

THE CHARITABLE IMPLICATIONS OF THE ESTATE TAX

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- **The estate tax generates a significant amount of charitable contributions.** In 1999, estate tax filers paid approximately \$28 billion in gift and estate taxes, and made *charitable bequests of nearly \$15 billion*.
- **The estate tax plus charitable bequests is an important infusion of capital into our society for public benefit.** Overall, the combination of bequests and estate/gift tax payments amounts to an annual infusion of \$45 billion addressing public and charitable needs. This amount increases significantly in future years.
- **Charitable bequests resulting from the estate tax were 7.8% of all charitable giving in 2000,** not far behind giving by foundations (12.0%), and higher than giving by corporations (5.3%).
- **Increases in charitable giving due to the estate tax are greater than the tax revenues foregone.** Unlike other forms of charitable giving, it costs the federal treasury less than a dollar for every dollar of charitable bequests. In other words, it is a very efficient tax in terms of charitable giving incentives.
- **Many types of nonprofits benefit from charitable bequests.** In dollar amounts, roughly 1/3 of charitable bequests go to educational, medical, and scientific institutions (think colleges and universities), another 31% are gifts to foundations, and another fourth of bequests goes to other charities, primarily human service providers. Remember, the bequests to foundations end up in the future as grantmaking to nonprofits, including many human service delivery and social change advocacy nonprofits, so the proportion of bequests that benefits people and families in need is ultimately even higher.
- **Religious organizations stand to lose a lot if the estate tax is repealed.** In terms of numbers of bequests, religious organizations receive the most bequests (34.1%), followed by 29.7% for institutions of higher education, and 25% for “other” (human service) charities.
- **Even with the incentive of the estate tax, very wealthy households give less in charitable donations than other income groups.** *Less than one out of five estate tax filers made charitable bequests in 1998 and 1999.* Overall, the very wealthy give away only one half of one percent of their net wealth for charity annually. (Compare that to the generosity of the least wealthy in our society: the lowest fifth of the U.S. population (with positive net worths) give 13% of their wealth to charity compared to less than 1% for all other income strata.)
- **Professionals know the importance of charitable bequests in estate planning.** Even with the presence of the estate tax, estate tax planners find it difficult to raise the issue of charitable bequests with many of their clients. Without the estate tax, that would be even more difficult. Interviews with donors make the importance of the estate tax clear: three fourths of “charitable remainder trust” donors, more than half of “gift annuity donors”, and more than one-third of charitable bequest donors admit that tax benefits are important or very important motivations for their donations.
- **The importance of giving by the very wealthy is clear—they have the capacity to give.** The very wealthiest estates (valued at \$20 million or more) gave about 26% of the value of their

estates as charitable bequests in 1999. Compare this with estate tax filers with estates of \$600,000 to \$1 million, who gave 3.5% of the value of their estates to charity.

- **The very wealthiest estates generate the bulk of charitable bequests.** Almost half of the very largest estates (above \$20 million) make charitable bequests, averaging \$25.9 million. For estates of \$10-20 million, only 38% made bequests, with an average size of \$3.4 million. Estates above \$10 million accounted for half of all charitable bequests.
- **Bequests represent 28% of the lifetime charitable giving of the very rich.** Over a recent 10-year period examining the annual and bequest giving of wealthy donors as a whole, bequests accounted for 7.8% of their total charitable donations.
- **Income-earners tend to be more charitably generous than wealth-inheritors.** One cannot depend on heirs for charitable giving to be comparable to the charitable giving of the people who earned the money. *For every thousand dollars of entrepreneurial (earned) wealth, an entrepreneur will give \$4.56 to charity; for every thousand dollars of inherited wealth, an heir will give only 76 cents.*
- **Eliminating the estate tax will cost billions in lost charitable bequests.** Although estimates vary, nearly every quantitative study shows that eliminating the estate tax will have a tremendously negative impact on charitable bequests. *Estimates in lost charitable bequests range from 12% to 80% annually, with most estimates seemingly falling in the 35-60% range.* In 2000, had there been no estate tax, charitable bequests might have dropped between \$5.6 and \$9.6 billion, a devastating loss to America's charities.
- **The impact goes beyond charitable bequests to annual charitable giving lost as a result of the potential repeal of the estate tax:** With the repeal of the estate tax, annual charitable giving will also suffer, because wealthy households make charitable bequests not simply at the time of estate planning, but they plan for using their wealth during their lives as well. *Some estimates suggest that for every dollar of charitable bequests lost due to the elimination of the estate tax, there will be another dollar lost in annual giving.*

Charitable Deductions Claimed in Estate Tax Returns: 1999					
Size of Gross Estate	# of Returns	# with Charitable Deductions	% Claiming Charitable Deductions	Total Charitable Deductions	Charitable Deduction Per Return
\$600K but under \$1 mil	49,898	6,640	13.31%	\$1,141,747,000	\$171,950
\$1 mil but under \$2.5 mil	40,779	7,354	18.03%	2,380,900,000	323,756
\$2.5 mil but under \$5 mil	8,626	2,000	23.19%	1,492,748,000	746,374
\$5 mil but under \$10 mil	3,050	896	29.38%	1,414,928,000	1,579,161
\$10 mil but under \$20 mil	1,083	409	37.77%	1,392,114,000	3,403,702
<u>\$20 mil or more</u>	<u>577</u>	<u>261</u>	<u>45.23%</u>	<u>6,752,878,000</u>	<u>25,873,096</u>
<i>Total</i>	<i>103,993</i>	<i>17,559</i>	<i>16.18%</i>	<i>\$14,575,316,000</i>	<i>\$830,077</i>

Source: IRS, *Statistics of Income*, unpublished data, March 26, 2001.

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