secretary Anderson expresses serious reservations concerning Recommendation No. 6. His statement follows: "Central federal collection with allocation of a share of the revenues among states or provinces has been attempted in West Germany and Canada and has proven in these countries to be exceedingly troublesome and a source of constant disputes. Even aside from the problem of separating spending power from tax responsibility, I think such a system may well amount to exchanging an existing problem for a new and probably more difficult one. Moreover, as I read the report and recommendations, Recommendation No. 6 looks to the more distant future and does not seem essential to the immediate proposals."

The gift tax is an essential complement to inheritance and estate taxes because property distributed during life is automatically removed from taxation at the time of death. States are concerned because the Federal tax system encourages lifetime property distributions by imposing lower taxes on gifts than bequests. This reduces the amount of property to which State death tax rates apply.

This Commission has considered proposals for a Federal gift tax credit to parallel the estate tax credit. This would automatically force gift tax enactments upon the 38 States which do not now employ them. Such compulsory tax overlapping would be all the more regrettable because in many States the gift tax would produce only negligible revenues at relatively high enforcement costs. In any event, it cannot materially contribute to safeguarding State death taxes against avoidance by gifts. To the extent that estate and gift tax considerations influence estate planning, the provisions of Federal tax law are controlling.

*Recommendation No. 7. Accordingly, this Commission recommends against extension of the tax credit to the gift tax. It recommends instead that the credit for inheritance and estate taxes be fixed at a level somewhat higher than that required for death tax purposes alone, in recognition of the fact that property distributions during life reduce death tax revenues, and to enable most States to forgo gift taxes.*

\* \* \* \* \*

Proposals for the reallocation of tax sources among levels of government are sometimes coupled with suggestions for a corresponding reallocation of financial responsibility (grants) for governmental functions. We have considered this suggestion and concluded against it, partly because the amounts of revenue here involved for most States are relatively small, but primarily because their State-by-State distribution bears no resemblance to that of any of the Federal grant programs.

We conclude then, our first set of proposals for intergovernmental tax coordination, with this plea:

The coordination of any single group of taxes will inevitably affect some jurisdictions somewhat more favorably than others.

Variations in existing taxes and in the distribution of taxable resources make this inevitable. We urge those at both the State and National level to hold always in view that these tax proposals are but a first step; that others will follow; and that as we proceed from tax to tax and with the other aspects of inter-governmental fiscal relations, burdens and benefits can be better balanced. Only with forbearance by all, as each brick is put in place, can this Nation reestablish the harmonious Federal, State, and local fiscal system it so urgently desires.

## Part II





## Chapter 3

### THE DEVELOPMENT OF FEDERAL-STATE TAX RELATIONS

The dominant factor in death taxation in the United States is the Federal estate tax. The present tax dates from 1916, but the National Government has levied death taxes of various types intermittently since 1798 (1798 to 1802; 1861 to 1870; 1898 to 1902). Unlike the previous inheritance taxes of both the National Government and the States, the 1916 Federal tax was imposed on the transfer of the entire estate rather than on the separate amount going to each beneficiary.

When the National Government enacted its present estate tax, State death taxation already had a long history. Pennsylvania led off in this field in 1825 with an inheritance tax on collateral heirs. Several States followed Pennsylvania's example with taxes on direct, as well as collateral, heirs. These early enactments fell into disuse after the Civil War, and by 1885 only two or three States were making effective use of them. The imposition of a 5 percent tax on collateral heirs by New York in 1885 marked the revival of State interest in this tax field and in 1903 Wisconsin pioneered graduated rates on transfers to direct and collateral heirs with a comprehensive definition of taxable property and a centralized State tax administration. By 1916 all but five States had adopted some form of inheritance tax and spokesmen for the States regarded the taxation of bequests their special tax preserve.

The enactment of the Federal estate tax in 1916 focused attention on Federal-State tax relations which by then had been under discussion for some time. Nearly 10 years earlier, spokesmen for the States strongly opposed President Theodore Roosevelt's proposal for a Federal inheritance tax. They urged that death duties be considered State rather than Federal sources

of revenue, among other reasons because some States had relied upon this source of revenue for almost a century.

The enactment of the Federal estate tax, and more particularly its retention after the First World War, rekindled State opposition to the Federal levy and culminated in two conferences on inheritance and estate taxation held in 1925 under the auspices of the National Tax Association. In the meanwhile a 25 percent Federal credit for State taxes had been introduced in 1924. These conferences resolved that the Federal Government should withdraw from the field of death taxation within 6 years and in the interim should allow taxpayers an 80 percent credit against Federal tax liability for taxes paid to States. There were some, however, who opposed repeal of the Federal tax. They feared that competitive tax reduction among the States to attract wealthy residents would quickly dissipate this tax area as a source of State revenue. (In 1924 Florida had amended its constitution prohibiting inheritance taxation with a view to attracting residents from other States.) They wanted some Federal tax continued on a permanent basis together with the tax credit. This, in fact, was the solution adopted by the Congress in 1926 when it reduced tax rates, raised the exemption and increased the credit to 80 percent of Federal tax liability. The 1926 legislation was interpreted as a willingness on the part of the Federal Government to share death tax revenues with States on a permanent basis in the ratio of 1 to 4.

The Federal tax credit served a double purpose. It provided tax reduction, an objective of Federal tax policy in the 1920s. By allowing a credit for State taxes, it reduced the combined Federal-State tax burden. Figures 4, 5, and 6, respectively, illustrate the reduction in combined Federal-State tax burdens where before introduction of the Federal tax credit the State tax was equal to the tax credit, was less than the tax credit, and was greater than the tax credit.

Introduction of the tax credit, moreover, fixed a floor under State death taxes in order to deter interstate competition for wealthy residents. This had the effect of enabling the States, through appropriate legislation, to impose death taxes as high as 80 percent of the Federal tax liability without adding to the net tax burden of their taxpayers. Within this limit, States

# EFFECT OF INTRODUCTION OF FEDERAL CREDIT

## State Death Tax Equals Tax Credit

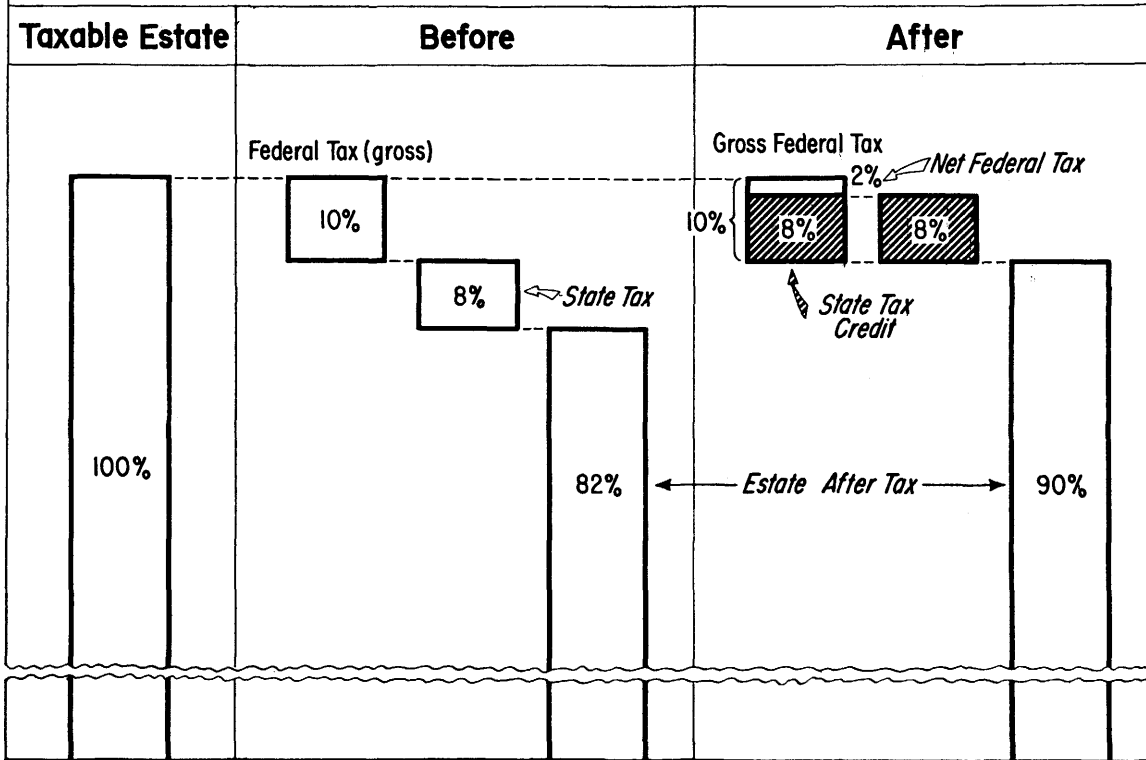


FIGURE 4

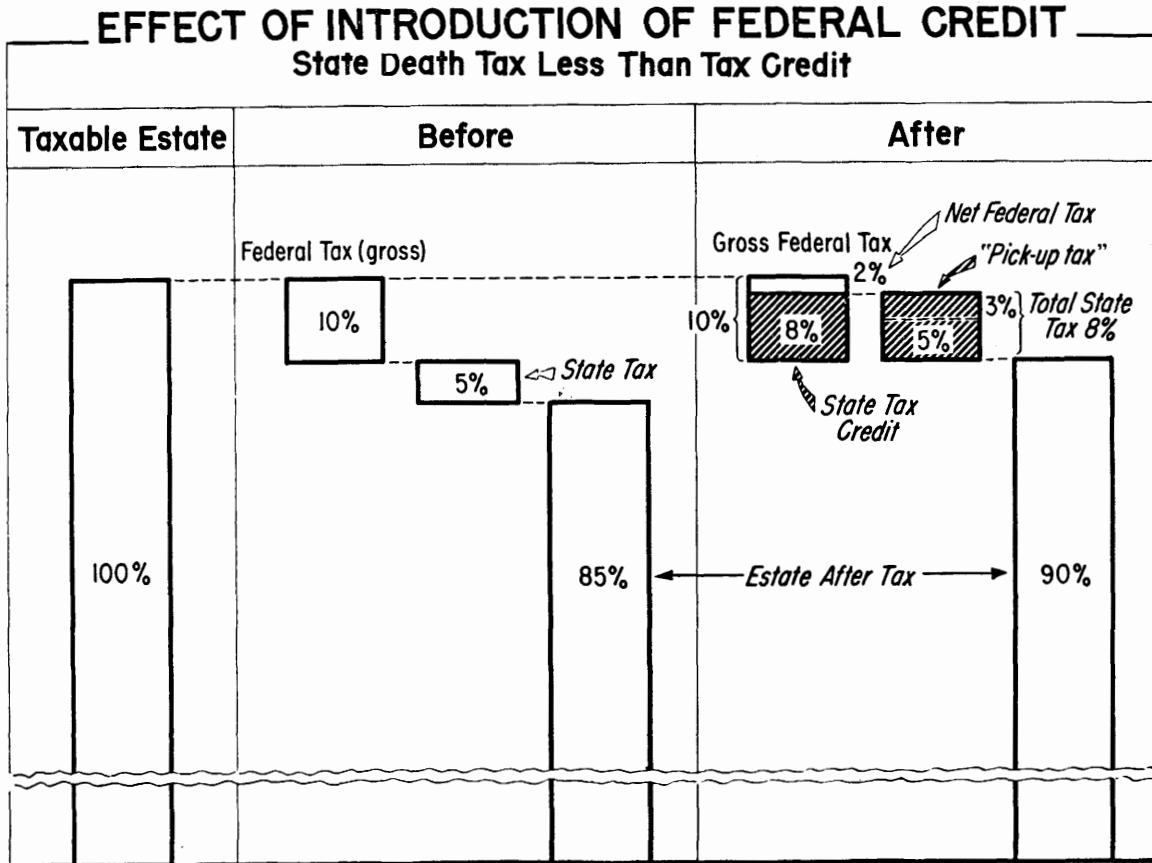


FIGURE 5

# EFFECT OF INTRODUCTION OF FEDERAL CREDIT

State Death Tax Greater Than Tax Credit

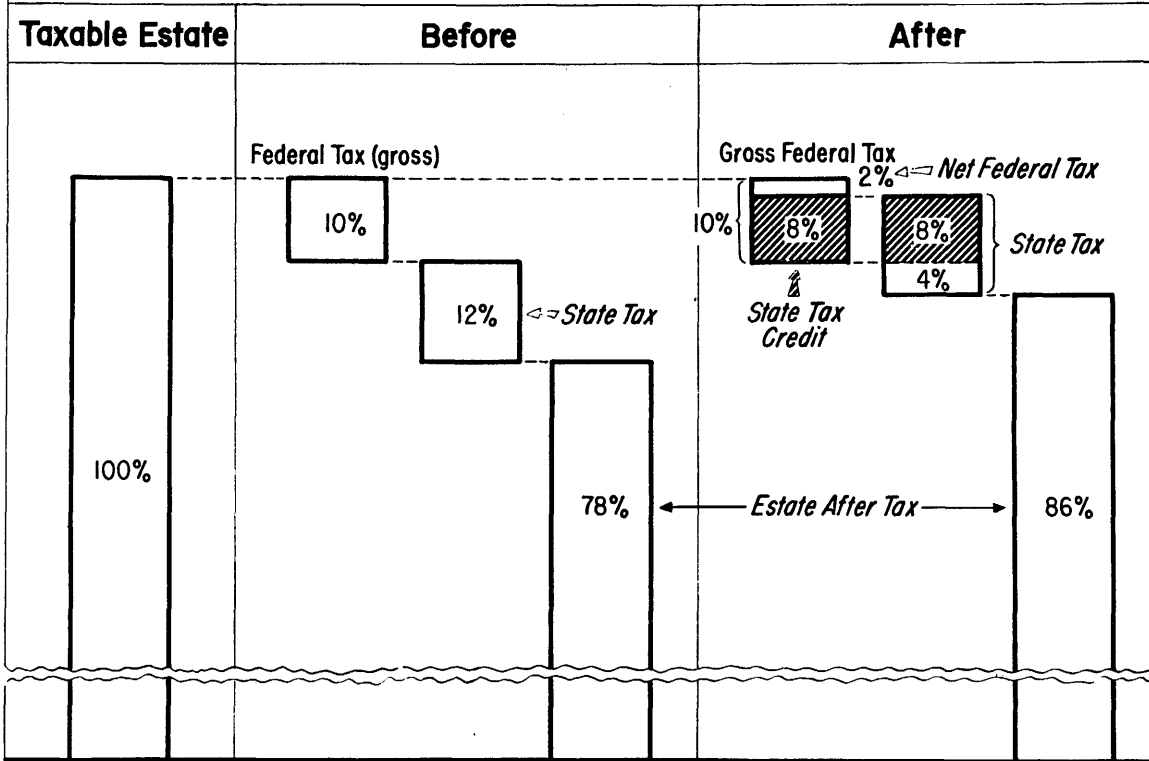


FIGURE 6

could reserve for themselves tax revenue which otherwise would go to the Federal Government. A third objective, uniformity among State taxes, was not achieved partly because some State taxes already exceeded the credit.

After 1926 some of the States made an attempt to bring their death tax structure into conformity with that of the National Government. Some replaced old statutes with new enactments correlated with Federal law. Others, including New York, shifted to the estate tax type duty. Most States amended their laws to insure full utilization of the credit. The exception was Nevada. It repealed its inheritance tax in 1925 and, for many years, has been the only State not imposing a death tax. The years of adoption of the present State death and gift taxes are shown in Appendix Table C.

While some States were moving toward the Federal-State tax pattern visualized by the credit arrangement, the need for additional revenues moved the National Government away from that pattern.

In 1932 the Congress enacted higher estate tax rates but retained the rates under the basic 1926 tax for purposes of determining the maximum credit for State taxes. Federal rates were increased again in 1934, 1935, and 1941. A temporary 10 percent defense surtax was in effect from June 26, 1940, through September 20, 1941. Since 1941 Federal estate tax rates have remained unchanged. They range from 3 percent on the first \$5,000 to 77 percent on that portion of taxable estates in excess of \$10 million.

The estate tax specific exemption, which had been \$100,000 under the basic 1926 tax, was reduced to \$50,000 in 1932 and to \$40,000 in 1935. In 1942 the \$40,000 specific exemption and a \$30,000 insurance exclusion were combined into a \$60,000 specific exemption. These post-1926 tax rate increases and exemption reductions provided no increase in the credit through which States might have shared in the additional revenue. On the contrary, the marital deduction for property passing to the surviving spouse, introduced in 1948, significantly reduced the amount of taxable property and Federal tax liabilities, thereby reducing the credit allowed for State taxes. The

cumulative effect of these post-1926 changes is evident from Table 2.

TABLE 2.—*Credit for State Taxes in Relation to Gross Federal Estate Tax Liability*<sup>1</sup> Under 1926 Act and Present Law

Net estate before specific exemption	1926 Act			Present law					
	Gross Federal tax	Tax credit		Single decedent			Decedent with surviving spouse <sup>2</sup>		
		Amount	Percent of Federal tax	Gross Federal tax	Tax credit		Gross Federal tax	Tax credit	
					Amount	Percent of Federal tax		Amount	Percent of Federal tax
\$100,000-----	0	0	\$4,800	0	-----	0	0	-----	
\$150,000-----	\$500	\$400	17,900	\$400	2.2	\$1,050	0	-----	
\$250,000-----	3,000	2,400	47,700	2,400	5.0	10,900	\$200	1.8	
\$500,000-----	12,500	10,000	126,500	10,000	7.9	47,700	2,400	5.0	
\$1,000,000-----	41,500	33,200	303,500	33,200	10.9	126,500	10,000	7.9	
\$5,000,000-----	489,500	391,600	2,430,400	391,600	16.1	968,800	138,800	14.3	
\$10,000,000-----	1,334,500	1,067,600	6,042,600	1,067,600	17.7	2,430,400	391,600	16.1	
\$25,000,000-----	4,333,500	3,466,800	17,592,000	3,466,800	19.7	7,967,000	1,466,800	18.4	

<sup>1</sup> Gross Federal tax liability is before all tax credits. Present law rates are those provided in the Internal Revenue Code of 1954, originally enacted in 1941.

<sup>2</sup> It is assumed that one-half of the estate is left to the spouse.

Another factor in altering the Federal-State death tax pattern contemplated in 1926 was the introduction of the Federal gift tax. It was originally adopted in 1924 and repealed 2 years later. It was restored in 1932 and is now an integral part of the Federal property-transfer tax structure. Since 1932, gift tax rates have consistently been 75 percent of estate tax rates. A lifetime donor exemption of \$30,000 is provided in addition to an annual exclusion of \$3,000 for each donee. The gift tax was deliberately designed to encourage the distribution of estates during the lifetime of the owners. To the extent property is distributed during life, the size of the estate subject to Federal and State death taxes is of course reduced. The gift tax allows no credit for taxes paid to the States. (Federal estate and gift tax rates are presented in Appendix Table D.)

The impact of these developments on the States' share of death tax revenues is reflected in the tax collection statistics contained in Table 1. Thirty years ago State and local governments collected about three-fourths of all death taxes collected by all governments; the National Government about one-fourth. This relationship has now been reversed. The National Gov-

ernment's share is now about 80 percent; the State and local share about 20 percent.

In their efforts to preserve their share of the revenue from these taxes, States resorted to the enactment of independent inheritance, estate, and gift taxes outside the Federal credit. The Federal credit continues to serve the purpose of keeping a floor under State tax liability and preventing interstate competition but has not eliminated interstate diversity. Although every State, except Nevada, now imposes a tax at least equal to the maximum Federal credit, wide interstate variations remain both in structure and tax liability.

The basic outlines of the States' taxes fall into several groups, as indicated in Table 3. The simplest of these are the five estate taxes patterned after the Federal statute and designed to impose a tax liability equal to the maximum credit for taxes paid to the States allowed under Federal law. Some of these so-called "pick-up" taxes, originally intended to preempt for the States the exact amount of the Federal credit—nothing more or less—have actually departed in some measure from the pure "pick-up" pattern by adopting some provisions which differ from those contained in the Internal Revenue Code. In consequence, State tax liability, even in these States, frequently exceeds the Federal credit.

Three States use only inheritance taxes; 35 States and the District of Columbia rely primarily on inheritance taxes, which they supplement with "pick-up" statutes to absorb any unused Federal credit. Other combinations of taxes in use among the States are shown in Table 3.

Estate and inheritance tax rates and exemptions vary greatly among the States as set forth in Appendix Tables E and F. The corresponding gift tax provisions will be found in Appendix Table G.

There are important interstate variations also in the structural features of State death taxes, especially in deductions allowed in determining the net estate. An important variant, for example, is the treatment of Federal estate taxes. Half of the States and the District of Columbia allow this tax to be deducted in determining the amount of the taxable estate. (See Appendix Table H. ) A marital deduction for property passing to



TABLE 3.—Types of State Death Taxes

Type of tax	State
"Pick-up" tax only..... (5)	Alabama, Arizona, Arkansas, Florida, Georgia.
Estate tax only..... (2)	North Dakota, Utah.
Estate tax and "pick-up" tax..... (3)	Mississippi, New York, Oklahoma*.
Inheritance tax only..... (3)	Oregon*, South Dakota, West Virginia.
Inheritance tax and "pick-up" tax.. (36)	Alaska, California*, Colorado*, Connecticut, Delaware, District of Columbia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana*, Maine, Maryland, Massachusetts, Michigan, Minnesota*, Missouri, Montana, Nebraska, New Hampshire, New Jersey, New Mexico, North Carolina*, Ohio, Pennsylvania, South Carolina, Tennessee*, Texas, Vermont, Virginia*, Washington*, Wisconsin*, Wyoming.
Inheritance, estate and "pick-up" taxes..... (1)	Rhode Island*.
No tax..... (1)	Nevada.

\*Has also gift tax (12).

the surviving spouse is allowed in 13 States. Most limit the marital deduction to a share of the estate but some exempt all property passing to the surviving spouse or children. The effects of the more important of these variations are reflected in the comparative tax burden data shown in Appendix Tables J and K.

In 1960 State death and gift tax collections aggregated \$419 million. This total excludes small amounts (\$16 million in 1958) of State imposed inheritance and estate taxes retained by local jurisdictions in 10 States and the collections of the District of Columbia. Death and gift taxes supply about 2.3 percent of the States' tax revenues and about 1.1 percent of the combined tax collections of State and local governments. These averages, however, submerge substantial variations among the States. In 1960 the share of State collections supplied by these taxes ranged from less than half of 1 percent in nine States to 7.1 percent in Connecticut. (Table 4.)

TABLE 4.—*State Inheritance, Estate, and Gift Tax Collections, by States, 1960*

[Dollar amounts in thousands]

State	All State taxes (1)	Death and gift taxes		
		Amount	Percent of col. (1)	Percent of all States
		(2)	(3)	(4)
Alabama.....	\$274, 239	\$705	0. 26	0. 17
Alaska.....	27, 110	54	. 20	. 01
Arizona.....	164, 153	463	. 28	. 11
Arkansas.....	158, 118	241	. 15	. 06
California.....	2, 124, 369	47, 180	2. 22	11. 26
Colorado.....	192, 542	6, 638	3. 45	1. 58
Connecticut.....	238, 124	16, 920	7. 11	4. 04
Delaware.....	70, 776	1, 088	1. 54	. 26
Florida.....	521, 682	5, 488	1. 05	1. 31
Georgia.....	369, 080	981	. 27	. 23
Hawaii.....	124, 230	587	. 47	. 14
Idaho.....	68, 999	751	1. 09	. 18
Illinois.....	836, 372	22, 027	2. 63	5. 26
Indiana.....	399, 379	7, 563	1. 89	1. 80
Iowa.....	265, 787	7, 294	2. 74	1. 74
Kansas.....	206, 622	3, 727	1. 80	. 89
Kentucky.....	228, 507	5, 302	2. 32	1. 26
Louisiana.....	452, 705	7, 311	1. 61	1. 74
Maine.....	86, 929	3, 229	3. 71	. 77
Maryland.....	343, 577	4, 987	1. 45	1. 19
Massachusetts.....	491, 123	20, 535	4. 18	4. 90
Michigan.....	913, 920	12, 124	1. 33	2. 89
Minnesota.....	351, 923	7, 335	2. 08	1. 75
Mississippi.....	194, 300	666	. 34	. 16
Missouri.....	312, 895	5, 259	1. 68	1. 25
Montana.....	64, 868	1, 775	2. 74	. 42
Nebraska.....	91, 253	374	. 41	. 09
Nevada.....	43, 478	.....	.....	.....
New Hampshire.....	41, 757	2, 093	5. 01	. 50
New Jersey.....	365, 232	20, 621	5. 65	4. 92
New Mexico.....	123, 206	676	. 55	. 16
New York.....	1, 961, 008	71, 611	3. 65	17. 08
North Carolina.....	459, 373	6, 644	1. 45	1. 59
North Dakota.....	60, 760	278	. 46	. 07
Ohio.....	872, 723	8, 694	1. 00	2. 07
Oklahoma.....	275, 379	6, 396	2. 32	1. 53
Oregon.....	208, 099	4, 523	2. 17	1. 08
Pennsylvania.....	1, 029, 478	51, 121	4. 97	12. 20
Rhode Island.....	86, 095	3, 873	4. 50	. 92
South Carolina.....	234, 990	1, 596	. 68	. 38
South Dakota.....	52, 828	927	1. 75	. 22
Tennessee.....	304, 587	4, 844	1. 59	1. 16
Texas.....	777, 863	11, 500	1. 48	2. 74
Utah.....	103, 460	1, 017	. 98	. 24
Vermont.....	43, 414	733	1. 69	. 17
Virginia.....	291, 664	5, 176	1. 77	1. 23
Washington.....	460, 770	9, 422	2. 04	2. 25
West Virginia.....	179, 919	2, 430	1. 35	. 58
Wisconsin.....	426, 234	14, 039	3. 29	3. 35
Wyoming.....	41, 460	344	. 83	. 08
Total.....	18, 017, 359	419, 162	2. 33	100. 0

NOTE.—Due to rounding detail will not necessarily add to totals.

Source: Bureau of the Census, Governments Division

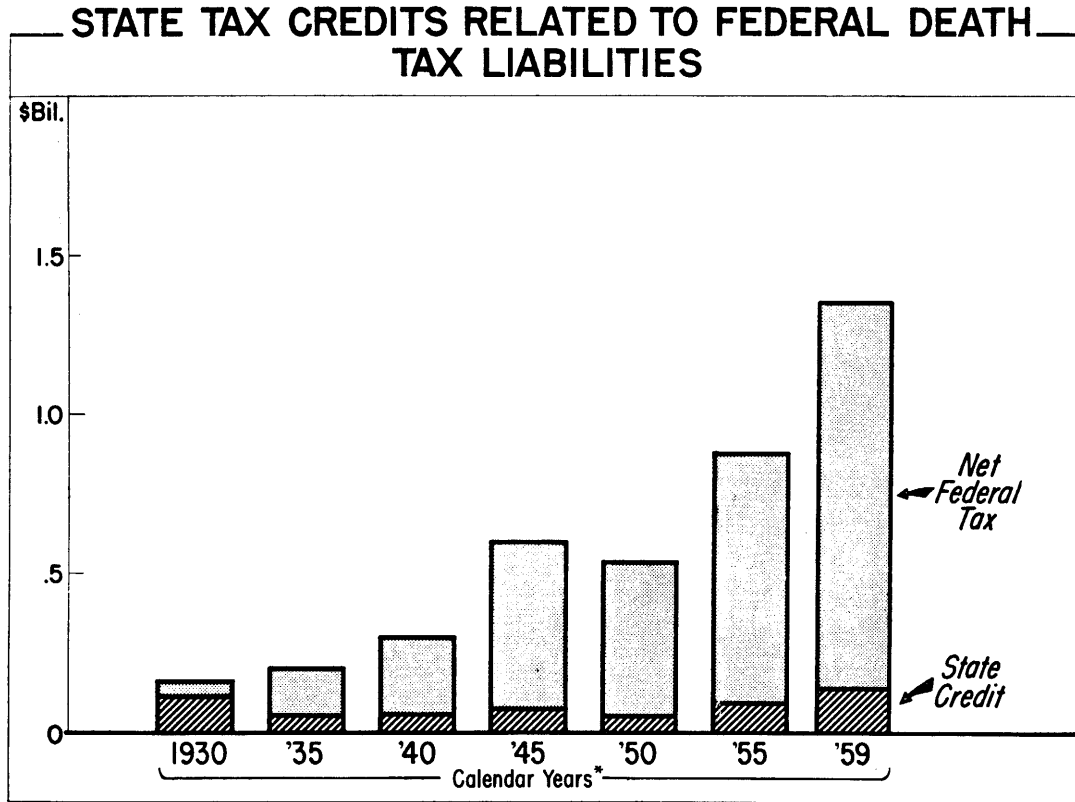
## *Chapter 4*

### THE INTERRELATIONSHIP OF STATE AND FEDERAL TAXES

The developments described in the preceding section, particularly the decline in the States' percentage share of total inheritance, estate, and gift tax revenues, and the growing complexity of the overlapping death tax structure have prompted proposals to readjust Federal-State relations in this tax area. (See Chronology, Appendix A.) The most frequent proposal for increasing the States' share of these revenues is to raise the ceiling on the Federal credit for taxes paid to States provided in 1926, now contained in Section 2011 of the Revenue Code.

It is not generally understood that in many situations in most States an increase in the tax credit would not automatically increase revenues; that without the aid of Federal legislation many States would find it difficult to convert the higher credit into corresponding increases in their revenues. Since present State taxes substantially exceed the current Federal credit ceiling, most taxpayers are now able to take credit for only a part of their tax payments to States; the balance of their potential credit is so to speak wasted and is available to be applied by them against Federal tax liability without any change in State tax rates whenever the ceiling on the credit is raised. States could, of course, increase their tax rates to parallel an increase in the credit. However, as will be made clear later, technical and political difficulties are likely to retard, if not prevent, most States from increasing their own tax rates by amounts corresponding closely to the increase in the Federal credit.

The technical problems involved in adjusting State taxes and tax revenues to parallel increases in the Federal credit can be understood best against the background of the present complex relationship between the National Government's estate tax and



\*Tax returns filed during calendar years.

FIGURE 7

the separate death tax systems of the States. To illuminate this point, it is necessary to examine in more statistical detail the interrelationship of State and Federal taxes, particularly the relationship of the Federal credit to Federal and State tax liabilities and revenues.

### *The tax credit in relation to Federal tax liabilities*

Federal law (Section 2011, Internal Revenue Code of 1954) allows taxpayers a credit against Federal estate tax liability for inheritance and estate taxes paid to States. The credit, it should be emphasized, is to the taxpayer, not to the State government. Many taxpayers, moreover, are unable to claim credit for all taxes paid to States (to offset them against their Federal liability) because the Revenue Code limits the amount of the credit to a specified maximum governed by the amount of the individual estate subject to Federal tax. (The schedule governing the credit will be found in Appendix Table M.)

Under the original Federal credit as designed in 1926, the amount of the credit was limited to 80 percent of the Federal tax liability of the estate. At that time the estate tax exemption was \$100,000 and tax rates ranged from 1 percent on the first \$50,000 in excess of the exemption to 20 percent on the excess over \$10 million. Regardless of the size of the estate, its credit for State taxes could be as high as 80 percent of Federal tax liability provided only that State taxes in this amount were actually paid, as evidenced by State tax receipts.

In the early years of the system, credits for State taxes claimed on Federal returns increased year after year as States adjusted their laws to benefit from the credit. By 1931, these credits offset, on the average, 75.6 percent of Federal tax liabilities. Subsequently, as already noted, Federal tax rates were increased on four different occasions and exemptions reduced three times. On each of these occasions, the limitation on the amount of credit allowed for taxes paid to States remained unchanged and continued to be limited to 80 percent of Federal tax liability under the 1926 tax rates and exemptions. In consequence the proportion of Federal tax liability represented and discharged

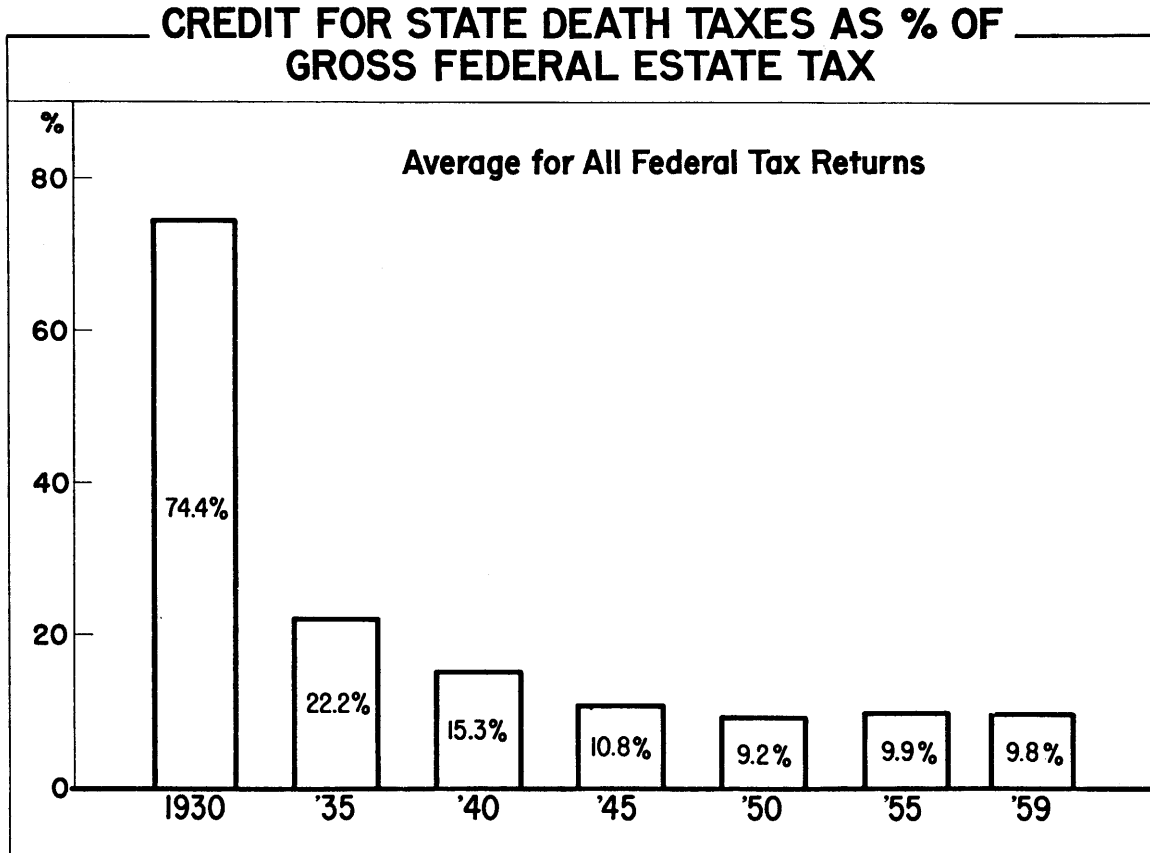


FIGURE 8

by credits for State taxes declined from over 75 percent in 1931 to about 10 percent after 1942. Since then, an era of Federal tax rate stability, this percentage has fluctuated around 10 percent. This is a national average for all returns and for all States and cloaks wide variations. (Table 5.)

TABLE 5.—*Federal Estate Tax Liability Before State Death Tax Credit, and State Death Tax Credit, for Returns Filed During 1929–59*

[Dollar amounts in thousands]

Year	Federal estate tax liability before State death tax credit	State death tax credit	
		Amount	Percent of Federal tax liability before credit
1929.....	\$165, 414	\$122, 110	73. 8
1930.....	152, 391	113, 388	74. 4
1931.....	182, 202	137, 663	75. 6
1932.....	84, 006	61, 642	73. 4
1933.....	76, 701	20, 097	26. 2
1934.....	129, 150	33, 922	26. 3
1935.....	197, 672	43, 864	22. 2
1936.....	239, 559	44, 218	18. 5
1937.....	364, 180	58, 252	16. 0
1938.....	374, 561	59, 841	16. 0
1939.....	330, 227	53, 111	16. 1
1940.....	295, 685	45, 337	15. 3
1941.....	336, 529	53, 636	15. 9
1942.....	330, 674	45, 626	13. 8
1943.....	398, 194	35, 966	9. 0
1944.....	452, 211	46, 285	10. 2
1945.....	596, 123	64, 517	10. 8
1946.....	.....	(1)	.....
1947.....	693, 587	69, 850	10. 1
1948.....	799, 297	82, 725	10. 3
1949.....	634, 859	65, 831	10. 4
1950.....	533, 942	48, 940	9. 2
1951.....	644, 355	64, 535	10. 0
1952.....	.....	(1)	.....
1953.....	.....	(1)	.....
1954.....	868, 643	85, 842	9. 88
1955.....	872, 471	86, 249	9. 89
1956.....	.....	(1)	.....
1957.....	1, 353, 262	146, 769	10. 85
1958.....	.....	(1)	.....
1959.....	1, 346, 297	131, 479	9. 77

<sup>1</sup> Not available.

Source: Internal Revenue Service, *Statistics of Income*.

Because originally the estate tax credit was a uniform percentage of Federal tax liability and subsequent legislation increased Federal tax liabilities in varying proportions depending

upon the size of the estates, the ratio of the credit to Federal tax liability under present law varies with the size of the taxable estate. Reduction of the exemption from \$100,000 to \$60,000 has made net estates between \$60,000 and \$100,000 liable to Federal taxes. These were not so liable in 1926 and therefore the credit for taxes paid to States on estates of this size is zero.

The reduced exemption together with increases in tax rates combined to produce a relatively much greater increase in Federal tax liabilities in the lower than in the high tax brackets. Under the 1926 Revenue Act, for example, the maximum Federal tax rate applicable to a net estate of \$150,000 (before the \$100,000 exemption) was 1 percent and the corresponding credit for State taxes was limited to 0.8 percent (80 percent of 1 percent). The present maximum Federal tax rate applicable to this tax bracket is 28 percent. Above the \$10 million net estate level, on the other hand, the 1926 Federal tax rate was 20 percent and the corresponding credit for taxes paid to States was and still is 16 percent, compared with a 77 percent present Federal tax rate. The effects of these changes on the relationship of the tax credit to Federal tax liabilities at selected estate size levels have already been illustrated (Table 2). The percentage of Federal tax liability represented by the credit is now least on small estates, and increases as the size of the estate increases. It rises from zero below \$100,000 to about 5 percent at around \$300,000, 10 percent at \$1 million, and approaches 20 percent on estates over \$20 million. The relationship of the tax credit to Federal tax liability at different estate size levels on all Federal returns filed in 1959 is shown in Table 6. Corresponding State-by-State data for selected size estates are shown in Appendix Table N.

Since the relationship of the tax credit for State taxes to Federal tax liability depends on the size of the estate for the reasons just explained, and since the relative importance of small and large estates varies from State to State, the ratio for the credit to Federal tax liability also varies from State to State. Interstate variation in the size distribution of estates is quite substantial. (Appendix Table O.) In some States nearly two-thirds of all estates subject to Federal tax have a net valuation (after deductions) of less than \$100,000, and on estates of this size pres-



TABLE 6.—*Credit for State Death Taxes as Percent of Federal Estate Tax Liability, Returns Filed During 1959*

[Dollar amounts in thousands]

Net estate before specific exemption classes	Credit for State taxes	Federal estate tax liability before credits	Credit as percent of Federal liability
\$100-\$150.....	\$1, 815	\$85, 583	2. 1
\$150-\$200.....	2, 728	89, 473	3. 0
\$200-\$300.....	6, 982	146, 038	4. 8
\$300-\$400.....	6, 911	106, 975	6. 5
\$400-\$500.....	6, 399	84, 226	7. 6
\$500-\$600.....	5, 459	65, 423	8. 3
\$600-\$700.....	4, 766	53, 427	8. 9
\$700-\$800.....	3, 991	41, 924	9. 5
\$800-\$900.....	4, 200	41, 691	10. 1
\$900-\$1,000.....	3, 729	35, 143	10. 6
\$1,000-\$2,000.....	23, 783	193, 428	12. 3
\$2,000-\$3,000.....	15, 123	106, 187	14. 2
\$3,000-\$4,000.....	7, 447	49, 345	15. 1
\$4,000-\$5,000.....	6, 522	41, 236	15. 8
\$5,000-\$7,000.....	8, 662	52, 758	16. 4
\$7,000-\$10,000.....	8, 144	47, 406	17. 2
\$10,000-\$20,000.....	10, 810	58, 378	18. 5
\$20,000 or more.....	3, 908	19, 716	19. 8
All taxable returns <sup>1</sup> .....	131, 479	1, 346, 297	9. 8

<sup>1</sup> Includes returns under \$100,000.

Source: Internal Revenue Service, *Statistics of Income*, 1958.

ent Federal law allows no credit for taxes paid to States. For a substantial number of other States, on the other hand, the proportion of returns represented by these small estates is substantially below 50 percent. Even greater variations prevail at the other end of the size distribution. Some States may not have a single million dollar estate tax return for several successive years. This is the estate size area, it will be recalled, where the credit represents the largest percentage of Federal tax liability.

The frequency of large estates, particularly in States with relatively few wealthy residents, varies of course from year to year and one such return can significantly affect the State's aggregate credits for that year. One \$25 million estate, for example, produces a larger tax credit for State taxes than nearly 3,000 separate \$200,000 estates. Indeed, the tax credit on one \$25 million estate exceeds the sum of all tax credits claimed on Federal estate tax returns filed in 1959 from 17 low wealth States. The irregularity of large estates explains the wide variation in the relationship of the credit for State taxes to Federal

# STATE TAX CREDITS AS % OF GROSS FEDERAL TAX

## 1926 Act and Present Law

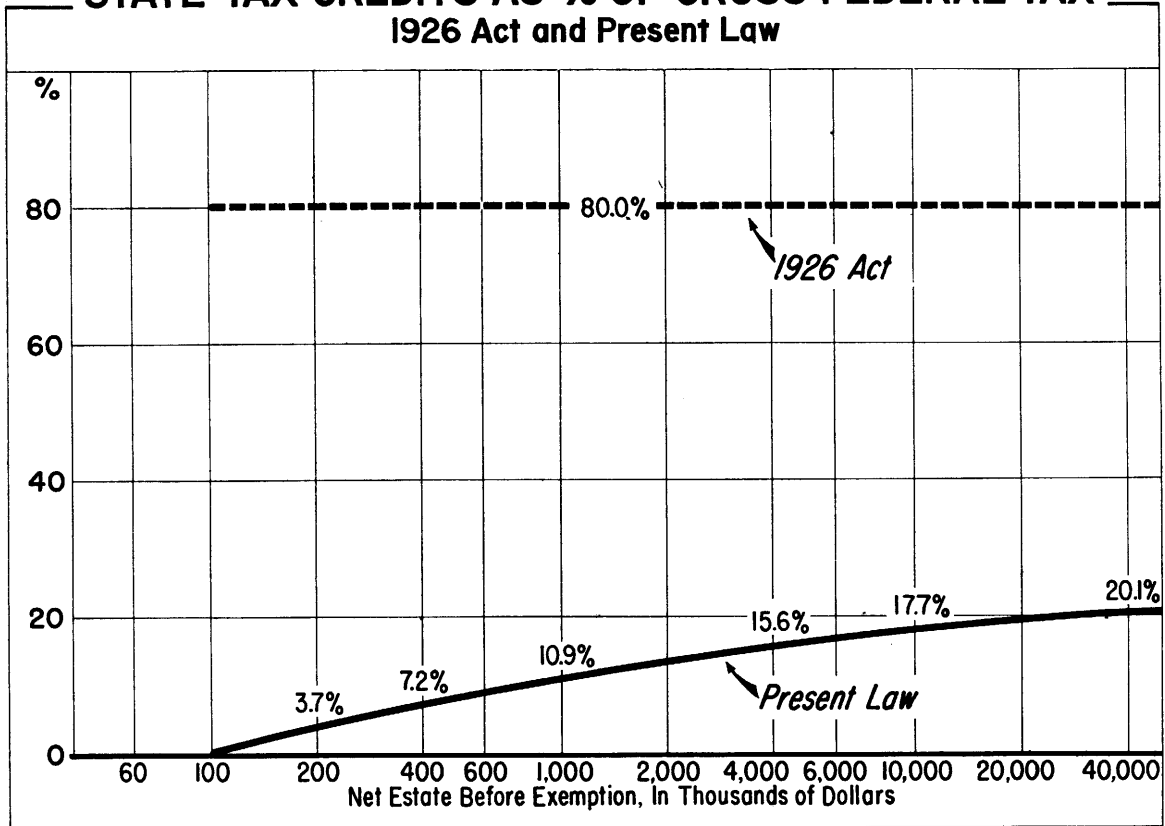


FIGURE 9

tax liabilities among the States and, from year-to-year, for the same State.

The amount of credits for State taxes claimed on Federal returns for selected years, 1949–1959, is shown in Appendix Table P. The percentage relationship of the credits claimed for State taxes to Federal tax liability, is shown in Appendix Table Q. In 1959, for example, the ratio of credit to Federal liability ranged from less than 5 percent in the Dakotas to 14 percent in Michigan. (Michigan had the only estate tax return with a net estate in excess of \$20 million reported that year.) In 1957, when the number of very large returns chanced to be larger, the range was even wider.

These and other interstate variations are here described in detail to underscore the problems involved in developing a coordination proposal reasonably fair to most of the States.

### *The tax credit in relation to State liabilities and revenues*

If States limited their death taxes to the amounts taxpayers are permitted to credit against their Federal tax liabilities, the States' revenue collections would be equal (except for differences in filing and tax payment dates) to the sum of credits for State taxes claimed on Federal tax returns. This, however, typically happens only in the case of very large estates. In most cases, State taxes are not so limited, not even in the States which rely very largely on "pick-up" taxes. State taxes generally exceed the Federal credit. It is necessary to determine the amount of this excess and to identify the situations (the State, size of estate, etc.) in which it occurs before substitutes for the present Federal credit can be appraised. Only in this way can it be determined how to shape the new tax credit to maximize State revenues, how States will need to revise their tax laws to avail themselves of this revenue, and how different taxpayers will be affected.

As has already been indicated, State tax liabilities typically exceed the Federal credit by substantial margins for several reasons. State exemptions are generally lower than those allowed under Federal law. Therefore, large numbers of estates have State but not Federal tax liability. In the net estate area

between \$60,000 and \$100,000 they are generally liable for both State and Federal taxes but the credit is not operative. Above this level State liabilities exceed the credit by margins which tend to diminish as estate size increases. Appendix Tables R and S present comparable data for each of the States for varying size estates on the basis of simplified assumptions about the relationships of the heirs to the decedent. These data are summarized in Tables 7 and 8. In the case of a \$400,000 estate left half to the surviving spouse, for example, the Federal credit offsets less than half of State liabilities in 43 of the 49 States. These comparisons probably overstate the relative role of the credit because they are based on stylized examples and ignore the existence of specific provisions of State law with respect to deductions, exemptions, and exclusions which generally have the effect of producing a relatively larger taxable estate for State than for Federal purposes. In this respect the percentage of State liability represented by the credit derived from audited tax returns is more meaningful. Such data are presented in Appendix Table T for the States which participated in the special tax credit study.

TABLE 7.—*Maximum Credit Allowed Under Federal Estate Tax for Taxes Paid to States, as Percent of State Death Taxes, for Selected Size Estates, Assuming One-half of the Estate is Left to the Wife and One-fourth to Each of Two Adult Children*

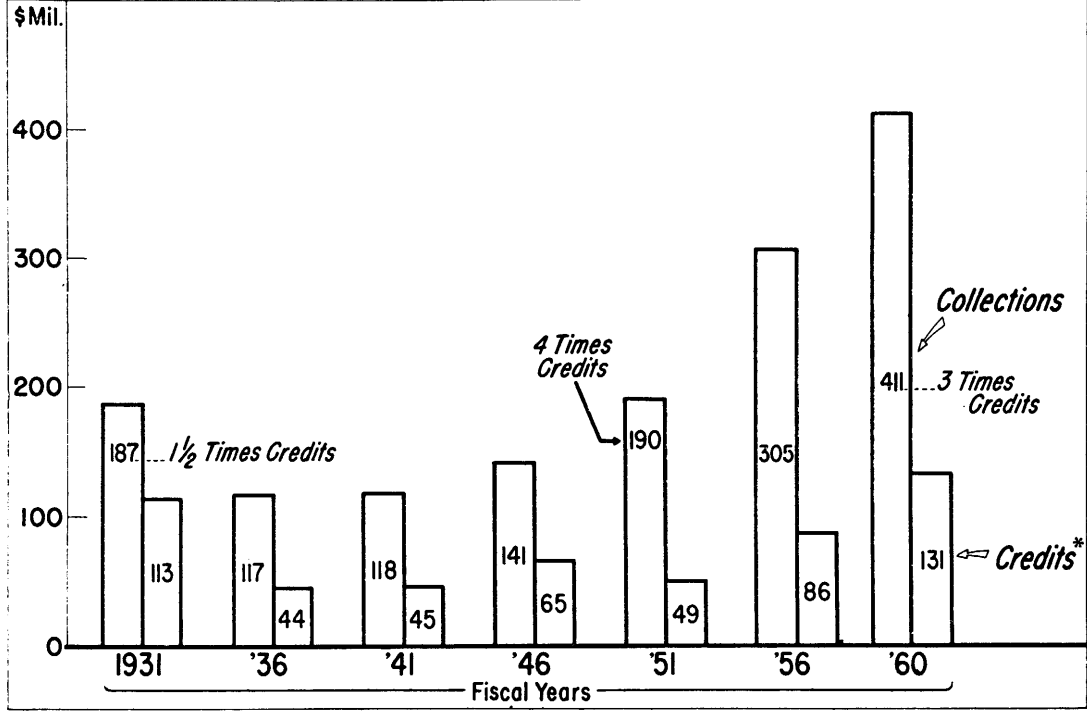
Maximum credit as a percentage of State death taxes	Net estate, after deductions, <sup>1</sup> but before specific exemptions						
	\$200,000	\$400,000	\$600,000	\$800,000	\$1,000,000	\$2,500,000	\$5,000,000
	Frequency distribution of States						
No credit.....	49						
Under 10.....		16	2	1			
10 under 25.....		21	29	21	19	3	
25 under 50.....		6	8	15	14	24	22
50 under 75.....			4	2	6	7	8
75 under 100.....				4	1	4	4
100.....		6	6	6	9	11	15
Total States.....	49	49	49	49	49	49	49

<sup>1</sup> Size of estate is before marital deduction and before deduction of Federal estate tax in States which allow this deduction.

Source: Derived from Appendix Table R.

The margin between the Federal credit and State revenue is even wider than that between the credit and State liabilities because States tax many estates which fall below the Federal

# STATE DEATH TAX COLLECTIONS AND CREDITS AGAINST FEDERAL ESTATE TAX



\*On Federal returns filed during preceding year.

FIGURE 10

TABLE 8.—Maximum Credit Allowed Under Federal Estate Tax for Taxes Paid to States, as Percent of State Death Taxes, for Selected Size Estates, Assuming One-half of the Estate Is Left to Each of Two Adult Children

Maximum credit as a percentage of State death taxes	Net estate, after deductions <sup>1</sup> but before specific exemptions							
	\$100,000	\$200,000	\$400,000	\$600,000	\$800,000	\$1,000,000	\$2,500,000	\$5,000,000
	Frequency distribution of States							
No credit.....	49							
Under 10.....		1						
10 under 25.....		22	1					
25 under 50.....		16	18	13	11	6		
50 under 75.....		3	13	12	11	13	7	3
75 under 100.....		1	6	10	11	10	14	9
100.....		6	11	14	16	20	28	37
Total States.....	49	49	49	49	49	49	49	49

<sup>1</sup> Size of estate is before deduction of Federal estate tax in States which allow this deduction.

Source: Derived from Appendix Table 8.

estate tax exemption. The relationship of the credit to State revenues in the several States is shown in Table 9, based on data for 7 of the past 11 years for which *Statistics of Income* data are available. The aggregate for this group of years represents a probable average relationship, free in some measure of the more conspicuous fluctuations reflected in estate tax statistics for individual years. It reveals a range in the relative role of the tax credit from less than 10 percent of State collections for some States to over 75 percent for others, and a national average of about 36 percent.

On the basis of these and other data it appears reasonable to proceed on the assumption that of the inheritance and estate tax revenues collected by the States (\$411 million in 1960), the Federal tax credit accounted for less than 40 percent, estates under \$100,000 (where the credit is inoperative) for about 20 percent, and tax liabilities in excess of the credit on estates subject to both State and Federal taxes for over 40 percent.

### *Structural complexities*

One consequence of the present system of death taxation is a structural complexity arising from differences between the estate tax used by the National Government and the inheritance taxes used by many of the States and the diversity in the tax

TABLE 9.—Credit for State Inheritance and Estate Taxes Claimed on Federal Estate Tax Returns as Percent of State Inheritance and Estate Tax Collections, for Aggregate of Fiscal Years 1949–51, 1954, 1955, 1957, and 1959

[Dollar amounts in thousands]

State	Credit for State taxes	State death tax collections	Credit as percent of collections
Alabama.....	\$2,543	\$3,828	66.4
Alaska.....	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )
Arizona.....	1,207	1,582	76.3
Arkansas.....	1,081	1,389	77.8
California.....	72,217	189,590	38.1
Colorado.....	4,141	20,057	20.6
Connecticut.....	28,079	68,521	41.0
Delaware.....	5,854	17,591	33.3
Florida.....	15,422	18,093	85.2
Georgia.....	4,628	6,991	66.2
Hawaii.....	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )
Idaho.....	338	2,421	14.0
Illinois.....	39,482	94,165	41.9
Indiana.....	5,834	27,514	21.2
Iowa.....	2,713	32,110	8.4
Kansas.....	4,275	11,724	36.5
Kentucky.....	4,441	22,202	20.0
Louisiana.....	4,697	13,919	33.7
Maine.....	2,057	13,274	15.5
Maryland.....	9,680	29,327	33.0
Massachusetts.....	28,249	98,936	28.6
Michigan.....	26,087	71,611	36.4
Minnesota.....	6,882	28,550	24.1
Mississippi.....	931	3,115	29.9
Missouri.....	10,670	26,644	40.0
Montana.....	828	7,406	11.2
Nebraska.....	2,358	5,890	40.0
Nevada.....	299	( <sup>2</sup> )	( <sup>2</sup> )
New Hampshire.....	1,842	9,293	19.8
New Jersey.....	23,890	89,650	26.6
New Mexico.....	794	2,577	30.8
New York.....	139,613	230,873	60.5
North Carolina.....	6,880	26,394	26.1
North Dakota.....	234	3,371	6.9
Ohio.....	29,415	83,010	35.4
Oklahoma.....	4,035	20,649	19.5
Oregon.....	2,755	19,648	14.0
Pennsylvania.....	59,145	226,027	26.2
Rhode Island.....	8,976	14,005	64.1
South Carolina.....	3,216	5,548	58.0
South Dakota.....	453	4,288	10.6
Tennessee.....	3,763	20,127	18.7
Texas.....	27,876	47,832	58.3
Utah.....	865	4,083	21.2
Vermont.....	941	4,760	19.8
Virginia.....	7,470	17,235	43.3
Washington.....	4,361	35,359	12.3
West Virginia.....	1,778	11,360	15.7
Wisconsin.....	7,969	50,971	15.6
Wyoming.....	500	1,476	33.9
Total.....	\$621,767	\$1,744,988	35.6

<sup>1</sup> Not available.

<sup>2</sup> No State tax.

NOTE.—Data on amount of credit claimed on Federal returns not available for 1952, 1953, 1956 and 1958. Credit claimed on Federal estate tax returns is for returns filed during the years indicated; State collections are for fiscal years ending in the years indicated.

Source: Federal estate tax return data from Internal Revenue Service, *Statistics of Income*; State collection data from Bureau of the Census, Governments Division, adjusted to include amounts retained by local tax administration.

systems and structural features employed by the States. Executors of estates are typically required to prepare two different sets of returns—one for the Internal Revenue Service and one for the State tax administration, and when more than one State has taxing jurisdiction, several State returns, each with its separate specifications.

The desire to simplify inheritance and estate taxes and to standardize them where practicable was one of the important considerations which prompted the Joint Federal-State Action Committee to select this item of taxation for priority attention and to commend it for the early attention of this Commission. Tax practitioners and their professional organizations place much stress on the need for simplification.

Those concerned with the complexity of the death taxes believe that this would be intensified if the relative weight of State taxation were increased either by an upward revision of the credit or by some other device. They urge that the occasion of a rearrangement of Federal-State tax relations be utilized to bring the various death taxes into better conformity.

One of the obstacles to death tax simplification stems from the debate over the relative merits of inheritance and estate taxes. Since the estate tax applies to the entire estate left by the decedent, it is simpler and more productive. It avoids the complex task of ascertaining the value of the shares of individual heirs where the transfer involves life estates, contingencies, and remainders. Some believe, however, that the inheritance tax accords better with generally accepted concepts of tax fairness because its rate and exemption structure differentiate on the basis of the relationship of the heirs to the decedent, imposing lower rates of tax where that relationship is close.

The inheritance tax structure tends to break down where it is applied to contingent future interests since it is not certain at the time the tax is determined how many individuals will benefit under the estate and to what class beneficiaries these interests will pass. Sizable estates frequently involve one or more life estates with various contingent remainders. Some State laws assume that the contingent remainders will fall to the least possible number of beneficiaries and to those in the least favored rates. Other State laws adopt other presumptions to meet the problem. Under many State laws the ultimate amount of the



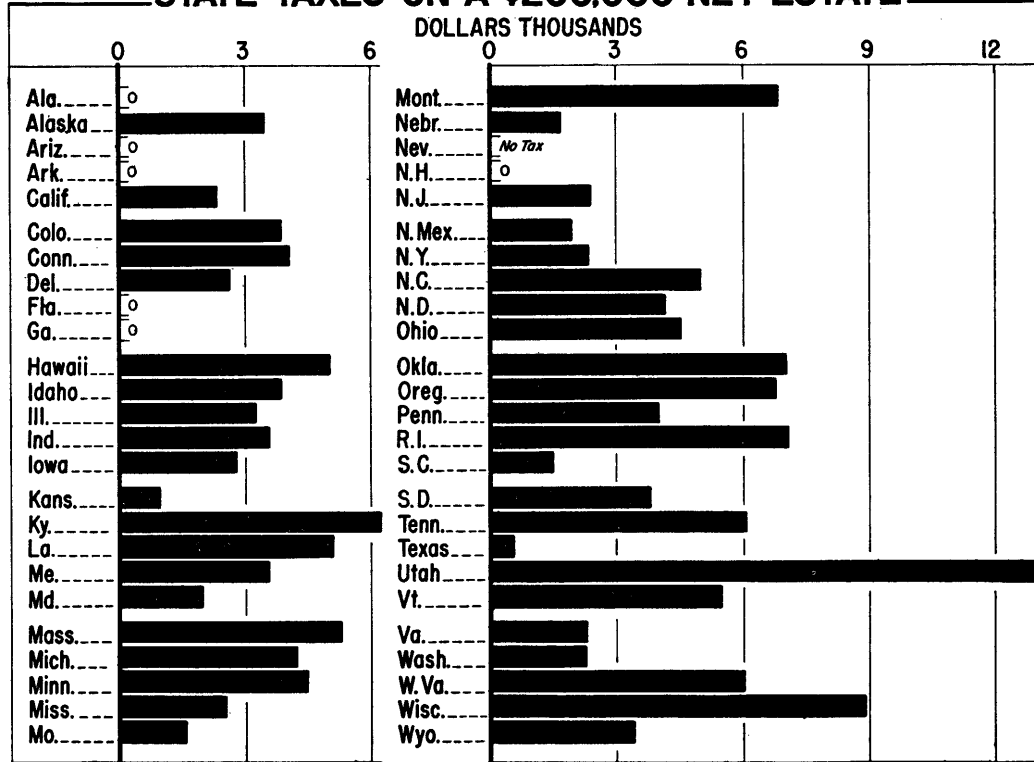
tax is not determined for long periods during which the estate may be required to make an initial payment, subject to subsequent claims for refunds.

An increase in the rate of State death taxes is likely also to intensify the problem of double taxation of the same estate by two or more States. While recent developments have reduced interstate jurisdictional conflicts, such differences can still arise from disputes over the domicile of the decedent and occasionally from the taxation of the same asset by both the domiciliary and the nondomiciliary State. Interstate jurisdictional problems center largely about the taxation of intangible personal property such as securities. Real estate is generally taxable only by the jurisdiction in which it has situs. It is reasonably well established that tangible personal property is taxable where it is situated or is customarily kept by the one who dies. Intangible property, however, may be subject to death taxes by two or more States. For instance, it is taxable by the State where the deceased taxpayer was making his home at the time of death, and also by other States under whose laws such property enjoys some degree of protection.

As previously noted, the general expectation that the Federal credit legislated in 1926 would exert an influence in the direction of uniformity among State death taxes has not been realized. While a few States impose estate taxes generally limited to the amount of the credit, most States retained their independent inheritance and estate tax structures. The extent of the interstate variety has been discussed above. Partly in their exercise of the right to shape their own taxes and partly in their efforts to increase their share of this revenue above the credit, the States have added steadily to the complexity of their death tax system. The credit continues to serve the purpose of keeping a floor under State tax liability and mitigates interstate competition for wealthy residents but it has not eliminated structural diversity among the States. As already noted, variations extend beyond the type of the tax to definition of deductions, exclusions, exemptions, rates, filing requirements, and reporting requirements. It requires several large volumes to detail this variety.

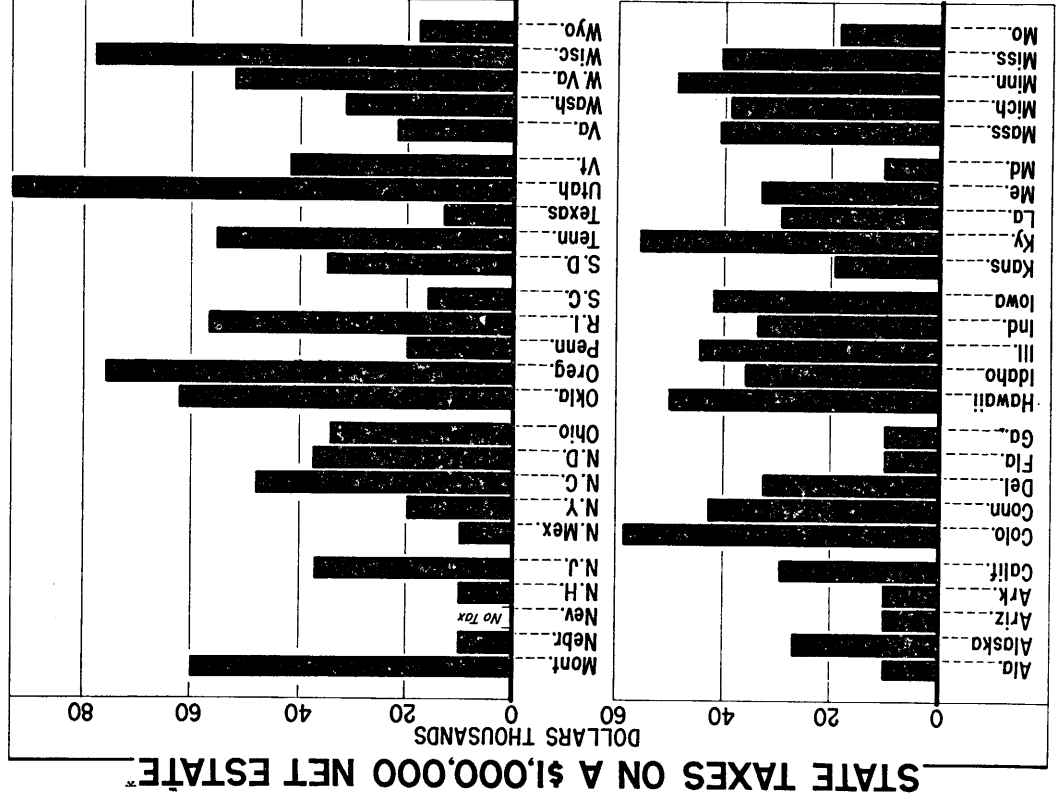
This Commission appreciates the considerations which prompt States to shape their tax laws to meet their specialized objectives. It has found, however, a general lack of apprecia-

## STATE TAXES ON A \$200,000 NET ESTATE\*



\*Net estate after deductions, but before specific exemptions and assuming that  $\frac{1}{2}$  of estate is left to surviving spouse and  $\frac{1}{4}$  to each of two children.

FIGURE 11



\*Net estate after deductions, but before specific exemptions and assuming that 1/2 of estate is left to surviving spouse and 1/4 to each of two children.

FIGURE 12

tion of the fact that in view of the operation of “pick-up” taxes, subtle differentiation in tax rates and exemptions under State laws tends to be neutralized since the aggregate tax of the estate is ultimately raised to the maximum amount of the credit. This is more generally true of large than of small estates. It is not true where the liabilities under State tax laws, particularly on small and moderate size estates, exceed the amount of the Federal credit. In the event, however, that the scope of the credit is substantially increased, the credit will become more generally controlling and differentiation in State laws will become correspondingly less relevant for aggregate estate tax burdens.

The Commission recognizes that some think the inheritance tax superior to the estate tax on grounds of equity. However, since under the American system the aggregate tax burden of the estate is generally governed by the Federal law which is based on estates, the end result in terms of the combined death tax liability of the estate (where the State tax does not materially exceed the credit) can in no event be significantly affected by whether the State employs an inheritance tax or an estate tax. Moreover, varying size exemptions depending upon the relationship of the heirs to the decedent (with relatively high exemptions for the surviving spouse and children, for example) are fully compatible with estate taxation.

These considerations underlie the Commission’s belief that the occasion of increasing the State’s share of this revenue area should be utilized to explore the possibilities for minimizing the complexity of the present system. We therefore, return to this matter below after a consideration of alternative devices for coordinating the death taxes.

We turn now to an analysis of alternative courses of action with respect to the coordination of State and Federal death taxes and begin with an examination of alternative ways of revising the Federal credit for taxes paid to States. This is followed by a consideration of other possible Federal-State arrangements.

## Chapter 5

### ALTERNATIVE TAX CREDIT ARRANGEMENTS

#### *Multiples of the present credit*

Alternative No. 1 for revising the Federal tax credit for taxes paid to States is to increase it proportionately all along the line. This would leave the credit tied to the 1926 Federal rate and exemption structure. It would be accomplished by raising the limitation on the credit, now calculated in terms of the Federal tax liability under the 1926 law, from 80 percent to 100 percent, or to some multiple of it. Since in 1954 the Congress converted the credit for State death taxes into a tax schedule based on taxable estate brackets under present law (Appendix Table M), this could be accomplished by an appropriate upward adjustment of the schedule contained in Section 2011 of the Revenue Code of 1954.

An increase in the credit limitation from 80 percent to 100 percent of 1926 Federal tax liabilities, for example, would raise the amount of the credit in each case by 25 percent. Other multiples of the 1926 Federal tax liability are possible, depending upon the amount of Federal revenue it is desired to devote to this purpose.

The amounts of Federal estate tax revenues involved in this approach compare as follows with the present credit at estimated fiscal year 1961 revenue levels:

[Millions of dollars]

Type of tax credit	Estimated value	
	Amount	Increase
Present credit (Section 2011, 1954 I.R.C.).....	195	.....
Credit equal to 100% of 1926 tax liability.....	245	50
Credit equal to 200% of 1926 tax liability.....	490	295

This approach would result in a proportionate increase in the amount of the credit for all estates. It would therefore preserve current variations in the size of the credit among taxable estates of varying size. It would deny any credit on the first \$40,000 of every estate subject to Federal tax since the 1926 law provided a \$100,000, as compared with the present \$60,000 estate tax exemption. Above the \$40,000 level, it would grant a progressively larger credit as the size of the estate tax bracket and the applicable tax rate (under the 1926 Act) increase.

The amount of the Alternative No. 1 credit on estates of selected size, assuming a credit equal to 200 percent of 1926 Federal tax liabilities, would compare as follows with gross Federal tax liability and the present tax credit:

[Revenue and gross estate classes in thousands of dollars]

Taxable estate <sup>1</sup>	Gross Federal tax liability	Present credit	Credit under Alternative No. 1		
			Amount	Percent of gross Federal tax	Percent increase over present credit
\$50,000.....	\$7,000	\$80	\$200	2.9	150
\$100,000.....	20,700	560	1,400	6.8	150
\$250,000.....	65,700	3,920	9,800	14.9	150
\$500,000.....	145,700	12,400	31,000	21.3	150
\$750,000.....	233,200	23,280	58,200	25.0	150
\$1,000,000.....	325,700	36,560	91,400	28.1	150
\$2,500,000.....	998,200	143,600	359,000	36.0	150
\$5,000,000.....	2,468,200	398,320	995,800	40.3	150
\$10,000,000.....	6,088,200	1,076,720	2,691,800	44.2	150

<sup>1</sup> After all deductions and the \$60,000 specific exemption.

The effect of this method of increasing the Federal credit on State revenues would depend in the first instance on the present level of each State's tax rates and ultimately on the response of its legislature.

In the five States which at present generally limit their death taxes to the maximum credit allowed under Federal law, commonly designated as the "pick-up" States, estate tax collections would tend to increase in proportion to the increase in the credit. A credit equal to 200 percent of 1926 tax liability, representing

a 150 percent increase over the present credit, would increase State collections in approximately that proportion.

In all the other States, the automatic effect of the increased credit would be large or small, depending upon the present level of the State's tax rates in relation to the present tax credit. Where liabilities under the State's own tax rates exceed the present limit on the credit by relatively small amounts or none at all, tax collections would automatically increase by a substantial proportion of the increase in the Federal credit. This would generally be accomplished automatically through "pick-up" taxes.

In most States, however, present tax rates exceed the present credit by substantial margins, particularly on small and medium size estates. In these situations, present State tax rates would absorb parts or all of the added tax credits; the "pick-up" supplements would come into play to only a limited extent or not at all, and the automatic increase in State revenues would be correspondingly limited. This condition would prevail in varying degrees in most States, especially with respect to estates under \$1 million. In these situations, a higher Federal credit would begin to add to State collections only after it had been increased several fold, sufficient to absorb more than present State tax liabilities.

The ratio of tax liabilities under present State rates to the present credit generally diminishes as the size of the estate increases. In consequence, the relative increase in the Federal credit required to produce an automatic increase in State collections diminishes as the size of the estate increases. Situations in which State tax liabilities exceed the present credit on very large estates are relatively few.

The automatic effect of an increase in the Federal credit to 200 percent of the 1926 tax liabilities at estimated fiscal year 1961 revenue levels on the tax collections of the States which participated in the special tax credit study is shown in Table 10. It should be kept in mind that Table 10 pertains only to State revenues from estates subject to Federal tax. It excludes amounts collected from estates subject only to State tax. Moreover, it is based on a single year's estate tax returns and is subject to a variety of limitations described in Appendix B below.

TABLE 10.—*Effect of Increasing Federal Tax Credit to 200 Percent of the Federal Estate Tax Liability Under 1926 Act<sup>1</sup>: Alternative No. 1*

[Revenue and gross estate classes in thousands of dollars]

State	Estimated fiscal year 1961 level		Percent of increased credit captured by the State—by gross estate classes <sup>2</sup>				
	Revenue gain to State	Revenue loss to U.S.	Total	100-500	500-1,000	1,000-5,000	5,000 or more
California.....	* \$15, 223	\$33, 631	45. 3	8. 2	8. 2	48. 4	76. 7
Connecticut.....	10, 722	14, 705	72. 9	5. 4	26. 1	47. 9	100. 0
Delaware.....	666	928	71. 8	21. 3	77. 2	92. 0	(*)
Hawaii.....	278	475	58. 5	21. 6	61. 0	(65. 0)	(*)
Indiana.....	2, 054	3, 088	66. 5	17. 6	57. 0	91. 6	(100. 0)
Iowa.....	747	1, 426	52. 4	22. 6	72. 2	(62. 6)	(*)
Kansas.....	2, 457	3, 889	63. 2	28. 5	38. 2	(68. 1)	(75. 0)
Kentucky.....	619	1, 374	45. 0	20. 7	44. 4	(67. 7)	(*)
Maine.....	444	1, 033	43. 3	29. 7	34. 3	(59. 8)	(70. 0)
Massachusetts.....	6, 636	10, 920	60. 8	9. 8	43. 9	71. 0	89. 1
Michigan.....	17, 565	19, 666	89. 3	22. 7	32. 5	74. 9	100. 0
Minnesota.....	4, 143	5, 736	72. 2	1. 6	65. 6	70. 5	(85. 0)
Missouri.....	3, 075	4, 473	68. 8	43. 6	53. 4	89. 0	(*)
Montana.....	424	653	64. 9	9. 4	0	(99. 8)	(*)
New Hampshire.....	366	442	82. 8	58. 8	100. 0	82. 2	(*)
New Jersey.....	8, 659	13, 103	66. 1	41. 3	62. 4	73. 7	67. 4
New York.....	35, 902	54, 251	66. 2	38. 2	40. 1	65. 6	84. 9
North Carolina.....	1, 406	2, 736	51. 4	9. 4	28. 8	63. 9	73. 0
Ohio.....	11, 117	14, 276	77. 9	37. 7	61. 3	84. 0	92. 1
Oregon.....	126	791	15. 9	2. 2	6. 0	(36. 3)	(*)
Pennsylvania.....	12, 149	17, 226	70. 5	34. 0	65. 9	70. 9	97. 1
Rhode Island.....	2, 176	3, 117	69. 8	11. 4	52. 0	90. 6	75. 2
South Carolina.....	356	635	66. 5	50. 0	64. 6	100. 0	(*)
Tennessee.....	380	1, 354	28. 1	5. 2	21. 8	(53. 5)	(*)
Utah.....	570	1, 166	48. 9	14. 6	0	(58. 0)	(*)
Vermont.....	284	384	74. 0	17. 6	65. 0	(*)	100. 0
Virginia.....	1, 335	1, 783	74. 9	68. 0	70. 2	97. 0	(*)
Washington.....	1, 518	2, 972	51. 1	14. 6	21. 3	(70. 2)	(90. 0)
Wisconsin.....	1, 097	2, 844	38. 6	1. 2	22. 6	(71. 0)	(*)
Wyoming.....	323	349	94. 0	60. 0	93. 9	(98. 4)	(*)
District of Columbia.....	1, 510	2, 128	71. 0	54. 4	45. 9	89. 0	(98. 0)

<sup>1</sup> Calculated on the basis of a sample of 1956-57 tax returns.

<sup>2</sup> Percentages in brackets are partially estimated.

<sup>3</sup> Estimated on the basis of data for the San Francisco District.

\*No returns were reported in this size class.

Source: Special credit study and Internal Revenue Service, special tabulation.

Table 10 indicates that the automatic increase in State collections from a 1½-fold increase in the credit would in every case be less than the amount of the increased Federal credit. It would average about two-thirds for this particular group of States and in one State would be as little as one-sixth. The remainder of the increased credit would be absorbed in reduced Federal tax liabilities. The proportion of the increased credit captured by the State would typically increase as the size of the estate increases, generally approaching 100 percent only on very large estates.

Since the excess of present State tax rates over the present credit is most significant in the lower tax brackets, it follows that the automatic effect of the first credit alternative on State revenues would be least in those States where small estates pre-



dominate and large estates are relatively infrequent. This typically is the situation in the less industrialized areas. (Appendix Table O).

The foregoing calculations are based on present State tax rates. States would be free, of course, to adjust their tax rates upward to restore all or part of the differential now existing between their tax rates and the Federal credit and thereby leave combined Federal and State tax liabilities undisturbed. It is conjectural to what extent this can reasonably be expected to take place. Different States are likely to react differently. We return to this aspect of the problem below.

Since credit Alternative No. 1 would increase the credit uniformly for all estates, it would leave the State-by-State percentage distribution of the amounts of credits allowed on all Federal tax returns unchanged. Moreover, since it would not alter the mechanics of computing the credit, it would leave the problems of taxpayer compliance and tax administration substantially unchanged.

*Supplements to the present credit*

Another possibility (Alternative No. 2) for increasing the Federal credit for State taxes is to leave the present credit unchanged and to supplement it with a second credit geared to net Federal tax liability (after the present credit). The estimated amounts of credits involved at fiscal year 1961 revenue levels are as follows:

[Millions of dollars]

Type of tax credit	Estimated value	
	Amount	Increase
Present credit (Sec. 2011, 1954 I.R.C.) . . . . .	195	.....
Present credit plus 10 percent of net Federal tax . . . . .	350	155
Present credit plus 20 percent of net Federal tax . . . . .	505	310

This approach, unlike Alternative No. 1, would allow some credits to net estates between \$60,000 and \$100,000. These estates are now not allowed any credit because they were not

subject to Federal tax under the 1926 law. The relative increase in the amount of the credit would be larger for small than for large estates as the following calculations based on an additional credit equal to 20 percent of net Federal tax liability make clear:

Taxable estate <sup>1</sup>	Gross Federal tax liability	Present credit	Credit under Alternative No. 2		
			Amount	Percent of gross Federal tax	Percent increase over present credit
\$50,000 . . . . .	\$7,000	\$80	\$1,464	20.9	1,730
\$100,000 . . . . .	20,700	560	4,588	22.2	719
\$250,000 . . . . .	65,700	3,920	16,276	24.8	315
\$500,000 . . . . .	145,700	12,400	39,060	26.8	215
\$750,000 . . . . .	233,200	23,280	65,264	28.0	180
\$1,000,000 . . . . .	325,700	36,560	94,388	29.0	158
\$2,500,000 . . . . .	998,200	143,600	314,520	31.5	119
\$5,000,000 . . . . .	2,468,200	398,320	812,296	32.9	104
\$10,000,000 . . . . .	6,088,200	1,076,720	2,079,016	34.1	93

<sup>1</sup> After all deductions and the \$60,000 specific exemption.

The effects of Alternative No. 2 on State revenues would in general parallel the results indicated for the first alternative. However, the proportion of the credit captured for State revenues would be significantly less. About half of the increased credit would, in the first instance, be absorbed in Federal tax reduction. For the first time, a credit would be allowed on small returns, but State taxes on these estates generally exceed the amount of the credit by wide margins. Therefore only a modest increase in State tax liabilities would automatically result. That situation would generally prevail in most States with respect to estates below the \$500,000 bracket level. Returns below this level account for about a third of Federal collections and of the additional credit which would be allowed under Alternative No. 2.

The automatic effect of this alternative on aggregate tax liabilities and tax collections for selected States is indicated in Table 11 which is subject to the general reservations noted above with respect to Table 10. The effect of Alternative 2 on State revenues would be relatively greater for States with low tax rates, and vice versa. In view of the uneven distribution of

large estates, the State-by-State percentage distribution of credits would be altered to a small degree in favor of those States which have relatively few very large estates.

TABLE 11.—Effect of Supplementing Present Tax Credit with 20 Percent of Net Federal Estate Tax Liability<sup>1</sup>: Alternative No. 2

[Revenue and gross estate classes in thousands of dollars]

State	Estimated fiscal year 1961 level		Percent of increased credit captured by the State—by gross estate classes <sup>2</sup>				
	Revenue gain to State	Revenue loss to U.S.	Total	100-500	500-1,000	1,000-5,000	5,000 or more
California.....	\$13,654	\$40,893	33.4	16.8	15.2	44.1	69.9
Connecticut.....	8,457	13,749	61.5	21.5	36.8	42.8	100.0
Delaware.....	758	1,201	63.1	35.7	76.2	89.6	(*)
Hawaii.....	271	549	49.4	38.3	58.4	(60.0)	(*)
Indiana.....	2,855	4,744	60.2	39.4	66.6	89.4	(100.0)
Iowa.....	1,807	3,265	49.2	37.0	78.7	(68.5)	(*)
Kansas.....	2,632	4,482	58.7	43.5	44.2	(70.5)	(80.0)
Kentucky.....	921	2,263	40.7	32.7	28.9	(64.7)	(*)
Maine.....	657	1,599	41.4	34.2	40.6	(59.0)	(70.0)
Massachusetts.....	6,639	13,346	49.7	21.5	47.4	66.3	84.3
Michigan.....	11,584	15,312	75.5	36.1	41.2	70.3	100.0
Minnesota.....	3,328	5,743	57.9	18.0	61.9	67.2	(85.0)
Missouri.....	4,270	6,506	65.6	55.5	64.5	87.2	(*)
Montana.....	424	962	44.1	16.0	0	(94.7)	(*)
New Hampshire.....	837	1,030	81.3	66.7	100.0	82.9	(*)
New Jersey.....	8,573	14,993	57.2	42.4	61.5	70.7	52.2
New York.....	27,693	57,560	48.1	33.1	7.0	61.5	81.2
North Carolina.....	1,469	3,706	39.6	21.9	35.7	60.7	61.7
Ohio.....	11,185	17,102	65.4	39.5	62.5	82.5	89.4
Oregon.....	263	1,524	17.3	16.6	9.6	(30.9)	(*)
Pennsylvania.....	13,346	21,549	61.9	43.5	69.0	66.8	94.6
Rhode Island.....	1,901	3,345	56.8	28.1	60.5	84.3	67.1
South Carolina.....	779	1,119	69.6	65.4	75.0	100.0	(*)
Tennessee.....	691	2,354	29.4	17.5	33.2	52.0	(*)
Utah.....	3,732	11,666	32.0	11.1	6.2	(45.4)	(*)
Vermont.....	313	524	59.7	32.9	58.6	(*)	100.0
Virginia.....	2,295	3,352	68.5	58.6	77.2	96.9	(*)
Washington.....	1,566	4,227	37.0	20.4	30.5	(67.0)	(85.0)
Wisconsin.....	1,414	4,652	30.4	11.6	31.8	(66.1)	(*)
Wyoming.....	435	484	89.9	71.6	90.1	(98.2)	(*)
District of Columbia.....	1,833	2,834	66.4	55.5	55.8	86.9	(97.0)

<sup>1</sup> Calculated on the basis of a sample of 1956-57 tax returns.

<sup>2</sup> Percentages in brackets are partially estimated.

<sup>3</sup> Estimated on the basis of data for the San Francisco District.

\*No returns were reported in this size class.

Source: Special credit study and Internal Revenue Service, special tabulation.

A major shortcoming of this approach to revision of the tax credit is its complexity. It would perpetuate the present credit, a vestige of the 1926 legislation, and add a new credit on top of it. All estates in excess of \$100,000 would be required to make two separate credit computations and a change in the first would automatically necessitate a recalculation of the second. The additional complexity would be particularly burdensome in situations where the interdependence of State and Federal tax liabilities (through the operation of deductions and credits) already poses disconcerting arithmetical tasks in the computation of the present tax credit.

*Credits based on present Federal tax liability*

A third alternative is to scrap the present credit and replace it with one based on current gross Federal tax liability (before the State credit). At fiscal year 1961 revenue levels each 10 percent of gross Federal tax liability is equivalent to about \$175 million. A 20 percent credit, for example, would aggregate about \$350 million or nearly double the value of the present credit.

By definition, each estate's credit would represent the same percentage of its gross Federal tax liability. The relative increase over the present credit would be greatest for small estates (where the present credit is least) and would decline gradually as estate size increased:

Taxable estate <sup>1</sup>	Gross Federal tax liabilities	Present credit	Credit under Alternative No. 3		
			Amount	Percent of gross Federal tax	Percent increase proposed credit over present credit
\$50,000 . . . . .	\$7,000	\$80	\$1,400	20.0	1,650
\$100,000 . . . . .	20,700	560	4,140	20.0	639
\$250,000 . . . . .	65,700	3,920	13,140	20.0	235
\$500,000 . . . . .	145,700	12,400	29,140	20.0	135
\$750,000 . . . . .	233,200	23,280	46,640	20.0	100
\$1,000,000 . . . . .	325,700	36,560	65,140	20.0	78
\$2,500,000 . . . . .	998,200	143,600	199,640	20.0	39
\$5,000,000 . . . . .	2,468,200	398,320	493,640	20.0	24
\$10,000,000 . . . . .	6,088,200	1,076,720	1,217,640	20.0	13

<sup>1</sup> After all deductions and the \$60,000 specific exemption.

A 20 percent credit, for example, would represent more than a 16-fold increase for a \$50,000 taxable estate, declining thereafter to a 13 percent increase at the \$10 million estate level. States with the largest number of very large estates would continue to receive the largest absolute amount of credits but their percentage share of total credits would be somewhat reduced.

This is the most attractive of the alternatives considered thus far from the viewpoint of taxpayers' compliance and tax administration. It would displace the present credit calculation

which varies bracket-by-bracket, with one equal to a constant percentage of Federal tax liability.

While Alternative No. 3 would earmark a uniform share of gross Federal tax liabilities for the States, its effect on State collections would be uneven. With the exception of the "pick-up" States and a few others with low tax rates, States would not automatically obtain additional revenue from their small estates, because their own tax rates in this area already exceed 20 percent of the Federal tax. As Table 12 indicates (subject to the limitations already noted), the automatic effect of Alternative 3 on State collections would be relatively small. For the group of States covered by the table, only about a third of the increased credit would accrue automatically to the States; about two-thirds would be absorbed by Federal tax reduction. We return to this matter below.

TABLE 12.—*Effect of Replacing Present Tax Credit with a Credit Equal to 20 Percent of Gross Federal Tax Liability<sup>1</sup>: Alternative No. 3*

[Revenue and gross estate classes in thousands of dollars]

State	Estimated fiscal year 1961 level		Percent of increased credit captured by the State—by gross estate classes <sup>2</sup>				
	Revenue gain to State	Revenue loss to U.S.	Total	100-500	500-1,000	1,000-5,000	5,000 or more
California.....	\$3,443	\$23,905	14.4	13.2	9.9	16.0	36.4
Connecticut.....	1,847	6,128	30.1	10.6	20.5	12.5	100.0
Delaware.....	262	711	36.8	22.9	66.7	68.9	(*)
Hawaii.....	148	374	39.6	30.1	50.9	(55.0)	(*)
Indiana.....	1,316	3,155	41.7	30.6	49.8	71.5	(100.0)
Iowa.....	1,057	2,556	41.4	36.4	67.9	(48.8)	(*)
Kansas.....	1,124	2,476	45.4	43.3	42.3	(44.5)	(75.0)
Kentucky.....	484	1,589	30.5	25.7	21.3	(57.2)	(*)
Maine.....	349	1,087	32.4	28.5	26.6	(57.4)	(70.0)
Massachusetts.....	2,787	7,938	35.1	15.1	34.3	60.8	78.0
Michigan.....	3,212	6,303	51.0	33.7	33.1	54.2	100.0
Minnesota.....	936	2,759	33.9	11.1	58.5	50.2	(85.0)
Missouri.....	2,363	4,228	55.9	50.6	60.9	79.7	(*)
Montana.....	176	632	27.8	10.5	0	(98.9)	(*)
New Hampshire.....	654	829	78.9	66.1	100.0	67.5	(*)
New Jersey.....	3,537	8,207	43.1	36.6	56.3	50.1	0
New York.....	6,090	30,212	20.2	16.3	30.3	14.9	35.4
North Carolina.....	431	2,282	18.9	16.3	23.8	34.8	0
Ohio.....	4,510	9,798	46.0	32.8	46.7	69.0	68.3
Oregon.....	108	1,152	9.4	8.6	2.5	(24.4)	(*)
Pennsylvania.....	6,513	12,752	51.1	37.2	65.4	61.2	117.2
Rhode Island.....	647	1,720	37.6	20.9	42.6	66.5	39.9
South Carolina.....	516	849	60.8	56.9	66.0	100.0	(*)
Tennessee.....	307	1,676	18.3	13.0	22.1	(32.9)	(*)
Utah.....	17	550	3.1	10.5	0	(0)	(*)
Vermont.....	153	316	48.4	26.4	56.5	(*)	100.0
Virginia.....	1,418	2,463	57.6	51.6	65.1	93.3	(*)
Washington.....	578	2,859	20.2	16.5	19.5	(33.3)	(50.0)
Wisconsin.....	390	3,212	12.1	5.7	11.5	(39.3)	(*)
Wyoming.....	252	305	82.6	67.2	85.3	(93.0)	(*)
District of Columbia.....	993	1,781	55.2	50.8	41.2	78.2	(91.0)

<sup>1</sup> Calculated on the basis of a sample of 1956-57 tax returns.

<sup>2</sup> Percentages in brackets are partially estimated.

<sup>3</sup> Estimated on the basis of data for the San Francisco District.

\*No returns were reported in this size class.

Source: Special credit study and Internal Revenue Service, special tabulation.

## *Two-bracket credits*

The alternatives hitherto considered contemplate a Federal credit for State taxes measured by a uniform percentage of Federal tax liabilities under either 1926 or present tax rates and exemptions. The present credit represented a uniform share (80 percent) of Federal liability when enacted in 1926. Today it represents a graduated share of total Federal tax liability, increasing as the size of the estate increases. This graduation is the accidental result of the relationship between the 1926 and present Federal estate tax liabilities.

The current relationship of the tax credit to Federal tax liabilities appears to have little basis in logic. In a sense, it is the reverse of what logic would suggest for it has the effect of assigning to the States little or none of the relatively stable portions of death tax revenues and a relatively large share of its unstable portions. States have need for stable and predictable revenues especially because their facilities for deficit financing of operating costs (as distinguished from capital outlays) are limited.

Death tax revenues are unstable at best. They are most unstable when the taxing jurisdiction is small and has relatively few tax returns. The situation is aggravated by the infrequency of large estates. As already indicated, the revenue contribution of a single large estate frequently exceeds the combined tax yield of thousands of small and medium size estates. These circumstances pose no particular problems for the National Government. It has little difficulty in absorbing year-to-year fluctuations in the yield of a relatively minor revenue source such as the estate tax. In any event, the fluctuations are less marked at the National than the State level because the larger number of tax returns provides some stability. These considerations have prompted proposals for tax credit arrangements to improve the stability of State revenues, even if this should entail added instability for Federal revenues.

Twenty-five years ago the New York State Commission on the Revision of the Tax Laws proposed a 7-bracket tax credit ranging from 80 percent on the first \$150,000 of the taxable estates to 20 percent on amounts in excess of \$20 million. That same year (1935) the Interstate Commission on Conflicting

# DISTRIBUTION OF FEDERAL TAX, STATE CREDIT AND RETURNS\*

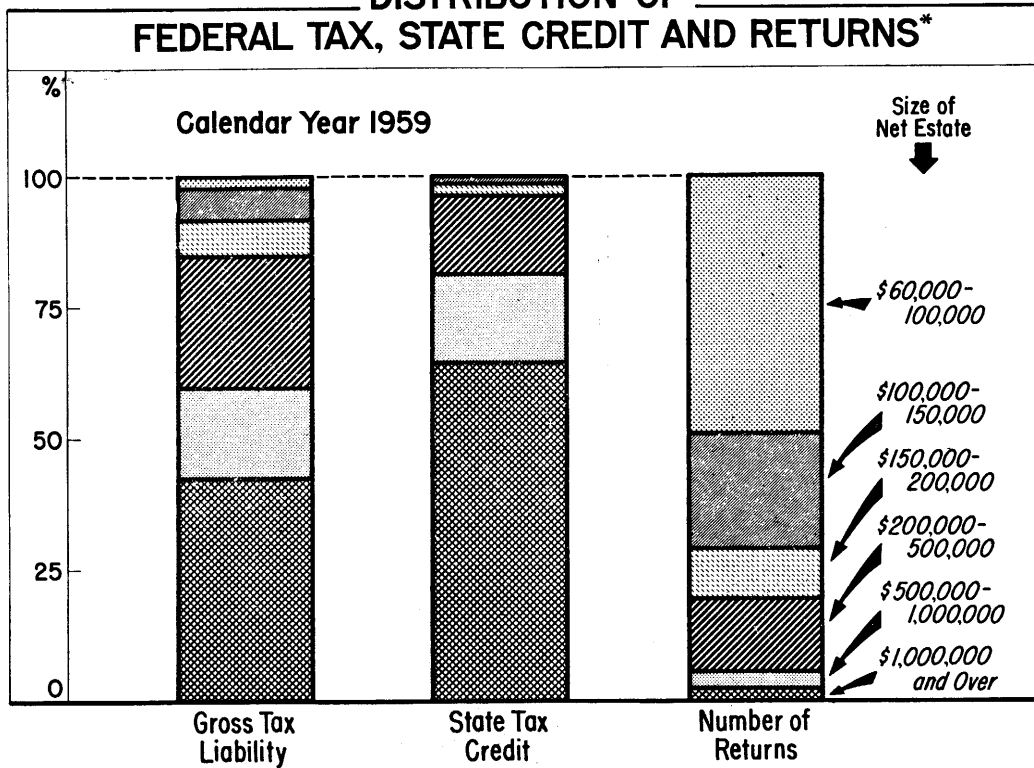


FIGURE 13

Taxation of the Council of State Governments proposed a 3-bracket credit system: 75 percent on the first \$100,000; 50 percent on brackets between \$100,000 and \$1 million; and 25 percent on the excess over \$1 million. In 1942 a Special Committee designated by the Secretary of the Treasury to conduct a study of intergovernmental fiscal relations proposed a 50 percent credit on the amount of the estate not exceeding \$100,000 and 25 percent on the excess.

A tax credit pattern scaled downward has merit quite apart from its contribution to the stability of State revenues. Small estates are more likely to be of local origin than large ones and individual States therefore have a stronger claim on the revenues from small than from large estates. To the extent that large estates were derived from nationwide business operations, the major part of their contribution to tax revenues can appropriately be devoted to financing nationwide governmental programs. In the long run, moreover, a credit scaled downward would benefit the vast majority of States more than a uniform or progressive credit. Most States have relatively few large estates, but all depend for revenue on small and medium-size estates.

The relative increases in the amount of tax credits under two-bracket credit methods are illustrated below. Alternative No. 4 would allow a credit equal to 80 percent of gross Federal tax liability on the first \$250,000 of taxable estates (after deductions and the \$60,000 specific exemption), and 20 percent on the balance. Alternative No. 5 would limit the 80 percent credit to the first \$150,000 of the estate.

Taxable estate <sup>1</sup>	Present credit	Credit under Alternative No. 4 <sup>2</sup>			Credit under Alternative No. 5 <sup>3</sup>		
		Amount	Percent of gross Federal tax	Percent increase over present credit	Amount	Percent of gross Federal tax	Percent increase over present credit
\$50,000.....	\$80	\$5,600	80.0	6,900	\$5,600	80.0	6,900
\$100,000.....	560	16,560	80.0	2,857	16,560	80.0	2,857
\$250,000.....	3,920	52,560	80.0	1,241	34,560	52.6	782
\$500,000.....	12,400	68,560	47.1	458	50,560	34.7	308
\$750,000.....	23,280	86,060	36.9	270	68,060	29.2	192
\$1,000,000.....	36,560	104,560	32.1	186	86,560	26.6	137
\$2,500,000.....	143,600	239,060	23.9	66	221,060	22.1	54
\$5,000,000.....	398,320	533,060	21.6	34	515,060	20.9	29
\$10,000,000.....	1,076,720	1,257,060	20.6	17	1,239,060	20.4	15

<sup>1</sup> After all deductions and the \$60,000 specific exemption.

<sup>2</sup> Credit equal to 80 percent of gross tax up to \$250,000 taxable estate, 20 percent over \$250,000.

<sup>3</sup> Credit equal to 80 percent of gross tax up to \$150,000 taxable estate, 20 percent over \$150,000.



The essential feature of Alternatives No. 4 and No. 5 is their concentration on small estates and therefore their contribution to State revenue stability. They would concentrate the increase in the credit area where the present credit is least. At the \$100,000 taxable estate level, for example, the credit would be increased 28-fold. At the \$10 million level the increase would be about one-sixth.

The State-by-State impact of the two credit schedules is substantially similar; the principal difference between them is the amount of Federal revenue involved. At 1959 levels (unaudited returns) one would have aggregated about \$90 million more than the other. (Table 13.)

The aggregate amount of credits which would have been involved under variously graduated schedules if they had applied to returns (before audit) filed during 1959 compare as follows:

	(Amount—Millions)
80 percent on first \$150,000; 20 percent on balance.....	\$550
80 percent on first \$250,000; 20 percent on balance.....	640
75 percent on first \$150,000; 25 percent on balance.....	570
50 percent on first \$250,000; 25 percent on balance.....	490
50 percent on first \$500,000; 10 percent on balance.....	460

### *Relative merits of alternative credit methods*

The five credit methods herein described have several features in common. They would increase State governments' tax revenues. The increases in State revenues would be substantially less than reductions in Federal revenues, the difference being absorbed by Federal tax reduction.

The several proposals involve varying amounts of Federal revenue. This is the accidental result of the percentage levels at which the alternatives were calculated. In 1959, Alternative No. 5 would have been approximately equal in dollar value to a 40 percent uniform credit of the kind contemplated by Alternative No. 3. (Figure 14.) The amount of additional Federal estate tax revenue to be earmarked for the States through an increase in the tax credit is primarily a policy question. It is not involved in the choice among alternative credit

TABLE 13.—*Effect of Replacing Present Credit with a Two-bracket Credit: Alternatives No. 4 and No. 5*

[Dollar amounts in thousands]

State	Credit under present law	Credit under Alternative No. 4 <sup>1</sup>			Credit under Alternative No. 5 <sup>2</sup>		
		Amount	Percent of gross Federal tax	Percent increase over present credit	Amount	Percent of gross Federal tax	Percent increase over present credit
Alabama.....	\$461	\$3,946	59.4	754	\$3,325	50.1	621
Alaska.....	1	43	79.6	4,200	43	79.6	4,200
Arizona.....	411	3,084	57.3	650	2,656	49.4	546
Arkansas.....	196	1,965	63.3	903	1,656	53.3	745
California.....	16,015	79,576	48.1	397	68,465	41.4	323
Colorado.....	1,144	5,763	48.1	404	4,874	40.7	326
Connecticut.....	7,002	20,977	36.9	200	18,229	32.0	160
Delaware.....	442	2,144	45.2	385	1,894	39.9	329
District of Columbia.....	1,013	5,810	50.8	474	4,861	42.5	380
Florida.....	3,501	19,876	50.6	468	17,114	43.5	389
Georgia.....	723	6,101	59.3	744	5,213	50.7	621
Hawaii.....	226	1,229	49.6	444	1,057	42.7	363
Idaho.....	81	1,353	74.3	1,570	1,180	64.8	1,357
Illinois.....	8,799	46,362	49.0	432	39,667	42.0	355
Indiana.....	1,471	10,448	56.1	610	8,972	48.2	510
Iowa.....	679	8,201	65.5	1,108	7,330	58.5	980
Kansas.....	1,852	8,493	46.9	359	7,454	41.2	302
Kentucky.....	654	5,172	57.8	691	4,450	49.7	580
Louisiana.....	919	7,161	57.9	679	6,060	49.0	559
Maine.....	492	3,516	56.6	615	2,978	46.6	505
Maryland.....	1,838	10,465	50.7	469	8,938	43.3	386
Massachusetts.....	5,200	25,206	46.4	385	21,420	39.4	312
Michigan.....	9,364	23,818	35.7	154	21,498	32.2	130
Minnesota.....	2,731	9,842	42.3	264	8,798	37.4	222
Mississippi.....	215	2,093	60.5	873	1,808	52.2	741
Missouri.....	2,130	13,546	52.6	536	11,559	44.9	443
Montana.....	311	2,080	54.6	569	1,838	48.2	491
Nebraska.....	561	5,407	62.2	864	4,746	54.6	746
Nevada.....	25	690	65.2	2,660	596	56.3	2,284
New Hampshire.....	210	2,714	67.6	1,192	2,319	57.8	1,004
New Jersey.....	6,239	27,954	46.1	348	24,132	39.8	287
New Mexico.....	194	1,575	58.2	712	1,289	47.6	564
New York.....	25,833	99,762	42.1	286	85,374	36.0	230
North Carolina.....	1,303	7,554	51.5	478	6,573	44.8	404
North Dakota.....	30	650	78.2	2,067	587	70.6	1,857
Ohio.....	6,799	32,067	46.5	372	27,632	40.1	307
Oklahoma.....	931	5,376	50.6	477	4,630	43.6	397
Oregon.....	377	3,764	62.8	898	3,266	64.5	767
Pennsylvania.....	8,203	42,583	49.2	419	36,202	41.8	341
Rhode Island.....	1,484	5,425	40.0	266	4,718	34.8	218
South Carolina.....	255	2,819	65.5	1,005	2,443	56.8	858
South Dakota.....	45	856	76.4	1,802	760	67.9	1,589
Tennessee.....	645	8,460	59.3	747	4,550	49.4	605
Texas.....	5,355	29,628	49.8	453	25,162	42.3	370
Utah.....	555	1,896	40.0	242	1,654	34.9	198
Vermont.....	183	981	47.5	436	852	41.2	366
Virginia.....	849	8,180	62.7	863	6,947	53.3	718
Washington.....	1,415	9,582	55.4	577	8,254	47.8	483
West Virginia.....	506	3,149	49.8	522	2,709	42.5	435
Wisconsin.....	1,354	10,321	56.6	662	8,893	48.7	557
Wyoming.....	168	952	49.6	473	827	43.1	398
Other areas.....	181	1,680	44.3	828	1,309	36.9	673
U.S. totals.....	131,479	639,395	47.5	386	549,867	40.8	318

<sup>1</sup> Credit equal to 80 percent of gross Federal tax on first \$250,000 of net taxable estate; 20 percent of the tax above \$250,000.

<sup>2</sup> Credit equal to 80 percent of gross Federal tax on first \$150,000 of net taxable estate; 20 percent of the tax above \$150,000.

NOTE.—Due to rounding detail will not necessarily add to totals.

Source: Internal Revenue Service, special tabulation of Federal estate tax returns filed in 1959.

# STATE TAX CREDITS AS % OF GROSS FEDERAL TAX

## Under Present Law and Alternatives #3 and #5

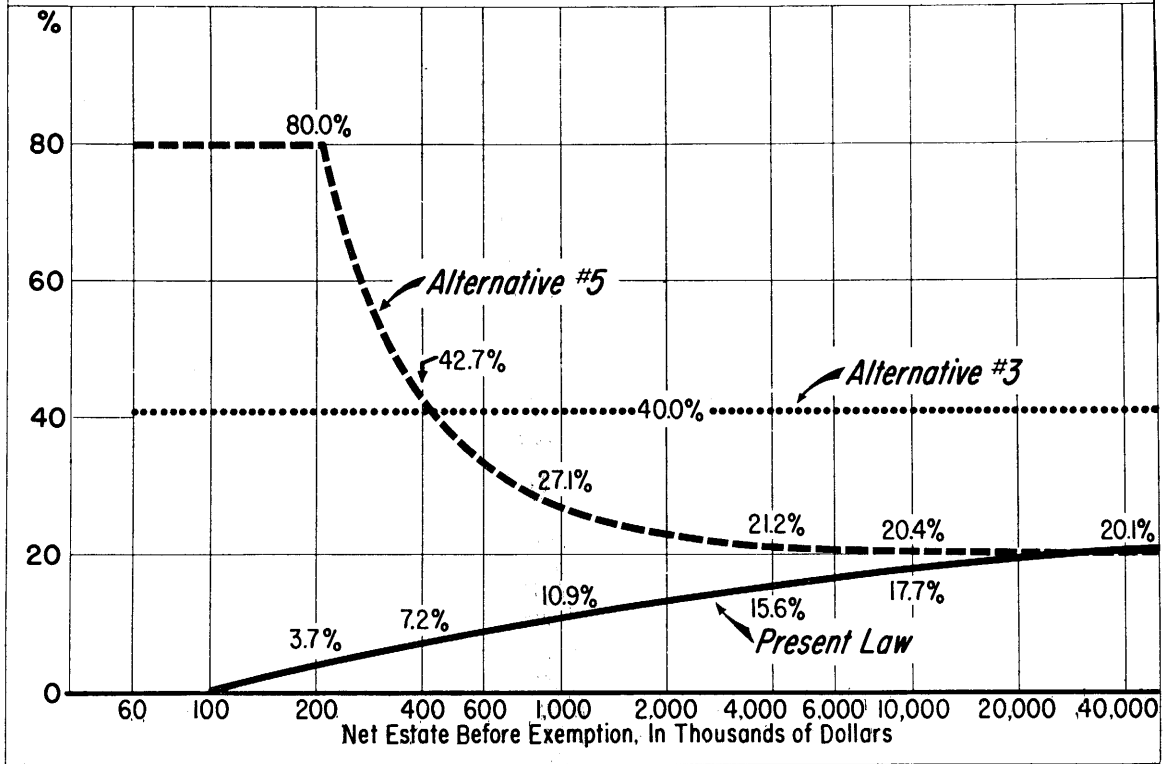


FIGURE 14

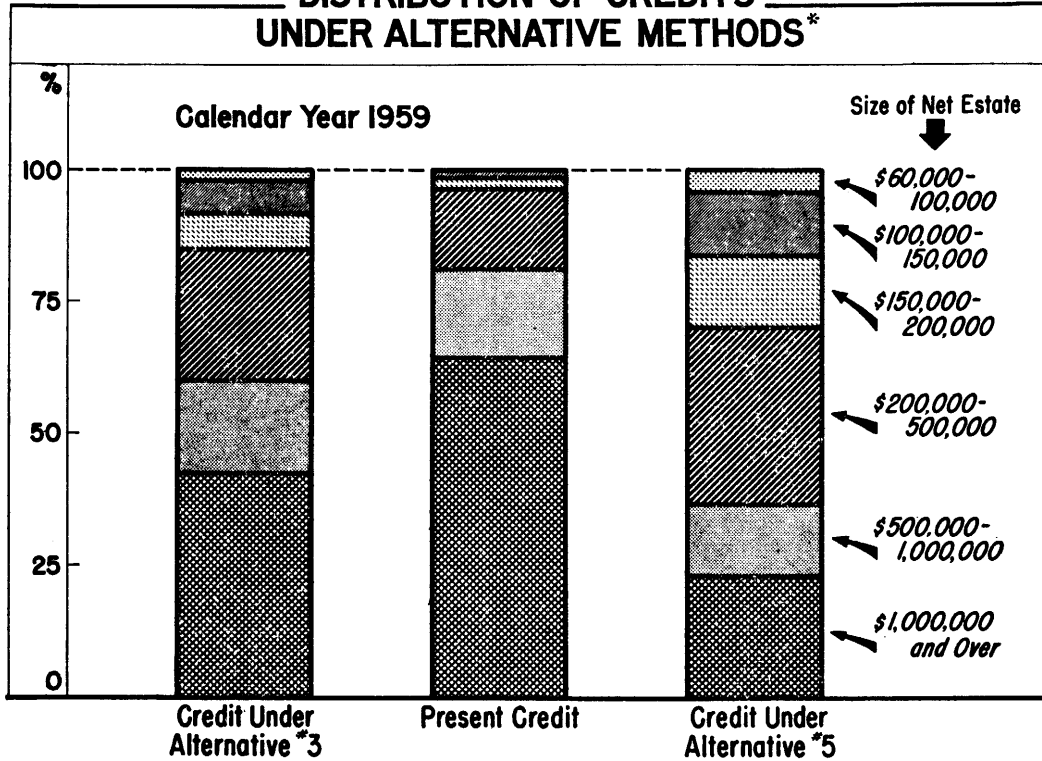
methods because any of the alternatives can be adjusted to match a predetermined amount of revenue.

The alternatives differ, however, in other important respects. The first alternative, a function of the 1926 tax rates, would retain all of the undesirable features of the present credit. It would allow no tax credit to any estate below \$100,000 and a progressively larger credit as the size of the estate increases. Alternative 2 would supplement the present credit with a new one. It thus would retain the weak points of the present credit and moreover would add to its complexity by requiring two separate credit computations in all taxable estates exceeding \$100,000.

Our disposition is to eliminate both Alternatives 1 and 2 from consideration, and to limit the choice to the alternatives based on the present Federal tax. Alternatives 3, 4, and 5 meet this requirement. Alternative 3 would provide a credit equal to a uniform share of Federal tax liability in all situations. In contrast, Alternatives 4 and 5 would provide a two-step credit, reserving for the States 80 percent of the revenue in the lower tax brackets and 20 percent on the balance. The advantage of either Alternatives 4 or 5 over Alternative No. 3 is the stability it would add to the States' share of death tax revenues. (Measures of the relative stabilities of Alternatives No. 3 and No. 4 are presented in Appendix B.) Either alternative, moreover, would tend to increase the relative shares of the smaller, particularly non-industrial States. It would accomplish this without affecting the larger States excessively. The few very large industrial States account for so large a percentage of all State death tax revenues that a relatively small change in their aggregate share permits sizable adjustments in the shares of the less prosperous States. This is illustrated in the computations based on 1959 Federal estate tax returns shown in Table 14. The aggregate shares of the 10 top States for that year would have been 71 percent, 67 percent and 67 percent under Alternatives 3, 4, and 5 respectively.

The graduated credit would have reduced the relative shares of 6 of these 10 States, some very little. It would have increased the shares of most of the remaining States. It should be kept in mind that these calculations are based on a single

## DISTRIBUTION OF CREDITS UNDER ALTERNATIVE METHODS\*



\*By size of net estates, after deductions but before exemption.

FIGURE 15

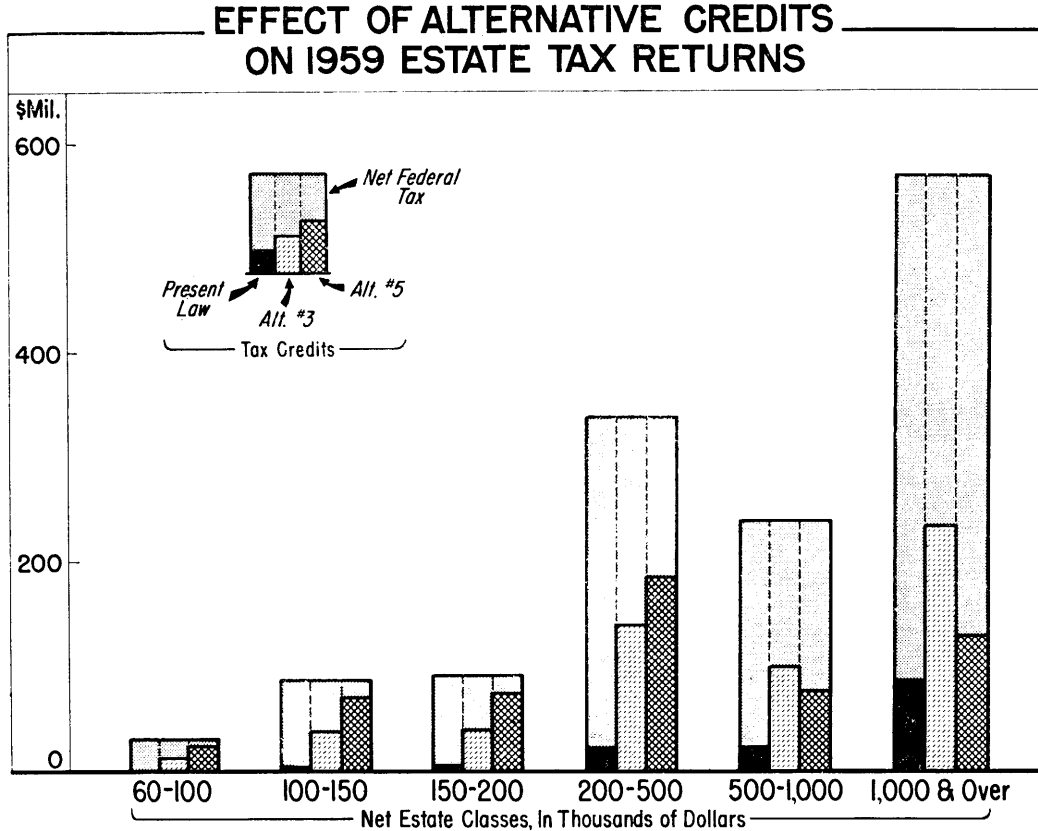


FIGURE 16

TABLE 14.—*State-by-State Distribution of Credits for State Death Taxes Under Alternatives No. 3, No. 4, and No. 5*<sup>1</sup>

[On the basis of Federal estate tax returns filed in 1959]

State	Percentage distribution		
	Alternative No. 3	Alternative No. 4	Alternative No. 5
Alabama.....	0.49	0.62	0.60
Alaska.....	.004	.007	.01
Arizona.....	.40	.48	.48
Arkansas.....	.23	.31	.30
California.....	12.29	12.45	12.45
Colorado.....	.89	.90	.89
Connecticut.....	4.23	3.28	3.32
Delaware.....	.85	.34	.34
District of Columbia.....	.85	.91	.88
Florida.....	2.92	3.11	3.11
Georgia.....	.76	.95	.95
Hawaii.....	.18	.19	.19
Idaho.....	.14	.21	.21
Illinois.....	7.02	7.25	7.21
Indiana.....	1.38	1.63	1.63
Iowa.....	.93	1.28	1.33
Kansas.....	1.34	1.33	1.36
Kentucky.....	.66	.81	.81
Louisiana.....	.92	1.12	1.10
Maine.....	.47	.55	.54
Maryland.....	1.53	1.64	1.63
Massachusetts.....	4.04	3.94	3.90
Michigan.....	4.96	3.73	3.91
Minnesota.....	1.75	1.55	1.60
Mississippi.....	.26	.33	.33
Missouri.....	1.91	2.12	2.10
Montana.....	.28	.33	.33
Nebraska.....	.65	.85	.86
Nevada.....	.08	.11	.11
New Hampshire.....	.30	.42	.42
New Jersey.....	4.50	4.37	4.39
New Mexico.....	.20	.25	.23
New York.....	17.61	15.60	15.53
North Carolina.....	1.09	1.18	1.20
North Dakota.....	.06	.10	.11
Ohio.....	5.12	5.02	5.03
Oklahoma.....	.79	.84	.84
Oregon.....	.45	.59	.59
Pennsylvania.....	6.43	6.66	6.58
Rhode Island.....	1.01	.85	.86
South Carolina.....	.32	.44	.44
South Dakota.....	.08	.13	.14
Tennessee.....	.68	.85	.83
Texas.....	4.42	4.63	4.58
Utah.....	.35	.30	.30
Vermont.....	.15	.15	.15
Virginia.....	.97	1.28	1.26
Washington.....	1.28	1.50	1.50
West Virginia.....	.47	.49	.49
Wisconsin.....	1.36	1.61	1.62
Wyoming.....	.14	.15	.15
Other areas.....	.28	.26	.25
Total.....	100.00	100.00	100.00

<sup>1</sup> Alternative No. 3: 20 percent of gross Federal tax liability.  
Alternative No. 4: 80 percent up to \$250,000 net taxable estate; 20 percent over \$250,000.  
Alternative No. 5: 80 percent up to \$150,000 net taxable estate; 20 percent over \$150,000.

year's returns and are therefore influenced by the distribution of large estates in that year.

For example, Connecticut and Michigan chanced to have an unusual number of large returns in 1959. For that reason, a 2-bracket schedule, as compared with a uniform schedule, would have affected them relatively more than the other States in that year.

### *Statutory format of the tax credit*

In the foregoing discussion the several alternatives available for revising the tax credit were described and characterized primarily in terms of their relationship to Federal tax liabilities. Alternative No. 3, for example, would provide a tax credit equal to a constant percentage of Federal tax liability under the current Internal Revenue Code. A description in these terms serves the essential purpose of making clear the manner in which the new credit would divide the yield of the Federal estate tax between the National Government and the States. The statutory formulation of the tax credit can follow a similar pattern, but it need not necessarily do so. In this section we examine the considerations involved. Historically, the first two statutory formulations of the estate tax credit were in terms of Federal tax liability. Under the 1924 Revenue Act, the credit was limited to 25 percent of Federal tax liability; under the 1926 act to 80 percent. In 1954, however, this statutory formulation was abandoned by the enactment of Section 2011 of the Revenue Code which provides a bracket schedule for computation of the credit.

The severance of the statutory formulation of the credit for State taxes from the Federal tax liability has two important advantages. It contributes to the financial independence of the States and the stability of their revenues by freeing the tax credit, which serves as a floor under State taxes, from the automatic influences of changes in Federal tax rates and exemptions. Under the 1924 and 1926 statutory formulations, changes in Federal rates and exemptions would have automatically affected the tax structures of each of the States. This was avoided in 1932 and subsequent Federal tax rate revision only through the cumbersome device of enacting two different rate structures, one



*Statutory Formulation of Maximum Credit for State Death Taxes Under  
Alternative No. 4<sup>1</sup>*

Taxable estate equaling—  (1)	Taxable estate not exceeding—  (2)	Credit on amount in column (1)  (3)	Rate of credit on excess over amount in column (1)  (4)
			<i>Percent</i>
.....	\$5, 000	.....	2.4
\$5, 000	10, 000	\$120	5.6
10, 000	20, 000	400	8.8
20, 000	30, 000	1, 280	11.2
30, 000	40, 000	2, 400	14.4
40, 000	50, 000	3, 840	17.6
50, 000	60, 000	5, 600	20.0
60, 000	100, 000	7, 600	22.4
100, 000	250, 000	16, 560	24.0
250, 000	500, 000	52, 560	6.4
500, 000	750, 000	68, 560	7.0
750, 000	1, 000, 000	86, 060	7.4
1, 000, 000	1, 250, 000	104, 560	7.8
1, 250, 000	1, 500, 000	124, 060	8.4
1, 500, 000	2, 000, 000	145, 060	9.0
2, 000, 000	2, 500, 000	190, 060	9.8
2, 500, 000	3, 000, 000	239, 060	10.6
3, 000, 000	3, 500, 000	292, 060	11.2
3, 500, 000	4, 000, 000	348, 060	11.8
4, 000, 000	5, 000, 000	407, 060	12.6
5, 000, 000	6, 000, 000	533, 060	13.4
6, 000, 000	7, 000, 000	667, 060	14.0
7, 000, 000	8, 000, 000	807, 060	14.6
8, 000, 000	10, 000, 000	953, 060	15.2
10, 000, 000	.....	1, 257, 060	15.4

<sup>1</sup> The percentages shown in Column (4) are exact equivalents of Alternative No. 4. The statutory formulation of that alternative could and probably would be simplified by reducing the number of brackets and avoiding decimals.

for purposes of the credit (the basic tax), the other for purposes of Federal taxation (the additional tax).

Secondly, a formulation of the tax credit in terms of Federal tax liability deprives the National Government of some freedom of tax action. In considering proposals for revising tax rates and exemptions, it makes it necessary to evaluate, in addition to the usual factors involved in tax rate changes, the effect of Federal revision on State revenues. This suggests that the legislative formulation of any new State tax credit should be divorced from Federal estate tax liabilities and expressed in terms of its own rate structure.

The above tax credit schedule which incorporates the two-step credit designated as Alternative No. 4 illustrates the construction of an independent statutory formulation. It would

not materially affect the task of computing the credit but would free the States' death taxes from the repercussions of changes in Federal rates and exemptions and would preserve the National Government's freedom to alter its estate tax rates and exemptions as dictated by national policy considerations alone.

### *Conserving tax revenues*

At several stages of this exposition it has been emphasized that an increase in the Federal credit for State taxes would not automatically increase State revenues; that unless States increased their tax rates to parallel the increase in the Federal credit the resulting reduction in Federal collections would substantially exceed increases in State collections.

A higher tax credit would not automatically increase State collections because presently imposed State taxes substantially exceed the present credit in most cases. They average about two and one-half times the present credit. In some States the ratio is much higher, especially for the lower and middle brackets. In consequence, most estates already possess receipts for State death taxes left unused by the present credit which could be applied against additions to the tax credit. It is for this reason that, in general, the immediate effect of an increase in the Federal credit, especially in the lower brackets, would be Federal tax reduction, not increased State collections. There would be exceptions, to be sure, depending upon the level of State taxes, the size of the estate, and in inheritance tax States, the manner in which the estate is distributed among the heirs.

Theoretically, States would be free to raise their tax rate levels to parallel additions to the Federal tax credit, to capture the revenue equivalents of the added tax credit for their treasuries. When a State's tax is less than the credit, it can "pick-up" the margin secure in the knowledge that this adds nothing to the tax burden of its taxpayers; it merely diverts revenue which otherwise would go to the National Treasury. The situation is reversed, however, when the State's tax exceeds the credit before the latter is raised. The initial effect of the higher tax credit is Federal tax reduction and the State which raises its rates to absorb all or part of the new credit is in effect depriving its taxpayers of that reduction. This is a compelling

# INITIAL EFFECT OF INCREASING FEDERAL TAX CREDIT FOR STATE DEATH TAXES

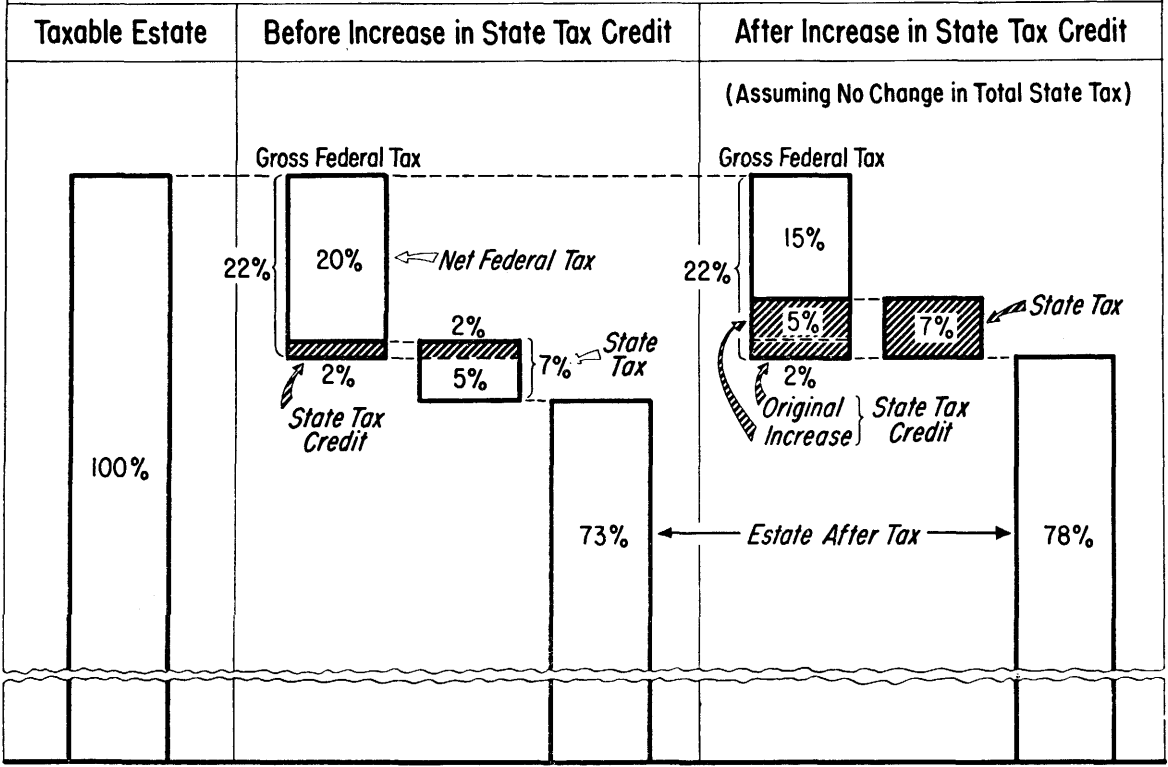


FIGURE 17

consideration against State tax increases from the viewpoint of legislators and executives sensitive to interstate competition for well-to-do residents. The manner in which a State would respond to an increase in the credit would doubtless be influenced in some measure by the prevailing budgetary climate. If the State is under no immediate pressure for additional revenue to finance urgent needs, the higher Federal credit is more likely to go by default into tax reduction than if the State is confronted with a fiscal crisis. On balance, it is unlikely that the Federal revenue cost of an increased tax credit would be substantially balanced by a corresponding revenue gain for the States through voluntary State action. This generalization has particular validity with respect to those tax credit patterns which place heavy reliance on the lower tax brackets (especially Alternatives 4 and 5) because legislators are particularly loath to arouse apprehension about taxing "the small family nest egg." The general public is unfamiliar with the operations of the tax credit and few would understand that the purpose of the State tax rate adjustment is to divert Federal revenues to the State, not to increase the tax burden.

Our views on the need to exclude questions of tax reduction from consideration of inheritance and estate tax coordination have already been set forth (Chapter 1). Our mandate is to advance the coordination of overlapping taxes. A debate on the pros and cons of tax reduction would only divert attention from this objective. It is imperative, therefore, that revision of the tax credit leave the aggregate contribution of death taxes to governmental revenues unimpaired.

Although most States already had inheritance taxes when the tax credit was originally enacted, the conservation of revenues posed no similar problem at that time. The administration was then embarked on a program of Federal tax reduction and recognized that the tax credit was an instrument for accomplishing it. The States wanting to make use of death taxation were in process of being thwarted by a few of their number who were bidding for wealthy residents by offering them freedom from State inheritance taxation. The introduction of the tax credit filled two needs: it accomplished Federal tax reduction and served as a barrier against interstate tax com-

petition. The need today is to increase the estate tax credit without tax reduction.

If it is desired to make certain that the amounts involved in an increase in the Federal tax credit are conserved for the States, eligibility for the credit will have to be made conditional upon the enactment of corresponding tax adjustments by the States; the Federal legislation will have to limit the additional credit to taxpayers in States which meet this condition.

The credit for employer contributions to State unemployment funds allowed under the Federal Unemployment Tax Act (Chapter 23 of the Internal Revenue Code of 1954) illustrates the manner in which Federal credits for State taxes can be made conditional upon conformity with the requirements of public policy, including State compliance with prescribed standards. Another parallel can be found in the Joint Federal-State Action Committee's recent recommendation that the National Government relinquish to the States a part of its tax on local telephone service. That proposal limited taxpayers' eligibility to the tax credit to those in States which made corresponding increases in their taxes on local telephone service and retained them for five years. The Action Committee included this requirement in its recommendation at the instance of its Governor members who foresaw obstacles to their making effective use of the telephone tax area vacated by the National Government without it. A number of State inheritance tax administrators consulted in the course of this study urged, and for the same reason, that any increase in the Federal tax credit be made conditional upon corresponding increases in State taxes.

The adjustment of State taxes to match the increases in the Federal credit would pose technical problems for the States, more troublesome for some than others. In the few States where the present death tax is substantially limited to the present credit, the "pick-up" taxes already on the statute books would accomplish the prescribed result, possibly with only minor legislative revision. In most States, however, the problem is more complex. A number could possibly meet the requirement by enacting an additional "pick-up" tax, equal to the excess of the new credit over the old credit. Where this is possible, it

would obviate the need for changing tax rates. It would, however, necessitate the computation of the two separate “pick-up” taxes—the old and the new. The complexity which this would entail for taxpayers, tax practitioners, and tax administrators would depend on the particular features of each State’s tax structure. The computation of two separate “pick-up” taxes would be particularly troublesome in States where the determination of State tax liabilities is already involved as a result of the interdependence of the amount of deductions allowed under State laws for Federal taxes, on the one hand, and the amount of deductions allowed under Federal law on the other. In some situations, the addition of another “pick-up” tax computation would render an already overly complex tax calculation well-nigh unmanageable.

A substantial number of the States could probably satisfy the statutory requirement only by revising their tax rate structure. This would pose technical difficulties, particularly in States with inheritance taxes. In the absence of a consistent parity between Federal estate and State inheritance tax liabilities, it is technically not possible to increase State tax rates to match increases in the Federal tax credit estate by estate, without overdoing it for some and underdoing it for other taxpayers.

State legislators can be expected to resist tax rate adjustments which would increase the combined State and Federal tax liabilities of some of their constituents. We hasten to add, however, that there is no compelling need for insisting on equivalents between the increase in the Federal credit and the increase in State taxes, estate by estate. To conserve the tax revenues, it would be necessary only that each State match the aggregate amount of the increased Federal tax credits with an increase in aggregate State death tax liabilities. To the extent possible, States would probably want to match credit and tax increases, estate by estate, to minimize changes in combined State and national tax burdens. However, a failure to do so would have less serious consequences in the case of death taxes than with respect to income, property or other annual taxes. Transfers of property from one generation to the next are typically taxed only once and taxpayers are less sensitive to change in their rates than to changes in annual taxes.

We conclude therefore that if a higher Federal credit for State death taxes is enacted, its availability to taxpayers in the individual States would have to await certification by the Governor (presumably to the Secretary of the Treasury) that the estimated annual level of his State's death taxes has been raised in an amount corresponding to the aggregate increase in tax credits on Federal returns filed from his State. The manner in which this is accomplished should be left for individual State determination. This would require each State to decide, in the light of local circumstances, whether to attain this objective (1) through enacting an additional "pick-up" tax with the attendant complexity for its residents, tax practitioners, and administrators, or (2) by tax rate revision. Such exercise of political responsibility is an essential ingredient of vital State government but may not be compatible with interstate tax uniformity.

### *Gift taxes*

The foregoing discussion of the tax credit has been limited to the death taxes, but as noted in Part I above, the gift tax is an essential complement of the Federal estate tax. It safeguards the estate tax against avoidance through the distribution of property by inter vivos gifts. At the same time, however, it encourages such distributions by taxing gifts more favorably than estates.

Since the gift tax influences the manner in which properties are passed from one generation to the next, it necessarily affects State revenues. The distribution of property during life automatically removes that property from State taxation at the time of its owner's death. This relationship necessitates consideration of gift taxes in any plan for the coordination of inheritance and estate taxes.

Proposals for liberalizing the credit for State death taxes are frequently coupled with proposals for a Federal credit for gift taxes paid to States. Proponents of a gift tax credit reason that gift tax revenues would compensate the States for some of their loss of death tax revenues resulting from the encouragement provided distributions of property during life by the Federal gift tax. Some who regard the preferential treatment of

gifts under the Federal tax system to be excessive see in the gift tax credit an instrument for stimulating the imposition of State gift taxes which would improve the balance between death and gift tax rates.

A Federal credit for gift taxes paid to the States would indeed encourage the enactment of State gift taxes. It would make them almost mandatory, for the States would be free to impose gift taxes secure in the knowledge that so long as they limited them to the tax credit, they would be availing themselves of this revenue without adding in any way to the tax burden of their own residents. Inevitably, still another area of universal tax overlapping would be created. To date 12 States have gift taxes; a gift tax credit would add to the list just as quickly as States could process the legislation.

The Commission recognizes the State's claim to gift tax revenues. For most States, however, gift taxes would produce only small amounts of revenue, totally out of proportion to what it would cost to provide effective administration. Appendix Table W indicates that in 1960 the aggregate yield of the 12 States' gift taxes was only \$8 million; in earlier years even less. Only two States' annual collections reached \$1 million. Under these circumstances a tax credit, with the universal tax overlapping it would produce, does not appear to be indicated. The State's claim for revenues on account of gift taxes could equally well be recognized by fixing the level of the new tax credit for State death taxes somewhat higher than required by death tax considerations alone, with the avowed purpose of compensating the States for gift tax revenues.



## Chapter 6

### OTHER COORDINATION DEVICES

In the preceding section we examined alternative ways of revising the Federal tax credit—the existing instrument for coordinating State and Federal death taxes. As indicated in our *Statement of the Problem*, however, we cannot limit our examination to the confines of existing institutions. We deem it necessary to examine all principal possibilities for rearranging Federal-State death tax relations for only in that way can the alternatives be appraised in terms of long range requirements. We seek a lasting solution because intergovernmental tax arrangements are not readily changed. The present arrangement has survived for 35 years and we would hope that the next can match its longevity. We turn now to these other coordination possibilities.

#### *Separation of revenue sources*

In approaching the task of coordinating State and Federal death taxes to minimize the economic and social costs of tax overlapping, this Commission accepts as its point of departure the finding of the Kestnbaum Commission that while “complete separation (of State and Federal tax sources) is not practical at this time” there is merit in reducing existing tax overlapping to the extent possible. Additional revenue separation would be desirable and in the long run should be possible. This Federal system functioned under separation of revenue sources during most of its first century of existence and that period is still remembered by many students of this Federal system with nostalgia.

On abstract considerations alone, the inheritance and estate taxes would appear to be logical contenders for this remedy.

Their relatively small revenue contribution (less than 2 percent of the total) hardly warrants duplicate tax administrations, especially in view of the paucity of tax enforcement resources at both the State and National level. The tax credit device, moreover, has failed to produce an integrated system of taxation, and separation has long been advocated by the professional organizations and spokesmen for the States. The National Committee on Inheritance Taxation urged it in 1925 as the permanent solution to follow a 6-year period of transition. It proposed the tax credit for temporary use only to facilitate more uniformity among State tax structures. The National Tax Association, composed of tax practitioners, tax administrators, and scholars opposed early attempts to inaugurate a Federal estate tax, both in peacetime (1909) and in war (1916) and one of its committees has proposed Federal withdrawal from the field at intervals since that time. The Joint Committee of the American Bar Association, the National Tax Association, and National Association of Tax Administrators, as well as the Tax Foundation and the Governors' conference have each, at one time or another, recommended that this area of taxation be relinquished for the exclusive use of the States. (A chronology of Federal-State death tax developments will be found in Appendix A.)

At least three arguments can be mustered in support of exclusive State taxation on property transfers at death:

- a. The States were first to develop this tax area and have a proprietary interest in it;
- b. The transfer of property from the deceased to his heirs is a privilege controlled by State law and in the absence of an heir the property reverts to the State; and
- c. The States have lesser financial resources and relatively more need for tax revenues than the National Government.

Arguments against Federal withdrawal from this tax area, however, are not wanting. They are briefly these:

- a. Taxpayers have a strong propensity for migrating out from under high State death taxes. If the protective umbrella of the Federal tax were removed, interstate competition would quickly dissipate the yield of these taxes;
- b. Although large estates are generally the product of economic activity conducted on a national scale, they are highly

concentrated in the few more highly industrialized States. Federal taxation prevents an unfair concentration of the yield of death taxes in a relatively few States;

c. Exclusive State taxation would increase multiple taxation and interstate jurisdictional conflicts;

d. Estate tax revenues are unstable, depending upon the fortuitous factor when a wealthy resident dies, and States are ill-equipped to absorb these revenue fluctuations; and

e. State death tax administration is frequently divided between legal and lay authority and between State and local responsibility with the result that its quality is not uniformly good.

These considerations tend to tip the balance of the argument in favor of National rather than State taxation of estates. But this is not the answer sought by most spokesmen for separation. Their aim is exclusive State taxation. State governments, in any case, are in the field and some have occupied it for over a century. Their interest in at least joint occupancy of this tax area is strong and the institution of a tax credit, if not fully successful, is thoroughly established. We are thus confronted with a troublesome dilemma. On logical grounds there is little to justify universal tax overlapping in an area which produces less than 2 percent of tax revenues and at the same time requires very exacting tax administration. Were the problem being posed anew, without the background of over a century of precedent and three decades of disregard of the States' grievance, the decision would probably be revenue separation with national taxation. Under prevailing circumstances, however, a coordination arrangement which gives at least partial recognition to both groups of contenders, the States and the Federal Government, appears to possess a priority claim, at least as the first step, on grounds of usage and custom, if not economy and efficiency. This was the remedy selected when this issue was last confronted in the 1920's. We are agreed that another concerted effort should be made to revitalize it. This would not foreclose a reexamination of the question at some future time when the States' "appropriate share" of these revenues has been reestablished and some tangible progress in Federal-State fiscal coordination has succeeded in placing this issue into better perspective.

Our investigations have embraced a special form of revenue separation (division of the death tax area), one which would leave both the National and State governments in the field. It would divide it among them on the basis of size of estates, giving the States exclusive tax jurisdiction over the low and medium level tax brackets and the National Government over the higher brackets.

The point of division or separation could be fixed at any level, depending upon the revenue objective. At estimated fiscal year 1961 estate levels, a separation at the \$150,000 taxable bracket level, for example, would aggregate about \$500 million of Federal revenue, as compared with the \$195 million cost of the present credit. This includes not only estates below the designated bracket level, but the corresponding brackets of larger estates as well.

The rationale of dividing the death tax area on the basis of size of estates is that the States obtain a large part of their revenue from small and medium size estates, while the Federal Government obtains most of its revenue from the larger estates. A division along these lines would reduce sharply the number of Federal estate tax returns, an attractive advantage. If the Federal tax, for example, applied only to estates with a taxable value (after deductions and exemptions) of over \$150,000, the number of tax returns would be reduced by about 85 percent. Taxpayers' and tax practitioners' burdens would be eased since smaller estates would be subject to State taxes only. States would be left with exclusive responsibility in the area where interstate competition does not threaten their revenues. Estates above the separation point could be left to exclusive Federal administration with appropriate arrangements to earmark for the States the taxes attributable to the lower brackets (up to the point of separation).

The division of the death tax area between the States and the National Government on the basis of size of estate could be implemented either by a Federal exemption or a tax credit. An increase of the present \$60,000 exemption to \$150,000, for example, would automatically release estates below this size for exclusive State taxation. It would have to be accompanied by

a supplementary arrangement such as revenue sharing, to reserve for the States the taxes attributable to the first \$150,000 of the larger estates.

The exemption route to revenue separation, however, appears to have little appeal to at least some spokesmen for the States. They prefer Federal-State overlapping with a tax credit because it removes the level of State tax rates (within the credit) from the legislative arena and, more particularly, because property valuations, tax audits, and other operations incident to the collection of the Federal tax assist materially in the collection of State taxes. Admittedly, some State administrators prize the shelter afforded by the Federal tax umbrella more than others; some not at all.

Revenue separation on the basis of the size of estate could be accomplished also via the credit route, by providing a Federal credit for State taxes equal to 100 percent of the Federal tax liability on the tax brackets reserved for the States. The operation of a 100 percent credit on the first \$150,000 of every estate and zero credit thereafter (Alternative No. 6) compares as follows with the present credit:

Taxable estate	Gross Federal tax liabilities	Present credit	Credit under Alternative No. 6		
			Amount	Percent of gross Federal tax	Percent change over present credit
\$50,000.....	\$7,000	\$80	\$7,000	100.0	+8,650
\$100,000.....	20,700	560	20,700	100.0	+3,596
\$250,000.....	65,700	3,920	35,700	54.3	+811
\$500,000.....	145,700	12,400	35,700	24.5	+188
\$750,000.....	233,200	23,280	35,700	15.3	+53
\$1,000,000.....	325,700	36,560	35,700	11.0	-2
\$2,500,000.....	998,200	143,600	35,700	3.6	-75
\$5,000,000.....	2,468,200	398,320	35,700	1.4	-91
\$10,000,000.....	6,088,200	1,076,720	35,700	.6	-97

One weakness of Alternative No. 6 is the 100 percent tax credit. Some spokesmen for the States are apprehensive and understandably so, that if the tax credit discharged all Federal tax liabilities, the Internal Revenue Service would have no incentive to concern itself with "credit only" returns. They recog-

nize that limited enforcement resources exert a persistent and pervasive pressure on the Revenue Service to deploy its resources on tax returns which are likely to maximize revenues. These objections, however, are not compelling for the credit could be fixed just short of 100 percent, say at 90 percent, which would help to remove also the constitutional question whether the tax is being imposed for revenue purposes. Alternatively, the States could reimburse the Internal Revenue Service for the costs of administering "credit only" tax returns.

Admittedly both methods for dividing the death tax area between the States and the National Government have shortcomings. The exemption route would deprive the States of the enforcement aid and protection afforded them by the Federal estate tax and its administration which some State tax administrators value highly. The tax credit route would tend to produce some of the same result except to the extent that reimbursement overcame the Internal Revenue Service's lack of incentive to enforce the filing of correct tax returns. Perhaps the most important arguments against dividing the cloth between the States and the National Government is that it is too small for that purpose.

### *Revenue sharing*

If it were the primary objective of the rearrangement of Federal-State death tax relations to give the States a larger share of tax collections, this could be accomplished by sharing an "appropriate" portion of Federal collections with the States on the basis of an "appropriate" allocation formula. The sharing of collections from one or more taxes, while without significant precedent at the Federal level, has been and continues to be practiced on a substantial scale in the sharing of State tax collections with local governments.

The proposal that the Federal Government share with the States the revenue from some of its taxes has been advanced for various purposes, most recently in Congressional bills to provide financial aid for public education through sharing Federal income tax collections.

It would accomplish the objective of providing State governments with added revenue through Congressional action without awaiting conforming action by 50 State legislatures. It would, moreover, leave taxpayers unaffected since existing State taxes would not need to be disturbed so long as the revenue sharing supplemented rather than displaced the States' own death taxes.

The efficiency of revenue sharing in distributing financial aid to States is by the same token its principal weakness. It would separate responsibility for raising revenues from responsibility for expenditures. This consideration looms large in our minds because the strength of State governments will be no greater than the political responsibility they accept and bear. Moreover, since it is proposed as a supplement to present State death taxes, not as a replacement for them, it would contribute nothing to simplifying the tax structure and easing taxpayer compliance and tax collection burdens.

Revenue sharing arrangements are troublesome on practical grounds as well. The development of a consensus on a fair basis for allocating revenues among the States is a formidable undertaking. Proposals for revenue sharing are commonly coupled with the suggestion that the funds be distributed among the States on the basis of their immediate origin, i.e., State of collection. Since the estate tax base is heavily concentrated in the high income States, allocation on the basis of collections would provide only nominal aid to low income States where the need for additional revenue may be particularly pressing. It is unnecessary here to review the diverse considerations relevant to the allocation of revenues among the States to demonstrate that the debate surrounding that question is more likely to hinder than to speed a satisfactory resolution of the issues involved in the coordination of death taxes.

The scope of that debate is foreshadowed by the accompanying Table 15 which illustrates the importance of the basis of allocation for individual States. To facilitate comparisons, the alternatives are presented in terms of the distribution of a unit of \$100 million of estate tax collections among the States. The first column shows fiscal year 1960 collections from State imposed death taxes. The amounts the States are themselves able

TABLE 15.—Distribution of \$100 Million of Federal Estate Tax Collections in Proportion to: (1) State Collections in Fiscal Year 1960; (2) Federal Collections in Fiscal Year 1959; (3) Taxable Federal Estate Tax Returns Filed During Fiscal Year 1959; (4) Population as of July 1, 1959, and (5) Population Times the Ratio of National Per Capita Personal Income to State Per Capita Personal Income

[In thousands of dollars]

State	State collections (1)	Federal collections (2)	Taxable Federal returns (3)	Population July 1, 1959 (4)	Population times ratio (5)
Alabama.....	\$165	\$644	\$749	\$1,804	\$2,667
Alaska.....	13	5	18	108	101
Arizona.....	108	376	536	697	763
Arkansas.....	56	236	419	986	1,561
California.....	10,240	10,880	11,723	8,272	6,807
Colorado.....	1,449	1,089	962	950	952
Connecticut.....	3,962	3,047	2,122	1,365	1,039
Delaware.....	255	280	312	257	175
Florida.....	1,285	2,982	3,131	2,690	2,882
Georgia.....	230	1,194	1,173	2,169	2,943
Hawaii.....	137	306	172	338	338
Idaho.....	195	159	398	375	434
Illinois.....	5,313	6,747	7,583	5,767	4,456
Indiana.....	1,771	1,454	2,333	2,621	2,570
Iowa.....	1,708	937	2,860	1,587	1,632
Kansas.....	919	1,097	1,620	1,209	1,263
Kentucky.....	1,242	918	1,108	1,766	2,320
Louisiana.....	1,686	880	1,165	1,789	2,390
Maine.....	756	435	538	536	636
Maryland <sup>1</sup> .....	1,865	2,860	2,286	2,187	1,820
Massachusetts.....	4,809	4,022	3,225	2,798	2,443
Michigan.....	2,839	4,396	2,827	4,498	4,031
Minnesota.....	1,661	1,279	1,984	1,921	2,018
Mississippi.....	156	468	533	1,235	2,167
Missouri.....	1,263	2,155	2,270	2,398	2,338
Montana.....	416	295	515	388	399
Nebraska.....	438	738	1,472	823	825
Nevada.....	( <sup>2</sup> )	235	148	158	118
New Hampshire.....	490	305	559	335	342
New Jersey.....	4,829	5,150	4,182	3,351	2,693
New Mexico.....	158	152	286	497	601
New York.....	16,771	16,593	12,141	9,321	7,075
North Carolina.....	1,483	989	1,342	2,560	3,553
North Dakota.....	179	75	260	363	478
Ohio.....	4,072	5,545	5,125	5,481	4,825
Oklahoma.....	1,347	809	1,022	1,286	1,504
Oregon.....	1,003	611	809	998	943
Pennsylvania.....	11,972	7,292	6,285	6,398	5,886
Rhode Island.....	879	1,087	556	494	456
South Carolina.....	374	557	609	1,366	2,088
South Dakota.....	241	92	406	388	535
Tennessee.....	1,075	699	986	1,978	2,706
Texas.....	2,693	5,136	4,574	5,376	5,798
Utah.....	238	174	250	497	561
Vermont.....	172	181	211	210	254
Virginia.....	1,141	1,096	1,526	2,256	2,504
Washington.....	2,089	1,466	1,771	1,595	1,452
West Virginia.....	569	539	512	1,110	1,316
Wisconsin.....	3,203	1,170	2,221	2,266	2,162
Wyoming.....	81	167	187	180	180
Total.....	100,000	100,000	100,000	100,000	100,000

<sup>1</sup> Includes District of Columbia.

<sup>2</sup> No State tax.

NOTE: Due to rounding detail will not necessarily add to totals. State collections adjusted to allow for amounts retained by local tax administration.

Source: Population, personal income and State collections, Bureau of the Census; Federal data from Internal Revenue Service.



to collect are then compared respectively with distributions on four different bases: Federal collections (col. 2), number of taxable Federal returns (col. 3), population (col. 4), and population adjusted inversely to per capita personal income (col. 5).

The distribution of a share of the National Government's death tax collections among the States would not materially improve intergovernmental tax coordinations. To be sure, some additional funds would be shifted from the National to State treasuries. This might satisfy the States' claim for a larger share of death tax revenues. In most cases, however, the fiscal position of individual States would not be appreciably improved because the magnitudes involved would be small. The distribution in any event would disregard relative State and Federal revenue needs. Some funds would inevitably go to some States which could raise the amounts involved at least as readily as the National Government.

Efforts to tailor the State-by-State distribution to relative revenue needs would involve the tax coordination question in the whole range of issues entwined in the debate surrounding the role of equalization grants in Federal-State fiscal relations. While that issue cannot be deferred indefinitely, the small amounts involved in death taxation do not provide an auspicious battleground for it.

The foregoing has primary relevance for the scope of revenue sharing with respect to such additional portions of Federal estate tax revenues as it is desired to relinquish to the States. A somewhat different group of considerations is brought into play by the proposal to use revenue sharing to replace both the present credit and the States' own taxes in excess of the credit. This would substitute a single National tax for the present aggregation of Federal and State taxes. It suggests the postwar rental device employed by Canada. In that country a majority of the provinces agreed to vacate certain tax areas, including death duties, for a specified number of years in return for specified revenue distributions from the National Treasury. The arrangement, however, has not met with universal applause and is currently being reexamined.

In the case of death taxes, tax rental and revenue sharing arrangements pose a special problem because the States derive a

substantial amount of revenue from small estates not now subject to Federal tax. To compensate the States for surrendering this revenue, it would be necessary to place at their disposal Federal taxes collected from larger estates or from the reduction of the Federal exemption. A reduction from \$60,000 to \$25,000 or \$30,000 would approximate the present yield of State taxes below the Federal exemption. This would not be illogical if most States desired it. Some have urged it.

It must be recognized also that political attitudes toward the level of death taxation may vary among the States; some may want to tax estates more heavily than others. This circumstance alone poses no significant barrier to tax sharing, however, for the device of a State-determined supplement to the Federal tax could readily be administered in conjunction with the Federal tax. Such supplement, however, could allow for no interstate variation with respect to the definition of taxable property. It would have to be limited to State supplements expressed as a specified percentage of Federal tax liability.

Tax rental concepts and State tax supplements have had little consideration in the United States and we cannot foretell how they would be received. Some States would probably elect to vacate the death tax area in return for an "adequate" revenue share. Some may value their right to shape their own death taxes "above any price." A consensus among the States is devoutly to be wished but not readily realized, especially now when some feel aggrieved.

Tax rental arrangements offer one route to the elimination of tax overlapping and this would serve the objectives of simplicity, efficiency, and national economic policy. The obstacles in its path are many, including more than a century of independent State taxation and some highly prized institutional values. It would, moreover, involve separation of responsibility for spending public funds from the political responsibility for raising them. Whether the disadvantage would be outweighed by the elimination of tax overlapping is a value judgment. Clearly, however, if revenue separation and revenue sharing arrangements have any scope at all, it is within the context of a broad coordination program in which gains and losses are reasonably balanced and constituent governments are afforded the opportunity to exercise their respective value judgments.

## Part III



## *Appendix A*

### CHRONOLOGY OF FEDERAL-STATE DEATH TAX DEVELOPMENTS

- 1902 Wartime (1898) Federal inheritance tax is repealed.
- 1906 President Theodore Roosevelt recommends a Federal inheritance tax.
- 1907 National Tax Association recommends that inheritance taxes be reserved for exclusive use of the States.
- 1910 International Tax Association develops Model Inheritance Tax Law.
- 1912 The Progressive Party endorses a Federal death tax with distribution of part of its proceeds to the States.
- 1916 Federal estate tax is enacted.
- 1919 President Wilson advises Congress that the estate tax should be retained as a permanent feature of the Federal fiscal system but its relationship to State fiscal systems reconsidered.
- 1920 National Tax Association requests repeal of Federal estate tax.
- 1924 Federal estate tax rates are increased, with provision for a tax credit for taxes paid to States limited to 25 percent of Federal liability.
- 1924 President Coolidge proposes a National conference of tax officials to consider overlapping taxes.
- 1925 National Tax Association organizes National Conference on Estate and Inheritance Taxation which develops recommendations for coordinating State and Federal death taxes and develops Model Succession Tax and Estate Tax Laws.
- 1926 Federal estate tax exemption is increased, rates reduced, and credit for State taxes increases to 80 percent.
- 1932 Federal estate tax exemption is reduced and rates increased by the imposition of an additional estate tax against which credit for State taxes is not allowed. (Similar additional increases were enacted in 1934, 1935, 1940 and 1941.)
- 1932 Federal gift tax is enacted without credit for gift taxes paid to States.
- 1935 New York State Commission for Revision of the Tax Laws proposes a graduated Federal tax credit.
- 1935 Interstate Commission on Conflicting Taxation of the Council of State Governments proposes a graduated Federal tax credit.
- 1941 National Industrial Conference Board proposes that States be authorized to add supplements to Federal estate tax.

- 1942 A special Committee on Federal, State and Local Government Fiscal Relations designated by the Secretary of the Treasury submits plan for revising, modernizing and broadening the Federal estate tax credit, including two-step graduation.
- 1946 United States Chamber of Commerce recommends repeal of Federal estate and gift taxes and their return to the States.
- 1947 Joint Committee of the American Bar Association, the National Tax Association and the National Association of Tax Administrators recommends that the Federal Government withdraw from death taxation.
- 1947 Joint Conference of Governors and Representatives of the Congress recommends more equitable distribution of tax revenues between the National Government and the States.
- 1947 Tax Committee of the Council of State Governments recommends a credit for State taxes against the additional Federal estate tax.
- 1948 National Association of Tax Administrators recommends increasing the scope of the estate tax credit.
- 1948 The Committee on Federal-State Relations of the Hoover Commission recommends revision of estate and gift taxes to increase the States' share of these revenues.
- 1949 Council of State Governments suggests to Hoover Commission that in the long run States might relinquish death taxes in exchange for National withdrawal from more widely and evenly distributed tax sources; that in the meanwhile, the estate tax credit should be revised and updated.
- 1950 National Association of Attorneys General requests a tax credit against the additional Federal estate tax.
- 1951 National Association of Tax Administrators recommends a  $33\frac{1}{3}$  percent tax credit against the additional Federal estate tax.
- 1952 Governors' Conference recommends integration of the two Federal estate taxes and an increased tax credit.
- 1952 A Treasury tax study prepared for the Subcommittee on Coordination of Federal, State, and Local Taxes of the Committee on Ways and Means recommends integration and simplification of the Federal dual estate tax structure as prerequisite to improved Federal-State tax coordination.
- 1954 National Tax Association's Committee recommends an increase in the Federal tax credit.
- 1955 Commission on Intergovernmental Relations (Kestnbaum) recommends that when further tax reduction is possible, the Congress give full consideration to the problems of tax overlapping.
- 1956 National Association of Tax Administrators recommends a 50 percent tax credit and that States be given a share of the gift tax.

- 1957 Joint Federal-State Action Committee (Governors and Federal officials) establishes a technical committee of experts to develop plans for coordinating inheritance and estate taxes.
- 1960 Joint Federal-State Action Committee recommends coordination of Federal and State death taxes for the attention of the newly created Advisory Commission on Intergovernmental Relations.
- 1960 Advisory Commission on Intergovernmental Relations undertakes study of State and Federal inheritance, estate, and gift taxation.

## Appendix B

### NOTE ON STATISTICAL SOURCES AND THEIR LIMITATIONS

This analysis of intergovernmental relations in inheritance, estate, and gift taxation utilizes data obtained from a variety of sources. This note identifies these sources and explains the limitations of the data to assist readers in interpreting them.

*State tax collections.* State death and gift tax collections are compiled annually by the Bureau of the Census, Governments Division, and published in the serial *State Tax Collections*. The breakdown between death (inheritance and estate) and gift taxes appears in the Bureau of the Census serial *Detail of State Tax Collections*. These data exclude locally retained collections in those States where State imposed death taxes are locally administered and parts of collections are retained there. The amount of local death tax collections was estimated partly on the basis of statutory provisions and partly on the basis of the tax collections of local jurisdictions reported in the *1957 Census of Governments* and in the *Compendium of City Government Finances*. Death tax revenues are retained by local jurisdictions in 10 States and are particularly significant in 3. In Nebraska all inheritance tax collections are retained by the counties; the State receives only the "pick-up" tax. In North Dakota the counties retain 65 percent. In Ohio, municipalities and townships retain 50 percent. The provisions applicable in the seven other States are noted in the footnotes to Appendix Table L. Data for the District of Columbia, included with local collections, were supplied by the District's Finance Office.

*Federal tax collections.* The *Annual Report* of the Commissioner of Internal Revenue reports estate and gift tax collections by Collection Districts and States. The State-by-State breakdown is on the basis of the Collection District in which the return is filed, which generally corresponds to the domicile of the decedent. Since Federal estate tax returns cover the decedent's total property, wherever located, the aggregates for any one State may and generally do include property in other States. Similarly, credits claimed on Federal returns filed in any one State may represent taxes paid to other States. This is of particular importance with respect to real estate which for inheritance and estate tax purposes is taxable in the State in which it has situs without regard to the domicile of the decedent. Recent data on out-of-State real estate reported on Federal estate tax returns are not available. Data from 1940 returns are shown in Appendix Table U. In 1940, out-of-State real estate represented about 9 percent of all real



estate reported on Federal estate tax returns. Since that time absentee ownership of real estate, particularly in minerals and oil properties, has doubtless increased.

Federal tax collections, as reported by the Commissioner of Internal Revenue, are gross before adjustment for refunds. The amount of estate and gift tax refunds are not available by Collection Districts. In the aggregate, refunds represent about 2 percent of gross collections. Statistics on aggregate Federal estate and gift tax collections used in this report are net after refunds.

*Federal revenue estimates.* Estimates of the probable effect of alternative revisions in the tax credit on Federal tax collections were in part supplied by the Tax Analysis Staff of the Treasury Department, and in part were prepared by the Commission's staff on the basis of the special tax credit study described below.

*Federal estate tax liabilities and credits.* *Statistics of Income*, compiled by the Statistics Division of the Internal Revenue Service, reports Federal estate tax liabilities and credits by States. The most recent tabulation (*Statistics of Income, 1958*) made available in advance of publication for purposes of this study, covers estate tax returns filed in 1959. Similar compilations are available for prior years except for 1952, 1953, 1955, and 1958. Returns filed in those years were not tabulated.

*Statistics of Income* are compiled from unaudited Federal estate tax returns on 100 percent basis (not from a sample). Since audit frequently increases tax liability, these data understate the amount of Federal credits claimed for taxes paid to States. This should be kept in mind in comparing tax credits with State tax collections. Information on increases in Federal tax liabilities and tax credits resulting from audits is incomplete. Aggregate tax liabilities shown on original tax returns are believed generally to be increased about 10 to 15 percent through audit. This typically results in more than a proportional increase in the amount of the tax credit. While increases in tax liability due to audit are generally relatively larger for small than for large estate tax returns, the credit bears a higher ratio to tax liabilities as the size of the taxable estate and the amount of tax liability increase.

In comparing the amount of tax credits with State collections two additional factors should be kept in view. States generally tax a large number of estates which are exempt from Federal tax. In these cases the tax credit does not come into play. The other factor is a difference in the reporting period. Statistics on credits claimed on Federal returns are tabulated on the basis of the year in which Federal returns are filed. Federal law allows executors 15 months following the date of death to file estate tax returns. The extent to which executors avail themselves of all or part of this period of grace depends on individual circumstances. Statistics on State collections are for fiscal years and it is not possible to generalize about the relative timing of the filing of the Federal returns and payment

of State taxes. Tax settlements frequently extend over a year or more with partial payment at time of filing and final payment at the time of final tax settlement. Adjustments in Federal liabilities generally imply corresponding adjustments in State liabilities. To minimize the distorting effect of difference in timing between State collections and the filing of Federal returns, comparisons used in the study are based on aggregates for the 7 of the past 11 years for which data from Federal returns are available.

The aggregate for seven years minimizes also the distorting effect of year-to-year fluctuations in estate tax returns. The importance of this factor is illustrated by a comparison of aggregates for the two most recent *Statistics of Income* years. The amount of credits claimed on Federal returns declined (for the first time in several years) from \$147 million for 1957 to \$131 million for 1959. This decline was due to the fact that there were four returns in excess of \$20 million each in 1957 but only one in 1959. In consequence, the amount of credits in this one size class alone declined from \$22.6 million to \$3.9 million. Moreover, the three States which accounted for the four \$20 million estate tax returns in 1957 had none of this size in 1959.

*Distribution of estates by size.* The information on the distribution of Federal estate tax returns by States and by size of the estate was obtained from a special tabulation of 1959 Federal estate tax returns prepared by the Internal Revenue Service, Statistics Division, for use in this study. One tabulation was prepared on size of gross estate basis; another on size of net estate (before specific exemption) basis. These tabulations show the number of returns filed, the gross and taxable estate, Federal tax liability before credits, and the tax credit for 20 separate size classes, by States. These size distributions provided the basis for calculating the effects of alternative credit methods on Federal and State tax liabilities.

*Comparative State inheritance and estate tax rates and tax burden data* (Appendix Tables E through G) were prepared by the Tax Analysis Staff of the Treasury Department on the basis of the Commerce Clearing House *Inheritance, Estate and Gift Tax Reporter*.

*Tax credit study.* A special study of the interrelationship of the Federal estate tax credit and State and Federal tax liabilities to determine the automatic effect of alternative credit methods on State and Federal tax liabilities was conducted jointly by the Treasury Department and the tax administrators of 30 States and the District of Columbia. The study was initiated under the auspices of the Joint Federal-State Action Committee in cooperation with the Committee on Intergovernmental Relations of the National Tax Association to assist in the consideration of proposals to increase the tax credit. It was completed under the auspices of this Commission.

The credit study was based on a representative sample of tax returns for decedents in 1956. This generally corresponds to returns filed during 1957. That year was selected in preference to more recent returns to in-

sure that the vast majority will have been audited and final tax liabilities established. Tax changes in audit are especially important for estate tax returns. Where appropriate, adjustments were made to allow for post-1956 changes in State tax rates and exemptions. The study was limited to tax returns with a net estate of \$60,000 or more before the Federal exemption. Estates below this amount are not subject to Federal tax. It included 100 percent of returns for gross estates of \$1 million or more and a sample of smaller tax returns. The proportion of \$60,000 to \$1 million returns included in the sample varied from 12½ percent to 100 percent, depending upon the number of Federal returns filed from the particular State. Generally, the States with fewer than 400 returns a year were covered on a 100 percent basis; those with large numbers of returns on a sample basis. In the aggregate, the sample included about 7,500 matched Federal and State estate tax returns from 30 States and the District of Columbia.

For purposes of the study the participating States were classified into two groups so as to make maximum use of data available from Federal tax returns and to minimize the task of the State tax administrations.

*Group 1* included the States in which the files of estate tax returns maintained in the District Offices of the Internal Revenue Service were so organized that the District Director could draw a random sample of Federal estate tax returns filed in 1957. In these cases the District Directors transcribed the required data from the Federal returns on forms especially developed for this purpose in those cases where the State elected to participate in the study. The forms containing the Federal tax information were then made available to the State tax administrations for further processing. This consisted of matching the Federal tax return involved with the State tax return for the same estate, transcribing the required State tax information and calculating the effect of alternative credit methods on State tax liabilities for each estate. To show the automatic effect of changes in the credit on State revenues, calculations were made on the basis of present State law.

*Group 2* included the States in which the local filing practice in the District Director's office made it impracticable to draw the sample from the files of Federal estate tax returns. In these cases the sample was drawn by the State administrations from the files of State tax returns in accordance with a prescribed sampling rate. Instructions and forms for this purpose were developed, printed and distributed by the Internal Revenue Service. (Copy attached.) The State sample was then made available to the District Director who entered the necessary data from the corresponding Federal estate tax file and returned the schedules to the State for final computation. Upon completion, all data sheets were shipped to the Statistics Division of the Internal Revenue Service for editing and processing.

Six States were not invited to participate in the study. Five of these (Alabama, Arizona, Arkansas, Florida, and Georgia) impose only "pick-up" taxes and the response of their revenues to changes in the tax credit can be estimated with reasonable dependability on the basis of Federal tax returns. The sixth (Nevada) does not impose a death tax.

The credit study provides information on the effective rates of State death taxes under the present and alternative credit methods for the participating States, by estate size brackets, and on the relations of these State tax liabilities to Federal tax liabilities and Federal credits, also by size classes. The results, however, were found to be inconclusive with respect to State aggregates because internal checks revealed that in some cases the sampling rules were not rigidly observed. In consequence, the aggregates were recomputed by applying the effective rates by size classes and States, obtained from the credit study, to a distribution of all Federal estate tax returns for 1959 by States, provided by the Internal Revenue Service, Statistics Division. The results obtained for 1959 were then raised to fiscal year 1961 levels in proportion to the Treasury's estimate of the increase in Federal tax liabilities.

It should be emphasized that the results obtained provide only an approximate measure of the automatic effect of revising the tax credit on the revenues of individual States because (1) the calculations are based on 1 year's tax returns in an area of taxation characterized by unpredictable year to year fluctuations and that 1 year chanced to be one with an unusually small number of very large estates particularly significant for the industrial States; and (2) the inflation of the results obtained to current revenue levels is based on a national aggregate from which individual States depart significantly. Despite these limitations, the results should meet the needs of the individual States for whose guidance they were prepared. The limitations stem largely from the irregularity of large estate tax returns and the administrators in the individual States familiar with their local situations are best able to adjust for it.

*Measures of revenue stability of credit methods.* Reference was made above to measures of the relative revenue stability of alternative credit methods. The calculation of these stability measures is contained in accompanying Tables 16 and 17. They pertain to Alternative No. 3, which would provide a credit equal to a uniform percentage of gross Federal estate tax liability (before present credits), and to Alternative No. 4, which would provide a two-step credit equal to 80 percent of the gross Federal tax liability on the first \$250,000 of the taxable estates and 20 percent of the tax liability on the balance of estates.

TABLE 16.—*State-by-State Comparison of Percentage Changes in the Amount of Tax Credits from 1957 to 1959 under Alternatives No. 3 and No. 4*

State	1957 to 1959 percentage change in amount of tax credits			
	Uniform credit (Alternative No. 3)		Two-step credit (Alternative No. 4)	
	Absolute change (percent)	Deviation from National average	Absolute change (percent)	Deviation from National average
Alabama.....	+14.3	15.0	+11.3	2.8
Arizona.....	+46.7	47.4	+55.5	47.0
Arkansas.....	-16.2	15.5	-9.8	18.3
California.....	-5.9	5.2	+7.3	1.2
Colorado.....	+0.7	1.4	+1.7	6.8
Connecticut.....	+8.4	9.1	+9.7	1.2
Delaware.....	-9.6	8.9	-0.2	8.7
District of Columbia.....	-6.5	5.8	+17.8	9.3
Florida.....	+33.4	34.1	+31.0	22.5
Georgia.....	+4.1	4.8	+19.6	11.1
Idaho.....	+81.8	82.5	+80.2	71.7
Illinois.....	+15.4	16.1	+17.5	9.0
Indiana.....	+5.7	6.4	+12.1	3.6
Iowa.....	+13.2	13.9	+17.0	8.5
Kansas.....	+87.2	87.9	+54.6	46.1
Kentucky.....	-39.1	38.4	-13.0	21.5
Louisiana.....	+13.9	14.6	+21.7	13.2
Maine.....	+15.0	15.7	+5.3	3.2
Maryland.....	-23.8	23.1	-8.8	17.3
Massachusetts.....	-12.6	11.9	-1.2	9.7
Michigan.....	+90.4	91.1	+40.6	32.1
Minnesota.....	+119.7	120.4	+68.3	59.8
Mississippi.....	+31.3	32.0	+20.1	11.6
Missouri.....	-2.1	1.4	+5.6	2.9
Montana.....	+72.2	72.9	+47.3	38.8
Nebraska.....	+5.5	6.2	+19.3	10.8
Nevada.....	-57.2	56.5	-42.1	50.6
New Hampshire.....	-32.3	31.6	-11.6	20.1
New Jersey.....	+43.6	44.3	+24.5	16.0
New Mexico.....	-0.2	0.6	+0.6	7.9
New York.....	-15.2	14.5	-3.4	11.9
North Carolina.....	+2.0	2.7	+11.0	2.5
North Dakota.....	-33.3	32.6	-22.0	30.5
Ohio.....	+21.5	22.2	+17.5	9.0
Oklahoma.....	+52.7	53.4	+32.7	24.2
Oregon.....	-0.2	0.9	+4.6	3.9
Pennsylvania.....	-39.0	38.3	-17.2	25.7
Rhode Island.....	-42.8	42.1	-22.7	31.2
South Carolina.....	-22.3	21.6	-15.6	24.1
South Dakota.....	-13.7	13.0	+6.1	2.4
Tennessee.....	+29.9	30.6	+25.3	16.8
Texas.....	+1.2	1.9	+18.6	10.1
Utah.....	+172.0	172.7	+116.7	108.2
Vermont.....	-12.0	11.3	-17.0	25.5
Virginia.....	-25.1	24.4	-2.5	11.0
Washington.....	+64.4	65.1	+57.0	48.5
West Virginia.....	+17.7	18.4	+6.5	2.0
Wisconsin.....	+5.8	6.5	+16.5	8.0
Wyoming.....	+68.7	69.4	+39.6	31.1
U.S. total.....	-0.7	-----	+8.5	-----
Arithmetic mean.....	-----	31.8	-----	20.6
Median.....	-----	18.4	-----	11.9

Source: Calculated on basis of Internal Revenue Service, special tabulations.

TABLE 17.—Array of States According to Deviations from National Average of the Percentage Changes in the Amount of Tax Credits from 1957 to 1959 under Alternatives No. 3 and No. 4

State	Alternative No. 3	State	Alternative No. 4
Utah.....	172.7	Utah.....	108.2
Minnesota.....	120.4	Idaho.....	71.7
Michigan.....	91.1	Minnesota.....	59.8
Kansas.....	87.9	Nevada.....	50.6
Idaho.....	82.5	Washington.....	48.5
Montana.....	72.9	Arizona.....	47.0
Wyoming.....	69.4	Kansas.....	46.1
Washington.....	65.1	Montana.....	38.8
Nevada.....	56.5	Michigan.....	32.1
Oklahoma.....	53.4	Rhode Island.....	31.2
Arizona.....	47.4	Wyoming.....	31.1
New Jersey.....	44.3	North Dakota.....	30.5
Rhode Island.....	42.1	Pennsylvania.....	25.7
Kentucky.....	38.4	Vermont.....	25.5
Pennsylvania.....	38.3	South Carolina.....	24.1
Florida.....	34.1	Oklahoma.....	24.2
North Dakota.....	32.6	Florida.....	22.5
Mississippi.....	32.0	Kentucky.....	21.5
New Hampshire.....	31.6	New Hampshire.....	20.1
Tennessee.....	30.6	Arkansas.....	18.3
Virginia.....	24.4	Maryland.....	17.3
Maryland.....	23.1	Tennessee.....	16.8
Ohio.....	23.2	New Jersey.....	16.0
South Carolina.....	22.2	Louisiana.....	13.2
West Virginia.....	21.6	New York.....	11.9
Illinois.....	18.4	Mississippi.....	11.6
Maine.....	16.1	Georgia.....	11.1
Arkansas.....	15.7	Virginia.....	11.0
Alabama.....	15.5	Nebraska.....	10.8
Louisiana.....	15.0	Texas.....	10.1
New York.....	14.6	Massachusetts.....	9.7
Iowa.....	14.5	District of Columbia.....	9.3
South Dakota.....	13.9	Illinois.....	9.0
Massachusetts.....	13.0	Ohio.....	9.0
Vermont.....	11.9	Delaware.....	8.7
Connecticut.....	11.3	Iowa.....	8.5
Delaware.....	9.1	Wisconsin.....	8.0
Wisconsin.....	8.9	New Mexico.....	7.9
Wisconsin.....	6.5	Colorado.....	6.8
Indiana.....	6.4	Oregon.....	3.9
Nebraska.....	6.2	Indiana.....	3.6
District of Columbia.....	5.8	Maine.....	3.2
California.....	5.2	Missouri.....	2.9
Georgia.....	4.8	Alabama.....	2.8
North Carolina.....	2.7	North Carolina.....	2.5
Texas.....	1.9	South Dakota.....	2.4
Colorado.....	1.4	West Virginia.....	2.0
Missouri.....	1.4	California.....	1.2
Oregon.....	.9	Connecticut.....	1.2
New Mexico.....	.5		

Source: Derived from Table 16.

The calculations are based on equal revenue aggregates under the two credit methods.

The average deviation of the 1957 to 1959 percentage changes in the tax credits of the individual States from the average percentage change for all States (and the District of Columbia) is 32 percent under the uniform tax credit (Alternative No. 3) but only 21 percent under the two-step tax credit (Alternative No. 4). The medians of the deviations are 18.4 percent and 11.9 percent, respectively. The superior stability of the two-step as compared with the uniform credit is demonstrated also by Table 17. Under the two-step tax credit the range of the 1957 to 1959 percentage changes covering half of the States was 18 percentage points (8.0%–25.7% as compared with a 33 percentage point range (8.9%–42.1%) under the uniform credit.



## **MANUAL SUPPLEMENT**

### Selecting and Transcribing of Estate Tax Returns for State Tax Offices

#### Section 1. Purpose

The purpose of this Manual Supplement is to provide procedures under which certain District Directors will supply information to the State Tax Offices and the Treasury Department, to be used in a study of estate tax credit methods.

#### Section 2. Authority

.01 Each Governor of a State taking part in this study will make a written request to the Commissioner of Internal Revenue for authority to use Federal estate tax return data. The data are not to be furnished until such authority has been granted.

.02 Authority has already been granted to Illinois, Ohio, and South Carolina to inspect Federal estate tax returns. The District Directors in these States will begin this project only after receiving request for the data from the State Tax Office.

#### Section 3. Background

.01 The Joint Federal-State Action Committee is considering ways and means of revising the Federal estate tax credit to increase the States' share of the revenue in this tax. Several credit methods are being studied by this Committee and by the Treasury Department to determine their effects upon both State and Federal revenues.

.02 The Treasury Department has assumed responsibility for making Federal data available for this study. A decision has been made to do this work with the personnel in the Collection Divisions of those District Offices whose files are maintained in the manner described in section 5.

.03 Work completed and manhours expended in the performance of this project should be charged to Operation 312, Appendix A to Publication No. 396 (8-57).

#### Section 4. Starting and Completion of Work

.01 District Office Collection Divisions will not begin this work unless and until they receive notice from the National Office that a State has authority to receive such data.

.02 The work will be begun and completed as soon as possible after receipt of such notice.

#### Section 5. Returns to be Selected

.01 Form 2695, "Estate Tax Return Listing and Sample Selection Sheet," will be used to list and select returns. All returns with gross estate of \$1,000,000 or more will be selected. Other returns will be sampled, the sample returns already being indicated on the selection sheet by check marks (✓).

.02 Select sample from estate tax returns filed for 1956 year of death, or listed during calendar year 1957, depending upon the way these returns are filed in the District Office.

.03 Make sure that sampling is from the complete file "A" through "Z", for whatever file is maintained by the District Office.

.04 General Method of Selection

- 1 If returns are filed by year of death (1956), or by listing year (1957), use file of returns.

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- 2 If returns are in a merged file for several years, and an index card file is available for listing year 1957, use the index card file to obtain names of taxpayers filing a taxable return.
- .05 1 Starting at the beginning of the file of returns, list on Form 2695 the account numbers of all taxable returns (numbered in the DT series).
- 2 The number of account numbers listed should be fairly close to the number of returns in the DT series as shown on the numbering records for calendar year 1957.
- 3 Prepare this listing in duplicate.
- .06 1 Examine every taxable return (Schedule O) for the amount of gross estate. If gross estate is \$1,000,000 or more, select the return for inclusion in the sample and identify this return by entering the letter "M" in column 5 of Form 2695, opposite the account number of the return.
- 2 "M" will be entered whether there is a check (✓) in the box or not.
- 3 All such returns are to be selected for the sample.
- .07 In addition, select for inclusion in the sample all other returns whose account numbers are opposite a box with a check (✓).
- .08 If any return is charged out, check Form 842 to see if original tax was in excess of \$200,000. If so enter "M" on Form 2695, locate return, and transcribe as set forth in section 6 below. If under \$200,000 and it is a selected return, enter in column 5, Form 2695 opposite account number, the letter "O." It is unnecessary to locate any of these latter returns.

Section 6. Transcribing Data to Form 2694, Estate Tax Credit for State Death Taxes

- .01 Form 2694 is to be used to post data from Forms 706 selected in the sample.
  - 1 Complete items 1 through 9.
  - 2 If a revenue agent's report is attached, use corrected figures for items 4 through 8; otherwise use figures shown on return as originally filed.
  - 3 If sample return is designated by letter "M" and is pending in audit and examination has not been completed, use figures as shown on return as originally filed.
  - 4 Prepare form in duplicate.

Section 7. Disposition of Forms 2694 and 2695

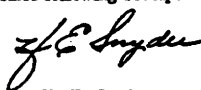
Original and duplicate copies of Form 2694 and original copies of Form 2695 are to be associated and forwarded to State Tax Office. Duplicate copies of Form 2695 are to be sent to the Statistics Division PR:S.

Section 8. Supplies

- .01 Each district office participating in this program will be furnished a supply of Forms 2694 and 2695 without requisition.
- .02 If additional supplies are needed, requisition from the National Office using Form 16.

Section 9. Effective Date

These procedures will be effective as soon as possible following receipt of notice of authority from the National Office.



H. E. Snyder  
Acting Director, Collection Division





ESTATE TAX CREDIT FOR STATE DEATH TAXES				DISTRICT OFFICE	
The following information is to be posted by the District Office of the Internal Revenue Service from the Estate Tax Return, Form 706.					
1. NAME OF DECEDENT		2. ACCOUNT NUMBER DT-		3. RESIDENCE (DOMICILE) AT TIME OF DEATH	
4. GROSS ESTATE TAX \$		5. CREDIT FOR STATE DEATH TAXES \$		6. NET ESTATE TAX PAYABLE \$	
7. TOTAL GROSS ESTATE \$		8. TAXABLE ESTATE (Total) \$		9. PENDING IN AUDIT <input type="checkbox"/> YES <input type="checkbox"/> NO	
The following information is to be posted by the State Tax Office from the State Tax Return:					
10. TAXABLE ESTATE (State) \$			11. STATE TAX ASSESSED AGAINST THIS ESTATE \$		
METHOD	PROPOSED FEDERAL CREDIT FOR STATE TAXES (See Method)  (a)	STATE TAX LIABILITY UNDER NEW CREDIT METHOD (Compute under State law)  (b)	REDUCTION IN FEDERAL TAX LIABILITY (Col. (a) minus item 5)  (c)	INCREASE IN STATE TAX LIABILITY (Col. (b) minus item 11)  (d)	NET CHANGE IN COMBINED TAX LIABILITIES (+ OR -) (Col. (d) minus col. (c))  (e)
12. Method 1: 200% of 1926 liability (Col. (a) equals 2 1/2 times item 5 above).					
13. Method 2: Present maximum credit plus 20% of net estate tax payable. (Col. (a) equals item 5 plus 20% of item 6).					
14. Method 3: 20% of gross estate tax. (Col. (a) equals 20% of item 4 above).					
15. Method 4: Net estate tax payable plus present credit maximum of \$145,700. (Col. (a) equals item 6 plus item 5, maximum \$145,700).					

# Appendix C

**TABLE A.—Federal and State Inheritance and Estate Tax Collections  
Fiscal Years 1949–1961**

[Dollar amounts in millions]

Fiscal year	Federal <sup>1</sup>	State	Total <sup>2</sup>	State as per cent of total
1949.....	\$720.0	\$172.7	\$892.7	19.3
1950.....	649.6	165.6	815.2	20.3
1951.....	617.2	190.2	807.4	23.6
1952.....	735.9	207.2	943.1	22.0
1953.....	775.0	217.6	992.6	21.9
1954.....	863.1	242.6	1,105.8	21.9
1955.....	837.0	243.7	1,080.7	22.6
1956.....	1,044.5	304.6	1,349.0	22.6
1957.....	1,240.8	330.2	1,571.0	21.0
1958.....	1,260.1	344.4	1,604.5	21.5
1959.....	1,216.5	340.9	1,557.4	21.9
1960.....	1,420.5	411.2	1,831.7	22.4
1961.....	<sup>3</sup> 1,700.0	( <sup>4</sup> )	( <sup>4</sup> )	( <sup>4</sup> )

<sup>1</sup> Net, after refunds. Collections for 1949–1953 on collections basis; since 1953, on basis of “Monthly State ment of Receipts and Expenditures of the U.S. Government.”

<sup>2</sup> Excludes District of Columbia and State imposed taxes retained by local jurisdictions aggregating \$16 million in 1958.

<sup>3</sup> Estimated.

<sup>4</sup> Not available.

NOTE: Due to rounding detail will not necessarily add to totals.

Source: U.S. Treasury Department; Bureau of the Census, Governments Division.

**TABLE B.—Federal and State Gift Tax Collections  
Fiscal Years 1949–1961**

[In millions of dollars]

Fiscal year	Federal <sup>1</sup>	State	Total	Fiscal year	Federal <sup>1</sup>	State	Total
1949.....	\$59.8	\$3.5	\$63.2	1956.....	\$116.5	\$5.8	\$122.3
1950.....	48.2	2.7	50.9	1957.....	124.0	7.3	131.3
1951.....	90.6	5.4	96.0	1958.....	132.8	6.5	139.4
1952.....	82.1	3.8	85.9	1959.....	116.4	6.8	123.2
1953.....	106.3	4.4	110.7	1960.....	185.6	8.0	193.6
1954.....	71.0	4.4	75.5	1961.....	<sup>3</sup> 175.0	( <sup>4</sup> )	( <sup>4</sup> )
1955.....	87.3	5.3	92.6				

<sup>1</sup> Net after refunds. Collections for 1949–1953 on collections basis; since 1953, on basis of “Monthly State ment of Receipts and Expenditures of the U.S. Government.”

<sup>2</sup> Estimated.

<sup>3</sup> Not available.

NOTE: Due to rounding detail will not necessarily add to totals.

Source: U.S. Treasury Department; Bureau of the Census, Governments Division.

TABLE C.—State Death and Gift Taxes—Dates of Adoption

DEATH TAXES				
Before 1900	1901-10	1911-20	1921-30	1931-40
California, Connecticut, Delaware, Illinois, Iowa, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Montana, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Tennessee, Vermont, Virginia, West Virginia; total, 23.	Arkansas, 1901; Colorado, 1901; Utah, 1901; Washington, 1901; North Dakota, 1903; Oregon, 1903; Wisconsin, 1903; Wyoming, 1903; South Dakota, 1905; (Hawaii), 1905; Kentucky, 1906; Idaho, 1907; Oklahoma, 1907; Texas, 1907; Kansas, 1909; total, 14+1.	Arizona, 1912; Georgia, 1913; Indiana, 1913; Rhode Island, 1916; Mississippi, 1918; New Mexico, 1919; (Alaska), 1919; total, 6+1.	Nebraska, 1921; South Carolina, 1922; total, 2.	Alabama, 1931; Florida, 1931; total, 2.
				Grand total, 49.
GIFT TAXES				
1931-40		1941-50		
Oregon, 1933; Wisconsin, 1933; Virginia, 1934; Minnesota, 1937; North Carolina, 1937; California, 1939; Tennessee, 1939; Colorado, 1939; Louisiana, 1940; total, 9.		Oklahoma, 1941; Washington, 1941; Rhode Island, 1942; total, 3.		
		Grand total, 12.		

TABLE D.—Federal Estate Tax Rates and Exemption under 1926 Act, and Federal Estate and Gift Tax Rates and Exemptions under Present Law

Tax bracket (thousands of dollars)		Estate tax				Gift tax	
		1926 Act		Present law		Present law	
Equaling (1)	Not exceeding (2)	Rate (percent)	Tax on amount in col. (2)	Rate (percent)	Tax on amount in col. (2)	Rate (percent)	Tax on amount in col. (2)
-----	5	1	\$50	3	\$150	2¼	\$112
5	10	1	100	7	500	5¼	375
10	20	1	200	11	1,600	8¼	1,200
20	30	1	300	14	3,000	10½	2,250
30	40	1	400	18	4,800	13½	3,600
40	50	1	500	22	7,000	16½	5,250
50	60	2	700	25	9,500	18¾	7,125
60	100	2	1,500	28	20,700	21	15,525
100	200	3	4,500	30	50,700	22½	38,025
200	250	4	6,500	30	65,700	22½	49,275
250	400	4	12,500	32	113,700	24	85,275
400	500	5	17,500	32	145,700	24	109,275
500	600	5	22,500	35	180,700	26¼	135,525
600	750	6	31,500	35	233,200	26¼	174,900
750	800	6	34,500	37	251,700	27¾	188,775
800	1,000	7	48,500	37	325,700	27¾	244,275
1,000	1,250	8	68,500	39	423,200	29¾	317,400
1,250	1,500	8	88,500	42	528,200	31½	396,150
1,500	2,000	9	133,500	45	753,200	33¾	564,900
2,000	2,500	10	183,500	49	998,200	36¾	748,650
2,500	3,000	11	238,500	53	1,263,200	39¾	947,400
3,000	3,500	12	298,500	56	1,543,200	42	1,157,400
3,500	4,000	12	363,500	59	1,838,200	44½	1,378,650
4,000	5,000	13	503,500	63	2,468,200	47½	1,851,150
5,000	6,000	15	653,500	67	3,138,200	50¼	2,353,650
6,000	7,000	16	813,500	70	3,838,200	52½	2,878,650
7,000	8,000	17	983,500	73	4,568,200	54¾	3,426,150
8,000	9,000	18	1,163,500	76	5,328,200	57	3,996,150
9,000	10,000	19	1,353,500	76	6,088,200	57	4,566,150
10,000	-----	20	-----	77	-----	57¾	-----
Specific exemption-----		\$100,000		\$60,000		\$30,000	

TABLE E.—State Estate Tax Rates and Exemptions,<sup>1</sup> July 1, 1960

State	Rates	Maximum rate applies above	Exemption
Alabama.....	80% of 1926 Federal rates.....	\$10,000,000	\$100,000
Arizona <sup>2</sup> .....	80% of 1926 Federal rates.....	10,000,000	100,000
Arkansas.....	80% of 1926 Federal rates.....	10,000,000	100,000
Florida.....	80% of 1926 Federal rates.....	10,000,000	100,000
Georgia.....	80% of 1926 Federal rates.....	10,000,000	100,000
Mississippi.....	80% of 1926 Federal rates.....	10,000,000	60,000
New York <sup>3</sup> .....	2-21%.....	10,100,000	( <sup>4</sup> )
North Dakota.....	2-23%.....	1,500,000	( <sup>4</sup> )
Oklahoma <sup>3</sup> .....	1-10%.....	10,000,000	15,000
Rhode Island <sup>2</sup> <sup>5</sup> .....	1%.....	( <sup>4</sup> )	10,000
Utah.....	3-10%.....	125,000	10,000

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<sup>1</sup> Excludes States shown in Table F which, in addition to their inheritance taxes, levy an estate tax to assure full absorption of the 80 percent Federal credit.

<sup>2</sup> An additional estate tax is imposed to assure full absorption of the 80 percent Federal credit.

<sup>3</sup> \$20,000 of transfers to spouse and \$5,000 to each lineal ascendant and descendant and to other specified relatives are exempt and deductible from first bracket.

<sup>4</sup> Exemption for spouse is \$20,000 or 50 percent of adjusted gross estate, for minor child \$5,000, for lineal ancestor or descendants, \$2,000.

<sup>5</sup> Entire estate above exemption.

Source: Compiled from Commerce Clearing House, *Inheritance, Estate and Gift Tax Reporter*.

TABLE F

## State Inheritance Tax Exemptions and Rates, for Selected Categories of Heirs, July 1, 1960

State <sup>1</sup>	Exemptions				Rates				In case of spouse		
	Widow	Minor child	Adult child	Brother or sister	Other than relative	Spouse or minor child	Adult child	Brother or sister	Other than relative	Size of first bracket	Level at which top rate applies
						Percent	Percent	Percent	Percent		
Alabama <sup>2</sup>	\$10,000	\$10,000	\$10,000	\$1,000	None	1-3.5	1-3.5	3-10.5	5-17.5	\$15,000	\$100,000
Alaska.....											
Arizona <sup>3</sup>											
Arkansas <sup>2</sup>											
California <sup>3</sup>	24,000	12,000	5,000	2,000	\$50	2-10	2-10	5-15	10-24	25,000	500,000
Colorado.....	20,000	10,000	10,000	2,000	\$ 500	2-8	2-8	3-10	7-16	50,000	500,000
Connecticut <sup>3</sup>	50,000	10,000	10,000	3,000	500	7 3-8	2-8	4-10	8-14	150,000	1,000,000
Delaware <sup>3</sup>	20,000	3,000	3,000	1,000	None	1-4	1-4	2-5	5-8	30,000	200,000
Dist. of Col. <sup>3</sup>	5,000	5,000	5,000	2,000	1,000	1-5	1-5	3-10	5-15	50,000	1,000,000
Florida <sup>2</sup>											
Georgia <sup>3</sup>											
Hawaii.....	20,000	5,000	5,000	500	500	7 2-6	1.5-7.5	3.5-9	3.5-9	15,000	250,000
Idaho <sup>4</sup>	10,000	10,000	4,000	1,000	None	2-15	2-15	4-20	8-30	25,000	500,000
Illinois.....	20,000	20,000	20,000	10,000	100	2-14	2-14	2-14	10-30	20,000	500,000
Indiana <sup>3</sup>	15,000	5,000	2,000	500	100	1-10	1-10	5-15	7-20	25,000	1,500,000
Iowa.....	40,000	15,000	15,000	\$ None	\$ None	1-8	1-8	5-10	10-15	16,000	1,300,000
Kansas.....	75,000	15,000	15,000	5,000	\$ 200	7 0.5-2.5	1-5	3-12.5	10-15	25,000	500,000
Kentucky.....	10,000	10,000	5,000	1,000	500	2-10	2-10	4-16	6-16	20,000	500,000
Louisiana <sup>3</sup>	5,000	5,000	5,000	1,000	500	2-3	2-3	5-7	5-10	25,000	25,000
Maine.....	15,000	10,000	10,000	500	500	2-6	2-6	8-12	12-18	50,000	250,000
Maryland <sup>2</sup>	150	150	150	150	150	1	1	7 1/2	7 1/2	(15)	(15)
Massachusetts <sup>3</sup>	10,000	10,000	10,000	1,000	1,000	1-9	1-9	4-15	6-15	10,000	1,000,000
Michigan <sup>3</sup>	30,000	5,000	5,000	5,000	None	2-8	2-8	2-8	10-15	50,000	750,000
Minnesota <sup>2</sup>	30,000	15,000	6,000	1,500	500	1.5-10	2-10	6-25	8-30	25,000	1,000,000
Mississippi <sup>2</sup>											
Missouri.....	20,000	5,000	5,000	500	\$ 100	1-6	1-6	3-18	5-30	20,000	400,000
Montana <sup>2</sup>	17,500	2,000	2,000	500	None	2-8	2-8	4-16	8-32	25,000	100,000
Nebraska <sup>2</sup>	\$10,000	\$10,000	\$10,000	\$10,000	\$500	1	1	1	6-18	(15)	(15)
Nevada.....	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)
New Hampshire.....											
New Jersey <sup>2</sup>	3,000	5,000	3,000	None	None	1-16	1-16	8.5	8.5	\$50,000	\$3,700,000
New Mexico <sup>10</sup>	10,000	10,000	10,000	10,000	500	1	1	5	5	(15)	(15)

New York <sup>2</sup>											
North Carolina	10,000	5,000	2,000	None	None	1-12	1-12	4-16	8-17	10,000	3,000,000
North Dakota <sup>2</sup>											
Ohio <sup>3</sup>	10,000	10,000	7,000	1,000	None	1-5	2-5	6-9	8-11	25,000	200,000
Oklahoma <sup>2</sup>											
*Oregon <sup>11</sup>	( <sup>10</sup> )	( <sup>10</sup> )	( <sup>10</sup> )	1,000	500	( <sup>10</sup> )	( <sup>10</sup> )	1-15	4-20	( <sup>10</sup> )	( <sup>10</sup> )
Pennsylvania	1,000	<sup>12</sup> None	<sup>12</sup> None	None	None	2	2	15	15	( <sup>10</sup> )	( <sup>10</sup> )
Rhode Island <sup>3 11</sup>	10,000	10,000	10,000	5,000	1,000	2-9	2-9	3-10	8-15	25,000	1,000,000
South Carolina	10,000	7,500	5,000	500	200	1-6	1-6	2-7	4-14	20,000	300,000
*South Dakota <sup>3</sup>	10,000	10,000	10,000	500	100	1-4	1-4	3-12	5-20	15,000	100,000
Tennessee <sup>3 4</sup>	10,000	10,000	10,000	1,000	1,000	1-7	1-7	5-15	5-15	25,000	500,000
Texas <sup>3 4</sup>	25,000	25,000	25,000	10,000	500	1-6	1-6	3-10	5-20	50,000	1,000,000
Utah <sup>2</sup>											
Vermont <sup>3</sup>	15,000	15,000	15,000	15,000	None	2-6	2-6	2-6	12	25,000	250,000
Virginia <sup>3</sup>	5,000	5,000	5,000	2,000	1,000	1-5	1-5	2-10	5-15	50,000	1,000,000
Washington <sup>3 4</sup>	<sup>13</sup> 5,000	<sup>13</sup> 5,000	<sup>13</sup> 5,000	<sup>6</sup> 1,000	None	1-10	1-10	3-20	10-25	25,000	500,000
*West Virginia <sup>3</sup>	15,000	5,000	5,000	None	None	3-13	3-13	4-18	10-30	50,000	1,000,000
Wisconsin <sup>3 14</sup>	15,000	2,000	2,000	500	100	2-10	2-10	2-10	8-40	25,000	500,000
Wyoming	10,000	10,000	10,000	10,000	None	2	2	2	6	( <sup>10</sup> )	( <sup>10</sup> )

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<sup>1</sup> All States, except those designated by asterisk (\*), impose also an estate tax to assure full absorption of the 80 percent Federal credit.

<sup>2</sup> Imposes only estate tax. See Table E.

<sup>3</sup> Exemptions are deductible from the first bracket.

<sup>4</sup> Half of community property passing to surviving spouse is not taxable.

<sup>5</sup> No exemption is allowed if beneficiary's share exceeds the amount shown in the exemption column. In Maryland, it is the practice to allow a family allowance of \$450 to a widow if there are infant children and \$225 if there are no infant children, although there is no provision for such deductions in the statute.

<sup>6</sup> The exemption shown is the total exemption for all beneficiaries falling into the particular class and is shared by them proportionately.

<sup>7</sup> Rate shown is for spouse only. A minor child is taxed at the rates applying to an adult child.

<sup>8</sup> Estates of less than \$1,000 after deduction of debts are not taxable.

<sup>9</sup> Additional taxes, equal to 23 percent of the inheritance tax, are also imposed.

<sup>10</sup> Transfers of real property to Class 1 beneficiaries are taxed at three-fourths of the indicated tax rates.

<sup>11</sup> Imposes also an estate tax. See Table E.

<sup>12</sup> In the absence of a spouse, the children may claim the \$1,000 exemption.

<sup>13</sup> An additional \$5,000 exemption is allowed to the class as a whole.

<sup>14</sup> These rates are subject to the limitation that the total tax may not exceed 15 percent of the beneficiary's share. An additional tax equal to 30 percent of the inheritance tax is also imposed.

<sup>15</sup> Entire share.

<sup>16</sup> No tax imposed.

Source: Compiled from Commerce Clearing House, *Inheritance, Estate and Gift Tax Reporter*.

TABLE G

## State Gift Tax Rates and Exemptions for Selected Categories of Donees, July 1, 1960

State	Donor's lifetime exemption					Rates				Annual exclusion to each donee
	Wife	Minor child	Adult child	Brother or sister	Other than relative	Spouse or minor child	Adult child	Brother or sister	Other than relative	
California* 1 2	\$24,000	\$12,000	\$5,000	\$2,000	\$50	Percent 2-10	Percent 2-10	Percent 5-15	Percent 10-24	\$4,000.
Colorado*	20,000	10,000	10,000	2,000	500	2-8	2-8	3-10	7-16	\$3,000 spouse, child. \$1,500 brother, sister. \$1,000 other than relative.
Louisiana* 1		30,000				2-3	2-3	5-7	5-10	\$5,000 spouse, child. \$1,000 brother, sister. \$500 other than relative.
Minnesota* 2 2	10,000	10,000	5,000	1,000	250	1-5-10	2-10	6-25	8-30	\$3,000.
North Carolina*	25,000	25,000	25,000	None	None	1-12	1-12	4-16	8-17	\$3,000.
Oklahoma			None					1-10		\$3,000.
Oregon			15,000			1-10	1-10	2-25	5-30	\$5,000 spouse, child. \$3,000 brother, sister. \$1,000 other than relative.
Rhode Island			25,000					2-9		\$3,000.
Tennessee*			None			1-7	1-7	5-15	5-15	\$10,000 spouse, child. <sup>4</sup> \$5,000 brothers and sisters, others. <sup>4</sup>
Virginia* 1			None			1-5	1-5	2-10	5-15	\$3,000 spouse, child. \$2,000 brother, sister. \$1,000 other than relative.
Washington* 1 2		\$ 10,000		\$ 1,000	None	.9-8.1	.9-8.1	2.7-18	9-22.5	\$3,000.
Wisconsin 2	15,000	2,000	2,000	None	None	2-10	2-10	4-20	8-40	\$1,000.

Treasury Department, Tax Analysis Staff.

\*Gift tax rates are the same as inheritance tax rates except in Washington where they are 90 percent of inheritance tax rates.

<sup>1</sup> Half of community property transferred to surviving spouse is not taxable.

<sup>2</sup> The following tax credits are allowed: wife, \$300; minor child, \$75; adult child, \$20; brother or sister, \$30; other than relatives, \$20. The tax may not exceed 35 percent of the full value of the gift.

<sup>3</sup> Exemptions or exclusions are deductible from the first bracket.

<sup>4</sup> Only 1 annual exclusion is allowed each class of donees. 1 class includes spouse, lineal ancestor or descendant; all others are in the other class. Exemptions are deductible from the first bracket.

<sup>5</sup> Only 1 exemption allowed each class of donees. Spouse and lineal ancestors and descendants comprise 1 class; brothers and sisters another; all others, the 3d class.

<sup>6</sup> In addition, an emergency tax is imposed equal to 30 percent of the tax computed at the rates shown. The total tax may not exceed 15 percent of the value of the gift.

Source: Compiled from Commerce Clearing House *Inheritance, Estate and Gift Tax Reporter*.



TABLE H.—*Deductibility of Federal Estate Tax for Purposes of State Inheritance and Estate Taxes, as of July 1, 1960*

State	Federal estate tax deductible	State	Federal estate tax deductible
Alabama.....	No.	Montana.....	Yes.
Alaska.....	Yes.	Nebraska.....	Yes.
Arizona.....	No.	Nevada.....	No inheritance tax.
Arkansas.....	No.	New Hampshire.....	Yes.
California.....	No.	New Jersey.....	No.
Colorado.....	No.	New Mexico.....	No.
Connecticut.....	No.	New York.....	No.
Delaware.....	No.	North Carolina.....	No.
District of Columbia.....	Yes. <sup>1</sup>	North Dakota.....	Yes.
Florida.....	No.	Ohio.....	Yes.
Georgia.....	No.	Oklahoma.....	No.
Hawaii.....	No.	Oregon.....	No.
Idaho.....	Yes.	Pennsylvania.....	No.
Illinois.....	Yes.	Rhode Island.....	No.
Indiana.....	No.	South Carolina.....	Yes.
Iowa.....	Yes.	South Dakota.....	No.
Kansas.....	Yes.	Tennessee.....	No.
Kentucky.....	Yes. <sup>1</sup>	Texas.....	No.
Louisiana.....	No.	Utah.....	No.
Maine.....	Yes.	Vermont.....	Yes.
Maryland.....	Yes.	Virginia.....	Yes.
Massachusetts.....	Yes.	Washington.....	Yes.
Michigan.....	No.	West Virginia.....	Yes.
Minnesota.....	Yes.	Wisconsin.....	Yes. <sup>1</sup>
Mississippi.....	No.	Wyoming.....	Yes.
Missouri.....	Yes.		

<sup>1</sup> In proportion to the ratio of the value of the estate subject to State tax to the value subject to Federal tax.

Source: Compiled on the basis of Commerce Clearing House, *Inheritance, Estate, and Gift Tax Reporter*.

TABLE J.—State Death Taxes on Selected Size Estates, Left One-half to the Wife and One-fourth to Each of Two Adult Children

	Net estate after deductions, <sup>1</sup> but before specific exemptions									
	\$25,000	\$50,000	\$100,000	\$200,000	\$400,000	\$600,000	\$800,000	\$1,000,000	\$2,500,000	\$5,000,000
Maximum credit for State taxes under present Federal law.....					\$1,200	\$3,600	\$6,800	\$10,000	\$48,400	\$138,800
Amount of State tax:										
Alabama.....					1,200	3,600	6,800	10,000	48,400	138,800
Alaska.....	\$25	\$200	\$1,000	\$3,418	8,877	14,732	20,731	26,723	71,000	141,751
Arizona.....					1,200	3,600	6,800	10,000	48,400	138,800
Arkansas.....					1,200	3,600	6,800	10,000	48,400	138,800
California.....	50	300	800	2,300	6,300	13,300	20,300	29,300	99,300	224,300
Colorado.....		200	1,200	3,850	14,500	28,600	43,500	58,500	175,800	375,800
Connecticut.....	50	300	1,050	4,050	11,050	20,050	30,050	42,050	150,050	350,050
Delaware.....	65	240	740	2,640	8,640	16,640	24,640	32,640	82,640	186,640
Florida.....					1,200	3,600	6,800	10,000	48,400	138,800
Georgia.....					1,200	3,600	6,800	10,000	48,400	138,800
Hawaii.....	38	325	1,500	5,000	14,500	26,000	38,000	50,000	151,250	320,000
Idaho.....	90	340	1,180	3,876	10,600	18,745	27,315	35,875	127,400	279,050
Illinois.....		100	800	3,256	9,625	18,263	30,583	42,279	183,562	473,400
Indiana.....	85	310	1,060	3,560	9,560	16,560	24,560	33,560	125,560	336,560
Iowa.....			300	2,782	9,832	19,104	29,811	41,912	140,238	302,950
Kansas.....			200	965	4,438	9,152	14,294	19,430	60,324	138,800
Kentucky.....	100	600	1,900	6,210	17,004	29,418	42,272	55,430	169,210	338,800
Louisiana.....	200	750	2,100	5,100	11,100	17,100	23,100	29,100	74,100	149,100
Maine.....		300	1,300	3,530	9,198	15,845	24,415	32,975	107,316	228,600
Maryland.....	250	500	1,000	1,952	3,685	5,409	7,123	10,000	48,400	138,800
Massachusetts.....	150	700	1,950	5,282	13,032	21,699	31,127	40,543	126,338	294,750
Michigan.....	50	300	1,200	4,200	12,200	20,700	29,700	38,700	133,700	328,700
Minnesota.....	10	260	1,160	4,492	13,429	24,444	36,145	48,965	159,403	352,285
Mississippi.....			456	2,508	9,257	17,830	28,226	40,447	161,926	451,577
Missouri.....	25	150	400	1,553	4,813	9,122	13,595	18,478	62,563	142,800
Montana.....	170	570	2,070	6,830	18,865	32,342	46,054	59,750	160,958	322,670
Nebraska.....	25	200	700	1,652	3,385	5,109	6,823	10,000	48,400	138,800
New Hampshire.....					1,200	3,600	6,800	10,000	48,400	138,800
New Jersey.....	100	350	850	2,350	7,850	15,850	25,850	36,850	162,650	401,850
New Mexico.....	150	400	900	1,900	3,900	5,900	7,900	10,000	48,400	138,800
New York.....	50	300	800	2,300	5,800	9,800	14,800	19,800	75,300	200,800
North Carolina.....	110	420	1,570	4,930	13,790	24,650	35,650	47,610	149,870	357,130
North Dakota.....	20	420	1,340	4,116	10,920	19,145	27,715	37,030	132,660	352,130
Ohio.....	25	370	1,020	4,476	10,518	17,960	25,674	33,796	97,051	198,120
Oklahoma.....		50	1,500	7,000	19,525	32,800	46,825	61,825	181,600	391,375

Oregon.....	100	475	1,725	6,725	18,725	35,725	55,725	75,725	225,725	475,725
Pennsylvania.....	480	980	1,980	3,980	7,980	11,980	15,980	19,980	49,980	138,900
Rhode Island.....	200	800	2,550	7,050	18,050	30,550	43,550	56,550	179,050	419,050
South Carolina.....	25	145	400	1,428	4,170	7,618	11,508	15,788	52,058	138,800
South Dakota.....	25	300	1,250	3,750	10,750	18,750	26,750	34,750	94,750	194,750
Tennessee.....	150	525	2,025	6,025	15,025	27,025	41,025	55,025	160,025	335,025
Texas.....	.....	.....	.....	5,500	2,500	5,500	8,500	12,500	48,400	138,800
Utah.....	.....	500	3,750	13,250	33,250	53,250	73,250	93,250	243,250	483,250
Vermont.....	.....	300	1,650	5,458	14,075	22,899	32,327	41,743	117,066	238,350
Virginia.....	100	350	850	2,278	6,562	11,577	16,719	21,855	67,037	158,850
Washington.....	.....	100	600	2,254	8,248	15,690	23,404	31,108	93,780	194,850
West Virginia.....	75	750	2,250	6,058	15,360	25,704	38,234	51,080	177,952	421,350
Wisconsin.....	221	806	2,756	8,944	24,590	42,110	59,946	77,740	226,174	488,956
Wyoming.....	50	400	1,400	3,304	6,770	10,218	13,646	17,070	48,400	138,800

<sup>1</sup> Size of estate is before marital deduction and the deduction of Federal estate tax in States which allow this deduction.

Treasury Department, Tax Analysis Staff.

TABLE K.—State Death Taxes on Selected Size Estates, Left One-half to Each of Two Adult Children

	Net estate after deductions, <sup>1</sup> but before specific exemptions									
	\$25,000	\$50,000	\$100,000	\$200,000	\$400,000	\$600,000	\$800,000	\$1,000,000	\$2,500,000	\$5,000,000
Maximum credit for State taxes under present Federal law.....				\$1,200	\$6,800	\$14,000	\$22,800	\$33,200	\$138,800	\$391,600
Amount of State tax:										
Alabama.....				1,200	6,800	14,000	22,800	33,200	138,800	391,600
Alaska.....	\$50	\$300	\$1,280	3,356	8,130	14,000	22,800	33,200	138,800	391,600
Arizona.....				1,200	6,800	14,000	22,800	33,200	138,800	391,600
Arkansas.....				1,200	6,800	14,000	22,800	33,200	138,800	391,600
California.....	300	800	2,300	6,303	20,300	38,300	56,300	74,300	224,300	474,300
Colorado.....	100	600	1,600	5,500	19,500	34,500	49,500	57,000	184,400	391,600
Connecticut.....	300	1,050	2,550	6,050	15,550	27,550	41,550	55,550	175,550	391,600
Delaware.....	100	440	1,340	4,340	12,340	20,340	28,340	36,340	139,800	391,600
Florida.....				1,200	6,800	14,000	22,800	33,200	138,800	391,600
Georgia.....				1,200	6,800	14,000	22,800	33,200	138,800	391,600
Hawaii.....	225	750	2,250	6,750	18,750	32,250	47,250	62,250	171,750	391,600
Idaho.....	340	1,180	3,732	9,340	22,930	37,130	55,265	75,755	216,800	410,480
Illinois.....		200	1,104	3,140	8,892	14,572	31,310	40,970	160,200	391,600
Indiana.....	210	460	1,460	4,460	10,460	18,460	28,460	38,460	144,460	391,600
Iowa.....		200	1,256	3,840	10,415	19,001	28,717	39,276	138,800	391,600
Kansas.....		200	804	2,656	7,792	14,000	22,800	33,200	138,800	391,600
Kentucky.....	300	800	2,408	6,410	16,060	26,444	37,548	48,476	138,800	391,600
Louisiana.....	300	900	2,400	5,400	11,400	17,400	23,400	33,200	138,800	391,600
Maine.....	100	600	1,504	3,455	8,692	14,372	22,800	33,200	138,800	391,600
Maryland.....	250	500	952	1,685	6,800	14,000	22,800	33,200	138,800	391,600
Massachusetts.....	300	800	2,156	5,040	11,015	19,015	26,886	35,082	138,800	391,600
Michigan.....	300	800	1,800	5,800	13,800	22,800	32,800	42,800	152,800	391,600
Minnesota.....	260	760	2,568	6,870	16,620	27,104	38,208	49,136	138,800	391,600
Mississippi.....			456	2,508	9,257	17,830	28,226	40,447	161,928	451,577
Missouri.....	150	400	1,356	3,555	9,292	15,415	22,800	33,200	138,800	391,600
Montana.....	420	920	2,728	7,030	17,904	29,264	40,368	51,296	138,800	391,600
Nebraska.....	50	300	752	1,485	6,800	14,000	22,800	33,200	138,800	391,600
New Hampshire.....				1,200	6,800	14,000	22,800	33,200	138,800	391,600
New Jersey.....	150	400	900	2,900	9,900	19,900	31,900	43,900	169,900	463,900
New Mexico.....	150	400	900	1,900	6,800	14,000	22,800	33,200	138,800	391,600

New York.....	300	2,300	5,800	14,800	25,800	38,900	53,800	200,800	541,800
North Carolina.....	220	2,180	6,140	16,100	28,080	40,060	52,080	161,980	553,800
North Dakota.....	420	3,972	9,660	23,330	38,536	55,192	74,098	236,680	553,656
Ohio.....	220	2,076	4,276	9,712	15,936	22,876	33,200	138,800	301,600
Oklahoma.....	-----	2,200	7,900	20,500	33,850	47,850	62,650	182,800	392,660
Oregon.....	100	1,725	6,725	18,725	35,725	55,725	75,725	225,725	475,725
Pennsylvania.....	480	1,980	3,980	7,980	14,000	22,800	33,200	138,800	301,600
Rhode Island.....	250	8,000	8,000	20,000	33,000	47,000	61,000	196,000	446,000
South Carolina.....	150	1,400	3,555	9,315	16,415	23,555	33,200	138,800	301,600
South Dakota.....	50	1,500	4,500	12,500	20,500	28,500	36,500	96,500	196,500
Tennessee.....	150	2,025	6,025	15,025	27,025	41,025	55,025	160,025	301,600
Texas.....	-----	500	2,500	8,500	16,500	24,500	33,200	138,800	301,600
Utah.....	-----	500	3,750	33,250	53,250	73,250	93,250	243,250	493,250
Vermont.....	-----	600	2,256	5,525	12,715	18,195	27,685	138,800	301,600
Virginia.....	150	852	2,270	6,800	14,000	22,800	33,200	138,800	301,600
Washington.....	100	2,158	7,145	19,457	32,237	45,600	59,320	153,350	301,600
West Virginia.....	450	2,556	6,125	13,561	23,501	33,217	45,373	143,400	304,656
Wisconsin.....	546	3,546	9,139	23,275	38,043	52,478	66,685	181,895	509,080
Wyoming.....	100	1,504	2,970	6,800	14,000	22,800	33,200	138,800	301,600

\* Size of estate is before deduction of Federal estate tax in States which allow this deduction.  
 Treasury Department, Tax Analysis Staff.

TABLE L.—State Inheritance and Estate Tax Collections, Selected Fiscal Years 1950-60

[In thousands of dollars]

State	1950	1952	1954	1955	1956	1957	1958	1959	1960
Alabama.....	\$914	\$315	\$748	\$285	\$547	\$501	\$384	\$652	\$705
Alaska.....							41	33	54
Arizona.....	118	153	200	196	192	508	249	357	463
Arkansas.....	205	135	174	158	256	335	515	284	241
California.....	18,652	27,116	23,850	28,472	34,289	35,796	42,697	42,009	43,727
Colorado.....	1,863	2,564	2,306	3,220	3,637	4,185	4,193	4,506	6,189
Connecticut.....	5,869	6,205	9,517	10,295	11,150	15,966	12,173	14,149	16,920
Delaware.....	2,879	1,098	7,265	1,915	5,974	1,591	1,019	751	1,088
Florida.....	3,011	2,764	2,090	2,221	3,483	3,258	3,706	3,969	5,488
Georgia.....	613	563	612	643	886	1,012	1,058	1,787	981
Hawaii.....									587
Idaho.....	222	522	280	402	347	349	913	467	751
Illinois.....	7,090	11,439	12,191	15,065	19,976	19,245	20,295	21,123	22,027
Indiana.....	3,042	3,369	3,775	4,034	4,741	5,530	6,471	5,428	7,563
Iowa.....	3,408	3,939	5,167	4,701	4,759	5,492	7,428	6,534	7,294
Kansas.....	1,079	1,503	2,271	1,338	1,728	1,892	2,155	2,478	3,727
Kentucky.....	2,618	2,313	2,798	3,224	3,254	4,686	3,904	4,585	5,302
Louisiana.....	1,400	1,855	1,997	2,145	2,562	2,061	2,675	2,818	7,201
Maine.....	1,476	1,517	1,898	1,785	2,232	2,173	2,465	3,002	3,229
Maryland.....	2,581	3,225	3,713	4,070	4,156	5,995	4,518	5,388	4,987
Massachusetts.....	9,660	11,065	14,383	14,460	17,165	20,426	17,607	18,619	20,535
Michigan.....	7,929	9,914	10,630	10,492	8,524	10,981	10,539	14,352	12,124
Minnesota.....	2,218	3,016	3,953	4,135	4,398	5,567	5,095	6,930	7,063
Mississippi.....	231	285	340	333	427	441	409	1,285	666
Missouri.....	2,742	3,345	4,574	3,966	3,621	4,260	4,406	4,596	5,269
Montana.....	422	752	1,141	1,389	1,366	1,323	1,534	1,996	1,775
Nebraska.....	189	60	105	227	225	132	370	316	374
Nevada (no tax)									
New Hampshire.....	911	960	1,215	1,144	1,388	2,151	1,357	1,871	2,093
New Jersey.....	9,139	12,487	11,909	12,795	15,009	16,700	18,600	20,600	20,621
New Mexico.....	215	264	226	535	1,427	691	393	438	676
New York.....	22,375	27,893	29,250	27,996	53,694	51,942	47,120	39,630	71,611
North Carolina.....	2,087	4,114	4,115	5,620	3,548	4,725	5,515	5,018	6,331
North Dakota.....	113	148	136	195	202	220	267	243	278
Ohio.....	4,194	4,609	6,650	5,725	4,902	8,164	9,141	8,744	8,694
Oklahoma.....	2,223	3,004	3,032	2,750	3,482	3,567	4,562	4,621	5,752
Oregon.....	1,410	2,438	3,323	3,407	2,760	4,155	3,377	3,889	4,283
Pennsylvania.....	20,404	26,109	35,816	33,382	42,644	44,694	50,215	40,452	51,121
Rhode Island.....	1,526	2,045	2,146	2,001	2,064	1,814	2,862	3,268	3,755
South Carolina.....	397	640	738	731	2,483	1,257	1,204	1,143	1,596

South Dakota <sup>9</sup> .....	375	472	547	508	623	796	619	695	927
Tennessee.....	1,865	2,808	3,117	2,944	3,294	3,215	4,351	4,035	4,591
Texas.....	6,047	5,074	6,394	6,241	8,092	8,898	10,728	10,978	11,500
Utah.....	363	323	494	504	618	892	926	1,100	1,017
Vermont.....	371	585	606	514	615	1,406	983	994	733
Virginia.....	1,924	2,033	1,877	3,620	2,381	3,804	3,173	3,413	4,874
Washington.....	3,463	3,302	6,060	4,862	5,057	6,307	9,679	8,591	8,922
West Virginia.....	888	1,357	1,854	1,910	1,626	1,894	2,198	2,481	2,430
Wisconsin <sup>10</sup> .....	4,800	7,323	6,916	6,927	8,341	8,423	10,000	9,928	12,652
Wyoming.....	110	139	261	222	226	233	357	382	344
<b>Total.....</b>	<b>165,631</b>	<b>207,158</b>	<b>242,650</b>	<b>243,704</b>	<b>304,571</b>	<b>330,245</b>	<b>344,446</b>	<b>340,928</b>	<b>411,151</b>

<sup>1</sup> Counties retain 10 percent of net collections.

<sup>2</sup> Counties retain \$750 (after expenses) from taxes paid by each estate.

<sup>3</sup> Counties retain 5 percent of collections.

<sup>4</sup> Clerks retain commission equal to about 7 percent of collections.

<sup>5</sup> Probate judges retain 2½ percent as their fee.

<sup>6</sup> Inheritance tax retained by counties; State collects only estate tax.

<sup>7</sup> Counties retain 65 percent of collections.

<sup>8</sup> Municipalities or townships retain 50 percent.

<sup>9</sup> Counties retain 10 percent.

<sup>10</sup> Counties retain 7½ percent of net collections.

Source: Bureau of the Census, Governments Division.

NOTE.—Detail may not add to total due to rounding.

TABLE M.—*Computation of Maximum Credit for State Death Taxes*

Taxable estate equaling	Taxable estate not exceeding	Credit on amount in column (1)	Rate of credit on excess over amount in column (1)	Taxable estate equaling	Taxable estate not exceeding	Credit on amount in column (1)	Rate of credit on excess over amount in column (1)
(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
			<i>Percent</i>				<i>Percent</i>
\$40,000	\$90,000	-----	0.8	\$2,540,000	\$3,040,000	\$146,800	8.8
90,000	140,000	\$400	1.6	3,040,000	3,540,000	190,800	9.6
140,000	240,000	1,200	2.4	3,540,000	4,040,000	238,800	10.4
240,000	440,000	3,600	3.2	4,040,000	5,040,000	290,800	11.2
440,000	640,000	10,000	4.0	5,040,000	6,040,000	402,800	12.0
640,000	840,000	18,000	4.8	6,040,000	7,040,000	522,800	12.8
840,000	1,040,000	27,600	5.6	7,040,000	8,040,000	650,800	13.6
1,040,000	1,540,000	38,800	6.4	8,040,000	9,040,000	786,800	14.4
1,540,000	2,040,000	70,800	7.2	9,040,000	10,040,000	930,800	15.2
2,040,000	2,540,000	106,800	8.0	10,040,000	-----	1,082,800	16.0



TABLE N.—Credit for State Death Taxes as Percent of Gross Federal Estate Tax Liability, for Taxable Estate Tax Returns Filed during 1959, by Net Estate before Specific Exemption Classes

State	Net estate before specific exemption (In thousands of dollars)											Total
	100-150	150-200	200-300	300-400	400-500	500-600	600-700	700-800	800-900	900-1,000	1,000 and over	
Alabama.....	1.9	3.0	4.8	6.5	7.1	8.2	8.8	9.5	10.2	10.8	13.5	6.9
Arizona.....	2.3	3.1	5.0	6.4	7.7	8.2	9.1				12.6	7.6
Arkansas.....	1.9	3.1	5.0	6.7	7.6	8.0		9.2			11.8	6.3
California.....	2.1	3.1	4.8	6.5	7.4	8.2	9.0		9.7	10.6	15.0	9.7
Colorado.....	2.6	2.8	4.8	6.8	7.6	8.5	9.0	9.6	10.5	10.7	14.9	9.6
Connecticut.....	2.2	3.0	4.8	6.5	7.5	8.4	8.9	9.4	10.2	10.7	15.6	12.3
Delaware.....	2.0	2.9	4.5	6.4	7.5	8.2			10.3	10.7	13.7	9.3
District of Columbia.....	3.2	3.2	4.7	6.5	9.8	8.4	9.1		10.1	10.6	13.2	8.9
Florida.....	2.2	3.1	4.8	6.6	7.6	8.4	9.0	9.2	10.1	10.6	14.0	8.9
Georgia.....	2.0	2.3	4.9	6.6	7.5	8.5	9.0			10.7	12.7	7.0
Idaho.....	1.8	3.2	4.7	6.4	7.4		9.1					4.5
Illinois.....	2.1	3.0	4.8	6.5	7.6	8.4	9.0	9.6		10.7	14.5	9.2
Indiana.....	2.4	3.1	4.7	6.4	7.5	8.5	8.1	9.5	10.1	10.8	13.6	7.9
Iowa.....	1.7	2.6	4.7	6.6	6.7	8.3	9.2	9.2	10.1	10.7	11.9	5.4
Kansas.....	2.4	3.0	4.7	6.5	7.4	8.1	9.0	9.5	10.1	11.0	15.8	10.2
Kentucky.....	2.0	3.0	4.8	6.3	7.5	8.5	9.1	9.6	10.3		13.5	7.3
Louisiana.....	2.6	2.3	4.7	6.4	7.7	8.5	8.9	9.6	9.8	10.7	13.9	7.4
Maine.....	2.6	2.7	4.9	6.4	7.5	8.0	9.3		10.0	10.5	12.6	7.7
Maryland.....	2.3	3.1	4.7	6.3	7.5	8.3	9.1	9.6	10.2	10.5	13.7	8.9
Massachusetts.....	2.6	3.1	4.9	6.5	7.6	8.4	9.0	9.6	10.2	10.6	13.6	9.6
Michigan.....	1.9	2.9	4.8	6.4	7.6	8.3	8.9	9.6	10.2	10.8	17.9	14.0
Minnesota.....	1.6	2.9	4.8	6.5	7.6	8.5	9.0	9.6	10.2	10.4	16.7	11.6
Mississippi.....	1.6	3.1	4.9	6.7	7.8	8.3	(1)				12.1	6.2
Missouri.....	2.0	2.8	4.5	6.5	7.6	8.4	9.1	9.7	9.6	10.6	13.0	8.3
Montana.....	2.3	3.1	4.6	6.6		8.6	9.0				14.6	8.2
Nebraska.....	1.8	3.4	4.8	6.4	7.6	8.4	8.9	9.4	5.8	10.7	12.8	6.5
Nevada.....				3.1				9.8				2.4
New Hampshire.....	2.1	2.9	5.1	6.5	7.3	7.4	2.4	10.4	10.4			5.2
New Jersey.....	2.2	3.1	4.8	6.4	7.5	9.5	9.0	9.6		10.6	15.4	10.3
New Mexico.....	1.9	2.9	4.7	6.6	7.6	8.8			10.1		12.4	7.2
New York.....	2.2	3.1	4.8	6.4	8.2	8.2	9.0	9.5	10.2	10.5	14.7	10.9
North Carolina.....	1.8	2.8	4.7	6.6	7.5	8.4	9.0	9.7	10.0	10.7	14.9	8.9
North Dakota.....	1.7	3.0	5.2	6.3								3.6
Ohio.....	2.2	3.1	4.7	6.5	7.5	8.3	9.2	9.6	10.2	10.7	14.7	9.9
Oklahoma.....	2.3	3.2	4.7	5.5	8.0	8.5	9.0	9.7		10.7	13.7	8.8
Oregon.....	1.7	2.9	4.7	6.2	7.6	8.4		9.8	9.8	10.5	11.9	6.3
Pennsylvania.....	1.9	3.0	4.8	6.6	7.5	8.3	8.8	9.6	9.5	10.4	15.2	9.5
Rhode Island.....	1.9	3.0	4.8	3.8	6.5	8.4	9.0	9.4	10.0		14.3	10.9
South Carolina.....	2.3	3.6	4.9	6.5	7.5	8.2	8.9	9.8	10.0	10.5		5.9
South Dakota.....	2.3	3.1	5.2	6.3	7.4							4.0

See footnotes at end of table.

TABLE N.—*Credit for State Death Taxes as Percent of Gross Federal Estate Tax Liability, for Taxable Estate Tax Returns Filed during 1959, by Net Estate before Specific Exemption Classes—Continued*

State	Net estate before specific exemption (in thousands of dollars)											Total
	100-150	150-200	200-300	300-400	400-500	500-600	600-700	700-800	800-900	900-1,000	1,000 and over	
Tennessee.....	2.2	3.2	5.0	6.4	7.6	8.6	9.2	9.2	10.0	-----	12.0	7.0
Texas.....	2.3	3.1	4.8	6.4	7.6	8.2	9.1	9.0	10.1	10.7	13.7	9.0
Utah.....	3.0	4.5	4.6	6.5	7.4	7.9	9.0	-----	-----	-----	15.3	11.7
Vermont.....	1.8	3.0	5.5	6.3	7.3	-----	9.1	-----	10.1	-----	13.4	8.9
Virginia.....	1.8	3.1	4.9	6.5	7.6	8.2	9.1	9.4	-----	10.8	13.1	6.5
Washington.....	2.0	3.2	4.8	6.5	7.5	8.3	9.1	-----	10.0	10.2	14.1	8.2
West Virginia.....	1.8	3.0	4.8	6.6	7.3	8.3	9.0	-----	5.6	-----	11.2	8.0
Wisconsin.....	1.9	3.2	4.8	6.5	7.5	8.5	9.1	9.6	10.3	10.5	12.8	7.4
Wyoming.....	2.0	3.7	4.6	6.2	-----	8.5	-----	-----	-----	-----	12.6	8.6
Alaska.....	2.9	(1)	-----	-----	-----	-----	-----	-----	-----	-----	-----	1.9
Hawaii.....	1.6	2.9	5.0	6.4	-----	8.7	9.1	9.6	-----	-----	14.3	9.1
Other areas.....	1.9	1.0	1.8	2.0	2.3	-----	-----	9.4	-----	-----	6.5	4.8
U.S. total.....	2.1	3.0	4.8	6.5	7.6	8.3	8.9	9.5	10.1	10.6	14.8	9.8

<sup>1</sup> Not available.

Source: Internal Revenue Service, special tabulation.

TABLE O.—Number of Taxable Estate Tax Returns Filed during 1959; Percentage Distribution by "Net Estate before Specific Exemption" Size Classes, Cumulative from Lowest Estate Class

State	Net estate before specific exemption class (in thousands of dollars)						
	Under 100	100-200	200-300	300-400	400-500	500-1,000	Over 1,000
Alabama.....	48.6	84.0	90.3	94.8	96.2	99.7	100.0
Alaska.....	28.6	100.0	100.0	100.0	100.0	100.0	100.0
Arizona.....	45.6	81.1	92.2	95.1	96.1	98.1	100.0
Arkansas.....	55.9	83.9	91.3	94.4	97.5	99.4	100.0
California.....	45.0	79.5	88.8	92.6	94.9	98.4	100.0
Colorado.....	54.6	81.1	88.6	93.0	95.1	98.9	100.0
Connecticut.....	46.3	74.6	84.6	88.7	90.8	96.7	100.0
Delaware.....	40.8	81.7	90.0	91.7	93.3	97.5	100.0
District of Columbia.....	43.0	72.9	84.2	89.3	92.4	97.9	100.0
Florida.....	46.6	78.8	89.8	93.4	95.3	98.3	100.0
Georgia.....	53.0	83.4	91.6	94.0	96.7	99.1	100.0
Hawaii.....	40.9	77.3	89.4	93.9	93.9	98.5	100.0
Idaho.....	55.6	89.5	95.4	98.7	99.3	100.0	100.0
Illinois.....	50.3	81.7	89.5	92.7	94.8	98.6	100.0
Indiana.....	57.3	85.5	92.4	96.3	97.9	99.0	100.0
Iowa.....	63.8	92.6	96.5	98.0	98.6	99.7	100.0
Kansas.....	54.7	86.0	92.3	96.0	97.1	99.2	100.0
Kentucky.....	52.6	86.9	92.0	95.8	96.7	99.3	100.0
Louisiana.....	45.5	78.8	89.5	93.1	96.2	99.3	100.0
Maine.....	42.5	78.7	88.4	91.3	94.7	98.6	100.0
Maryland.....	45.6	78.1	88.6	92.5	94.4	98.0	100.0
Massachusetts.....	41.0	77.1	85.5	89.4	92.3	97.2	100.0
Michigan.....	46.8	81.4	90.7	94.1	95.5	98.4	100.0
Minnesota.....	59.8	87.9	92.9	95.5	96.9	99.1	100.0
Mississippi.....	58.0	88.3	93.7	96.1	98.0	99.0	100.0
Missouri.....	47.1	80.8	89.6	93.7	95.8	98.5	100.0
Montana.....	58.6	88.4	94.4	97.0	97.0	99.5	100.0
Nebraska.....	56.7	89.9	95.1	97.3	98.1	99.5	100.0
Nevada.....	47.4	84.2	91.2	94.7	98.2	100.0	100.0
New Hampshire.....	47.4	84.2	94.0	95.8	97.2	100.0	100.0
New Jersey.....	49.4	80.2	89.1	92.3	95.1	98.4	100.0
New Mexico.....	52.7	82.7	88.2	91.8	96.4	99.1	100.0
New York.....	46.3	76.4	85.6	90.0	92.4	96.7	100.0
North Carolina.....	49.8	82.9	91.3	94.8	96.7	99.0	100.0
North Dakota.....	67.0	94.0	97.0	100.0	100.0	100.0	100.0
Ohio.....	50.7	81.4	89.8	93.3	94.5	98.4	100.0
Oklahoma.....	55.5	84.0	91.1	94.4	95.4	98.5	100.0
Oregon.....	52.4	84.9	92.3	95.5	97.1	99.4	100.0
Pennsylvania.....	46.3	78.4	88.0	92.4	95.2	98.6	100.0
Rhode Island.....	37.9	73.8	84.1	86.4	89.3	95.8	100.0
South Carolina.....	53.0	84.6	93.2	96.2	97.4	100.0	100.0
South Dakota.....	71.8	95.5	98.1	98.7	100.0	100.0	100.0
Tennessee.....	49.3	81.8	89.2	92.9	96.3	98.9	100.0
Texas.....	48.8	79.1	88.5	93.2	94.8	98.1	100.0
Utah.....	49.0	82.3	88.5	93.8	94.8	97.0	100.0
Vermont.....	50.6	87.7	92.6	93.8	95.1	98.8	100.0
Virginia.....	48.0	81.8	91.1	94.9	96.9	99.5	100.0
Washington.....	49.6	82.4	91.8	96.0	97.4	99.0	100.0
West Virginia.....	48.7	80.7	90.4	92.9	95.4	97.5	100.0
Wisconsin.....	57.3	85.2	92.3	94.8	96.5	99.1	100.0
Wyoming.....	52.8	87.5	91.7	94.4	94.4	97.2	100.0
Total.....	49.2	81.0	89.4	93.1	95.1	98.3	100.0

Source: Internal Revenue Service, special tabulation.

TABLE P.—Amount of Credit for State Inheritance and Estate Taxes Claimed on Federal Estate Tax Returns Filed in Selected Years, 1949–1959

[In thousands of dollars]

State	1949	1950	1951	1954	1955	1957	1959
Alabama.....	641	147	237	341	357	359	461
Alaska.....							-1
Arizona.....	88	54	41	182	142	289	411
Arkansas.....	117	105	54	113	231	265	196
California.....	11,336	3,902	5,517	7,901	7,257	20,289	16,015
Colorado.....	653	166	297	421	316	1,144	1,144
Connecticut.....	3,100	1,620	1,858	4,121	3,805	6,573	7,002
Delaware.....	1,493	1,323	349	1,412	234	596	442
Florida.....	2,384	1,675	759	1,801	2,826	2,476	3,501
Georgia.....	637	732	434	570	705	827	723
Hawaii.....							226
Idaho.....	4	48	36	18	113	38	81
Illinois.....	2,831	2,868	3,006	5,136	9,536	7,396	8,709
Indiana.....	476	428	614	511	808	1,526	1,471
Iowa.....	247	266	215	215	366	635	679
Kansas.....	258	254	349	281	545	736	1,852
Kentucky.....	170	410	342	600	536	1,729	654
Louisiana.....	460	230	730	425	1,010	923	919
Maine.....	107	201	258	238	378	383	492
Maryland.....	778	859	991	872	1,320	3,022	1,838
Massachusetts.....	3,748	1,869	2,826	3,910	3,837	6,859	5,200
Michigan.....	1,252	1,728	1,529	6,924	2,042	3,248	9,364
Minnesota.....	266	461	987	791	819	837	2,731
Mississippi.....	87	69	168	104	140	148	215
Missouri.....	1,073	1,340	978	1,322	1,492	2,335	2,130
Montana.....	7	62	52	75	189	132	311
Nebraska.....	191	236	117	211	408	634	561
Nevada.....	26	3	161	2	10	72	25
New Hampshire.....	128	502	117	178	205	502	210
New Jersey.....	3,128	2,373	3,213	3,031	2,578	3,328	6,239
New Mexico.....	32	59	51	38	210	210	104
New York.....	13,463	10,160	15,311	19,909	19,659	35,278	25,833
North Carolina.....	356	364	530	2,475	499	1,353	1,303
North Dakota.....	47	4	17	50	15	71	30
Ohio.....	4,033	2,509	2,242	5,274	3,369	5,189	6,799
Oklahoma.....	197	796	925	247	448	491	931
Oregon.....	260	138	440	325	818	397	377
Pennsylvania.....	3,993	5,169	9,239	6,218	6,821	19,502	8,203
Rhode Island.....	712	529	1,190	748	773	3,540	1,484
South Carolina.....	361	69	179	103	1,864	385	255
South Dakota.....	63	132	44	39	49	81	45
Tennessee.....	322	267	918	620	542	449	645
Texas.....	2,167	2,672	3,522	2,597	5,368	6,195	5,355
Utah.....	59	4	36	23	39	149	555
Vermont.....	35	225	88	165	43	202	183
Virginia.....	965	327	829	2,256	626	1,618	849
Washington.....	369	264	144	840	568	761	1,415
West Virginia.....	91	89	163	77	461	391	506
Wisconsin.....	457	669	1,865	1,089	1,051	1,484	1,354
Wyoming.....	56	59	8	100	38	73	166
Total.....	63,713	48,443	63,978	85,050	85,405	145,120	130,285

Note: Due to rounding detail will not necessarily add to totals.

Source: Internal Revenue Service, *Statistics of Income*.

TABLE Q.—Credit for State Death Taxes as a Percent of Federal Estate Tax Liability before Credits, by States, for Taxable Returns Filed during Selected Years 1949–1959

[Percent]

State	1949	1950	1951	1954	1955	1957	1959
Alabama.....	11.03	5.84	6.04	8.34	7.37	6.18	6.04
Alaska.....							1.85
Arizona.....	7.29	4.82	4.78	7.10	7.83	7.88	7.64
Arkansas.....	7.74	5.90	5.25	5.31	6.66	7.15	6.31
California.....	12.71	8.18	9.05	8.80	8.48	11.54	9.68
Colorado.....	10.69	5.96	7.29	7.65	6.52	9.62	9.55
Connecticut.....	11.87	9.43	10.00	11.71	11.47	12.53	12.31
Delaware.....	16.30	15.63	9.92	13.41	8.89	11.36	9.31
Florida.....	12.18	10.99	7.68	9.41	10.53	8.40	8.91
Georgia.....	9.12	10.52	8.00	7.93	8.71	8.37	7.02
Hawaii.....							9.12
Idaho.....	1.42	5.68	4.04	3.03	5.83	3.80	4.45
Illinois.....	7.67	8.41	8.29	8.80	11.77	9.03	9.21
Indiana.....	7.24	6.88	7.16	5.42	7.18	8.66	7.90
Iowa.....	4.89	5.17	4.19	5.05	4.74	5.74	5.42
Kansas.....	5.68	5.46	6.38	4.72	7.16	7.61	10.23
Kentucky.....	6.28	8.32	6.87	8.40	7.32	11.76	7.31
Louisiana.....	7.75	5.28	9.64	7.28	9.56	8.50	7.43
Maine.....	5.33	7.37	8.57	6.89	7.90	6.89	7.69
Maryland.....	8.06	8.63	9.27	7.56	9.43	11.15	8.90
Massachusetts.....	10.47	8.39	10.25	9.91	9.34	11.03	9.57
Michigan.....	8.68	10.17	9.47	13.83	9.29	9.26	14.02
Minnesota.....	5.65	7.43	10.26	7.67	8.03	7.82	11.62
Mississippi.....	5.56	5.21	6.05	5.27	5.64	5.62	6.21
Missouri.....	8.53	9.38	8.50	8.22	8.56	8.87	8.27
Montana.....	2.28	6.95	5.06	5.30	8.04	5.96	8.16
Nebraska.....	5.69	6.39	4.44	5.01	6.91	7.69	6.45
Nevada.....	4.07	.28	7.35	.09	.55	2.91	2.36
New Hampshire.....	6.83	11.80	6.80	7.13	7.12	8.47	5.23
New Jersey.....	10.88	9.74	10.48	9.17	8.80	7.89	10.29
New Mexico.....	4.89	6.63	4.85	4.64	9.58	7.74	7.16
New York.....	11.11	9.96	11.36	11.23	11.67	12.62	10.90
North Carolina.....	6.49	7.22	8.41	12.35	6.92	9.41	8.89
North Dakota.....	7.28	2.02	4.50	5.30	2.62	5.71	3.61
Ohio.....	11.24	9.43	8.91	10.56	8.61	9.14	9.86
Oklahoma.....	6.29	11.62	11.54	5.41	7.92	7.06	8.76
Oregon.....	6.76	5.61	9.43	6.22	9.17	6.63	6.29
Pennsylvania.....	9.54	10.18	12.91	10.52	10.42	13.75	9.48
Rhode Island.....	11.52	10.42	12.39	10.90	9.59	14.94	10.94
South Carolina.....	10.48	4.76	7.16	5.00	15.88	6.95	5.92
South Dakota.....	6.09	8.65	5.78	4.15	4.96	6.24	4.02
Tennessee.....	7.29	6.70	9.73	8.39	8.48	6.33	7.00
Texas.....	9.39	10.02	10.47	8.46	11.01	10.53	9.00
Utah.....	6.32	2.05	6.28	4.68	4.75	8.54	11.70
Vermont.....	4.78	9.95	7.06	8.67	4.16	8.61	8.86
Virginia.....	9.56	5.79	9.03	12.11	6.85	9.30	6.51
Washington.....	6.67	6.48	4.35	7.83	6.65	7.24	8.19
West Virginia.....	5.61	4.96	6.39	5.77	9.04	7.28	8.00
Wisconsin.....	6.93	7.93	11.59	8.84	8.12	8.61	7.42
Wyoming.....	8.78	5.85	3.26	7.29	5.14	6.41	8.64
Total <sup>1</sup> .....	10.37	9.17	10.02	9.88	9.89	10.85	9.77

<sup>1</sup> Total includes District of Columbia and a few tax returns filed from outside the Continental United States.

Source: Internal Revenue Service, *Statistics of Income*.

TABLE R.—Maximum Credit Allowed under Federal Estate Tax for Taxes Paid to States, as Percent of State Death Taxes, for Selected Size Estates, Left One-half to the Wife and One-fourth to Each of Two Adult Children

	Net estate, after deductions, <sup>1</sup> but before specific exemptions									
	\$25,000	\$50,000	\$100,000	\$200,000	\$400,000	\$600,000	\$800,000	\$1,000,000	\$2,500,000	\$5,000,000
Maximum Federal credit for State taxes—Amount..	None	None	None	None	\$1,200	\$3,600	\$6,800	\$10,000	\$48,400	\$138,800
As percent of State Tax:					Percent	Percent	Percent	Percent	Percent	Percent
Alabama.....	-----	-----	-----	-----	100.0	100.0	100.0	100.0	100.0	100.0
Alaska.....	-----	-----	-----	-----	13.5	24.4	32.8	37.4	68.2	97.9
Arizona.....	-----	-----	-----	-----	100.0	100.0	100.0	100.0	100.0	100.0
Arkansas.....	-----	-----	-----	-----	100.0	100.0	100.0	100.0	100.0	100.0
California.....	-----	-----	-----	-----	19.0	27.1	33.5	34.1	48.7	61.9
Colorado.....	-----	-----	-----	-----	8.3	12.6	15.6	17.1	27.5	36.9
Connecticut.....	-----	-----	-----	-----	10.9	18.0	22.6	23.8	32.3	39.7
Delaware.....	-----	-----	-----	-----	13.9	21.6	27.6	30.6	58.6	74.4
Florida.....	-----	-----	-----	-----	100.0	100.0	100.0	100.0	100.0	100.0
Georgia.....	-----	-----	-----	-----	100.0	100.0	100.0	100.0	100.0	100.0
Hawaii.....	-----	-----	-----	-----	8.3	13.8	17.9	20.0	32.0	43.4
Idaho.....	-----	-----	-----	-----	11.3	19.2	24.9	27.9	38.0	49.7
Illinois.....	-----	-----	-----	-----	12.5	19.7	22.2	22.6	26.4	29.3
Indiana.....	-----	-----	-----	-----	12.6	21.7	27.7	29.8	38.5	41.2
Iowa.....	-----	-----	-----	-----	12.2	18.8	22.8	23.9	34.5	45.8
Kansas.....	-----	-----	-----	-----	27.0	39.3	47.6	51.5	80.2	100.0
Kentucky.....	-----	-----	-----	-----	7.1	12.2	16.1	18.0	28.6	100.0
Louisiana.....	-----	-----	-----	-----	10.8	21.1	29.4	34.4	65.3	93.1
Maine.....	-----	-----	-----	-----	13.0	22.7	27.9	30.3	45.1	60.7
Maryland.....	-----	-----	-----	-----	32.6	66.6	95.5	100.0	100.0	100.0
Massachusetts.....	-----	-----	-----	-----	9.2	16.6	21.8	24.7	38.3	47.1
Michigan.....	-----	-----	-----	-----	9.8	17.3	22.9	25.8	36.2	42.2
Minnesota.....	-----	-----	-----	-----	8.9	14.7	18.8	20.4	30.4	39.4
Mississippi.....	-----	-----	-----	-----	13.0	20.2	24.1	24.7	29.9	30.7
Missouri.....	-----	-----	-----	-----	24.9	39.5	50.0	54.1	77.4	97.2
Montana.....	-----	-----	-----	-----	6.4	11.1	14.8	16.7	30.1	43.0
Nebraska.....	-----	-----	-----	-----	35.5	70.5	99.7	100.0	100.0	100.0
New Hampshire.....	-----	-----	-----	-----	100.0	100.0	100.0	100.0	100.0	100.0
New Jersey.....	-----	-----	-----	-----	15.3	22.7	26.3	27.1	29.8	34.5
New Mexico.....	-----	-----	-----	-----	30.8	61.0	86.1	100.0	100.0	100.0
New York.....	-----	-----	-----	-----	20.7	36.7	45.9	50.5	64.3	69.1
North Carolina.....	-----	-----	-----	-----	8.7	14.6	19.1	21.0	32.3	38.9
North Dakota.....	-----	-----	-----	-----	11.0	18.8	24.5	27.0	36.5	39.4
Ohio.....	-----	-----	-----	-----	11.4	20.0	26.5	29.6	49.9	70.1
Oklahoma.....	-----	-----	-----	-----	6.1	11.0	14.5	16.2	26.7	35.6

Oregon.....	6.4	10.1	12.2	13.2	21.4	29.2
Pennsylvania.....	15.0	30.1	42.6	50.1	96.8	100.0
Rhode Island.....	6.6	11.8	15.6	17.7	27.0	33.1
South Carolina.....	28.8	47.3	59.1	63.3	93.0	100.0
South Dakota.....	11.2	19.2	25.4	28.8	51.1	71.3
Tennessee.....	8.0	13.3	16.6	18.2	30.2	41.4
Texas.....	48.0	65.5	80.0	80.0	100.0	100.0
Utah.....	3.6	6.8	9.3	10.7	19.9	28.1
Vermont.....	8.5	15.7	21.0	24.0	41.3	58.2
Virginia.....	18.3	31.1	40.7	45.8	72.2	87.4
Washington.....	14.5	22.9	29.1	32.1	51.6	71.2
West Virginia.....	7.8	14.0	17.8	19.3	27.3	32.9
Wisconsin.....	4.9	8.5	11.3	12.9	21.4	28.4
Wyoming.....	17.7	35.2	49.8	58.6	100.0	100.0

<sup>1</sup> Size of estate is before marital deduction and before deduction of Federal estate tax in States which allow this deduction.

Treasury Department, Tax Analysis Staff.

TABLE S.—Maximum Credit Allowed under Federal Estate Tax for Taxes Paid to States, as Percent of State Death Taxes for Selected Size Estates, Left One-half to Each of Two Adult Children

	Net estate, after deductions, <sup>1</sup> but before specific exemptions									
	\$25,000	\$50,000	\$100,000	\$200,000	\$400,000	\$600,000	\$800,000	\$1,000,000	\$2,500,000	\$5,000,000
Maximum Federal credit for State taxes— Amount.....	None	None	None	\$1,200	\$6,800	\$14,000	\$22,800	\$33,200	\$138,800	\$391,600
As percent of State tax:				Percent	Percent	Percent	Percent	Percent	Percent	Percent
Alabama.....				100.0	100.0	100.0	100.0	100.0	100.0	100.0
Alaska.....				35.8	85.6	100.0	100.0	100.0	100.0	100.0
Arizona.....				100.0	100.0	100.0	100.0	100.0	100.0	100.0
Arkansas.....				100.0	100.0	100.0	100.0	100.0	100.0	100.0
California.....				19.0	33.5	36.6	40.5	44.7	61.9	82.6
Colorado.....				21.8	34.9	40.6	46.1	58.2	75.3	100.0
Connecticut.....				19.8	43.7	50.8	54.9	59.8	79.1	100.0
Delaware.....				27.6	55.1	68.8	80.5	91.4	100.0	100.0
Florida.....				100.0	100.0	100.0	100.0	100.0	100.0	100.0
Georgia.....				100.0	100.0	100.0	100.0	100.0	100.0	100.0
Hawaii.....				17.8	36.3	43.4	48.3	53.3	79.4	100.0
Idaho.....				12.8	29.7	37.7	41.3	43.8	64.0	95.4
Illinois.....				38.2	76.5	96.1	72.8	81.0	86.6	100.0
Indiana.....				26.9	65.0	75.8	80.1	86.3	96.1	100.0
Iowa.....				31.3	65.3	73.7	79.4	84.5	100.0	100.0
Kansas.....				45.2	87.3	100.0	100.0	100.0	100.0	100.0
Kentucky.....				18.7	42.3	52.9	60.7	68.5	100.0	100.0
Louisiana.....				22.2	59.6	80.5	97.4	100.0	100.0	100.0
Maine.....				34.7	78.2	87.4	100.0	100.0	100.0	100.0
Maryland.....				71.2	100.0	100.0	100.0	100.0	100.0	100.0
Massachusetts.....				23.8	57.1	73.6	84.8	94.6	100.0	100.0
Michigan.....				20.7	49.3	61.4	69.5	77.6	90.8	100.0
Minnesota.....				17.5	40.9	51.7	59.7	67.6	100.0	100.0
Mississippi.....				47.8	73.5	78.5	80.8	82.1	85.7	86.7
Missouri.....				33.8	73.2	90.8	100.0	100.0	100.0	100.0
Montana.....				17.1	38.0	47.8	56.5	64.7	100.0	100.0
Nebraska.....				80.8	100.0	100.0	100.0	100.0	100.0	100.0
New Hampshire.....				100.0	100.0	100.0	100.0	100.0	100.0	100.0
New Jersey.....				41.4	68.7	70.4	71.5	75.6	81.7	84.4
New Mexico.....				63.2	100.0	100.0	100.0	100.0	100.0	100.0
New York.....				20.7	45.9	54.3	58.8	61.7	69.1	72.3
North Carolina.....				19.5	42.2	49.9	56.9	63.8	85.7	70.7
North Dakota.....				12.4	29.1	36.3	41.3	44.8	54.1	70.7
Ohio.....				28.1	70.0	87.9	99.7	100.0	100.0	100.0
Oklahoma.....				15.2	33.2	41.4	47.5	52.7	75.9	99.7



Oregon.....				17.8	36.3	39.2	40.9	43.8	61.5	82.3
Pennsylvania.....				30.2	85.2	100.0	100.0	100.0	100.0	100.0
Rhode Island.....				15.0	34.0	42.4	48.5	54.4	70.8	87.8
South Carolina.....				33.8	73.0	85.3	97.6	100.0	100.0	100.0
South Dakota.....				26.7	54.4	68.3	80.0	91.0	143.8	199.3
Tennessee.....				19.9	45.3	51.8	55.6	60.3	86.7	100.0
Texas.....				48.0	80.0	84.8	93.1	100.0	100.0	100.0
Utah.....				9.1	20.5	26.3	31.1	35.6	57.1	79.4
Vermont.....				21.7	53.5	76.9	82.4	92.5	100.0	100.0
Virginia.....				52.9	100.0	100.0	100.0	100.0	100.0	100.0
Washington.....				16.8	34.9	43.4	49.9	56.0	90.5	100.0
West Virginia.....				19.6	50.1	59.6	68.6	73.2	96.8	128.5
Wisconsin.....				13.1	29.2	36.8	43.4	49.8	76.3	76.9
Wyoming.....				40.4	100.0	100.0	100.0	100.0	100.0	100.0

<sup>1</sup> Size of estate is before deduction of Federal estate tax in States which allow this deduction.

Treasury Department, Tax Analysis Staff.

TABLE T.—Federal Credit for State Death Taxes as a Percent of State Death Tax Collections, by Gross Estate Classes—from Taxable Federal and State Estate Tax Returns Filed for 1956 Decedents or Filed during 1957

State	Gross estate classes (In thousands of dollars)								
	100-150	150-200	200-300	300-500	500-1,000	1,000-2,000	2,000-3,000	3,000-5,000	5,000 or more
California.....	3	6	12	24	28	48	52	68	74
Connecticut.....	2	11	15	28	39	54	42	52	100
Delaware.....	4	9	23	51	64	64	100	100	n.a.
District of Columbia.....	5	13	19	47	49	68	92	96	n.a.
Hawaii.....	4	3	32	27	48	n.a.	n.a.	n.a.	n.a.
Indiana.....	3	9	20	32	57	77	77	100	n.a.
Iowa.....	3	7	14	17	60	62	n.a.	n.a.	n.a.
Kansas.....	5	8	29	29	32	63	n.a.	n.a.	n.a.
Kentucky.....	2	7	13	29	29	60	n.a.	n.a.	100
Maine.....	3	6	14	28	38	44	n.a.	n.a.	n.a.
Massachusetts.....	2	4	9	20	43	55	73	43	86
Michigan.....	3	8	13	18	35	53	83	81	100
Minnesota.....	2	5	10	22	47	38	63	71	n.a.
Missouri.....	4	11	23	43	51	70	100	100	n.a.
Montana.....	1	5	9	22	<sup>1</sup> 10	96	n.a.	n.a.	n.a.
New Hampshire.....	2	10	22	47	100	78	n.a.	n.a.	n.a.
New Jersey.....	3	8	18	31	53	66	73	76	67
New York.....	4	8	18	34	52	61	67	61	81
North Carolina.....	2	6	11	21	35	55	76	n.a.	71
Ohio.....	3	6	17	35	46	74	86	93	89
Oregon.....	2	3	11	22	19	40	16	n.a.	n.a.
Pennsylvania.....	2	6	11	24	37	41	66	81	96
Rhode Island.....	2	5	15	27	54	39	100	90	70
South Carolina.....	6	14	29	53	61	100	100	n.a.	n.a.
Tennessee.....	2	6	11	18	30	48	50	n.a.	61
Utah.....	1	6	2	15	30	n.a.	59	n.a.	n.a.
Vermont.....	4	5	21	32	50	n.a.	n.a.	n.a.	100
Virginia.....	3	7	26	44	65	93	100	100	n.a.
Washington.....	2	7	13	28	28	45	82	n.a.	n.a.
Wisconsin.....	2	4	7	15	34	62	n.a.	n.a.	32
Wyoming.....	n.a.	20	50	53	63	n.a.	n.a.	n.a.	n.a.

<sup>1</sup> Based on one return only, with large amount of tax exempt bequests.  
n.a.—Not available.

Source: Special credit study and Internal Revenue Service, special tabulation.

TABLE U.—*Situs of Real Estate Reported on Federal Estate Tax Returns Filed in 1940*

[Dollar amounts in thousands]

States and territories	Real estate reported on returns filed in the State			Value of real estate reported on returns from all States		
	Total value	Percent of col. (2) with situs in the State	Number of other States in which decedents owned real estate	Total value with situs in the State	Percent of col. (5) reported on returns filed in the State	Number of other States with returns reporting real estate in State
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Alabama.....	\$3,632	97	10	\$3,565	96	19
Alaska.....	26	100	0	26	100	0
Arizona.....	513	74	8	781	44	14
Arkansas.....	1,768	90	14	2,015	73	16
California.....	49,323	93	40	47,437	96	36
Colorado.....	2,586	86	16	2,487	89	21
Connecticut.....	9,530	81	24	9,086	85	13
Delaware.....	1,047	92	7	1,063	91	6
District of Columbia.....	7,036	91	20	7,490	86	14
Florida.....	9,130	59	40	8,177	65	36
Georgia.....	4,914	94	14	5,021	92	14
Hawaii.....	1,025	92	1	948	100	0
Idaho.....	508	94	5	790	59	10
Illinois.....	32,913	93	37	32,389	94	34
Indiana.....	8,184	93	21	8,556	88	14
Iowa.....	13,592	93	22	13,456	93	18
Kansas.....	7,978	95	15	8,210	92	17
Kentucky.....	5,355	99	15	5,481	96	14
Louisiana.....	5,016	91	16	4,828	95	21
Maine.....	2,415	88	11	3,659	58	14
Maryland.....	7,049	89	20	6,820	91	10
Massachusetts.....	16,423	88	23	15,560	93	19
Michigan.....	11,268	96	27	11,856	91	16
Minnesota.....	4,323	94	17	4,577	87	24
Mississippi.....	2,029	93	9	2,042	91	11
Missouri.....	6,273	91	27	6,344	90	24
Montana.....	1,662	79	7	1,664	78	19
Nebraska.....	4,699	95	16	5,208	86	20
Nevada.....	417	32	6	164	81	1
New Hampshire.....	1,260	70	11	1,210	73	12
New Jersey.....	15,101	81	26	13,759	89	13
New Mexico.....	497	79	6	590	67	10
New York.....	63,450	90	44	62,199	92	31
North Carolina.....	6,467	96	12	6,328	96	16
North Dakota.....	416	88	3	776	47	14
Ohio.....	22,024	96	27	22,506	93	20
Oklahoma.....	4,179	92	15	4,355	87	30
Oregon.....	3,164	96	10	3,587	85	16
Pennsylvania.....	31,418	92	36	29,979	95	28
Rhode Island.....	4,225	96	10	4,400	92	11
South Carolina.....	2,088	94	6	2,189	90	8
South Dakota.....	564	99	3	799	70	14
Tennessee.....	3,165	92	12	3,005	94	14
Texas.....	19,380	98	23	19,745	96	34
Utah.....	653	92	7	688	88	5
Vermont.....	1,017	75	16	929	82	9
Virginia.....	7,843	91	21	7,681	92	14
Washington.....	4,071	87	9	4,446	79	16
West Virginia.....	3,361	92	16	2,913	93	10
Wisconsin.....	7,045	92	21	7,666	85	17
Wyoming.....	662	89	8	674	87	13
Other <sup>1</sup> .....				2,580		
Total.....	422,684		830	422,684		830
Average.....		90.9	16.3		90.9	16.3

Treasury Department, Tax Analysis Staff.

<sup>1</sup> Includes \$2,516,000 situs not reported.

Source: Internal Revenue Service, *Statistics of Income for 1939, Part 1*, pp. 272-76.

TABLE V.—State Death and Gift Tax Collections, by States, Fiscal Year 1960

State	All State taxes (millions)	Death and gift taxes		State	All State taxes (millions)	Death and gift taxes	
		Amount (thousands)	Percent of all taxes			Amount (thousands)	Percent of all taxes
Alabama.....	\$274	\$705	0.3	Nebraska.....	\$91	\$374	0.4
Alaska.....	27	54	.2	Nevada.....	43	-----	-----
Arizona.....	164	463	.3	New Hampshire.....	42	2,093	5.0
Arkansas.....	158	241	.2	New Jersey.....	365	20,621	5.6
California.....	2,124	47,180	2.2	New Mexico.....	123	676	.5
Colorado.....	193	6,638	3.4	New York.....	1,961	71,611	3.7
Connecticut.....	238	16,920	7.1	North Carolina.....	459	6,644	1.4
Delaware.....	71	1,088	1.5	North Dakota.....	61	278	.5
Florida.....	522	5,488	1.1	Ohio.....	873	8,694	1.0
Georgia.....	369	981	.3	Oklahoma.....	275	6,396	2.3
Hawaii.....	124	587	.5	Oregon.....	208	4,523	2.2
Idaho.....	69	751	1.1	Pennsylvania.....	1,029	51,121	5.0
Illinois.....	836	22,027	2.6	Rhode Island.....	86	3,873	4.5
Indiana.....	399	7,563	1.9	South Carolina.....	235	1,596	.7
Iowa.....	266	7,294	2.7	South Dakota.....	53	927	1.8
Kansas.....	207	3,727	1.8	Tennessee.....	305	4,844	1.6
Kentucky.....	229	5,302	2.3	Texas.....	778	11,500	1.5
Louisiana.....	453	7,311	1.6	Utah.....	103	1,017	1.0
Maine.....	87	3,229	3.7	Vermont.....	43	733	1.7
Maryland.....	344	4,987	1.5	Virginia.....	292	5,176	1.8
Massachusetts.....	491	20,535	4.2	Washington.....	461	9,422	2.0
Michigan.....	914	12,124	1.3	West Virginia.....	180	2,430	1.4
Minnesota.....	352	7,335	2.1	Wisconsin.....	426	14,039	3.3
Mississippi.....	194	666	.3	Wyoming.....	41	344	.8
Missouri.....	313	5,259	1.7	Total.....	18,017	419,162	2.3
Montana.....	65	1,775	2.7				

NOTE: Due to rounding detail will not necessarily add to totals.

Source: Bureau of the Census, Governments Division, "State Tax Collections in 1960."

TABLE W.—State Gift Tax Collections, Selected Fiscal Years 1950–60

[In thousands of dollars]

State	1950	1952	1954	1955	1956	1957	1958	1959	1960
California.....	\$1,205	\$1,400	\$1,682	\$1,831	\$2,163	\$2,559	\$2,780	\$2,991	\$3,453
Colorado.....	55	103	419	207	299	281	173	315	449
Louisiana.....	110	121	156	119	143	79	152	91	110
Minnesota.....	117	188	120	693	466	630	347	162	242
North Carolina.....	124	265	453	358	415	431	317	323	313
Oklahoma.....	226	208	310	603	506	501	485	567	644
Oregon.....	57	96	81	145	100	464	227	163	240
Rhode Island.....	30	101	55	79	51	191	61	46	118
Tennessee.....	82	111	81	200	202	147	341	315	253
Virginia.....	104	89	128	125	204	209	276	247	302
Washington.....	96	130	350	229	283	500	369	500	*500
Wisconsin.....	537	1,030	613	758	943	1,281	1,021	1,097	1,387
Total.....	2,743	3,842	4,448	5,347	5,775	7,273	6,549	6,822	8,011

\*Estimated.

NOTE.—Due to rounding, detail will not necessarily add to totals.

Source: Bureau of the Census, Governments Division.





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