

**DESCRIPTION OF "THE DEATH TAX
ELIMINATION ACT OF 2000" (H.R. 8)**

Scheduled for Markup

By the

HOUSE COMMITTEE ON WAYS AND MEANS

on May 25, 2000

Prepared by the Staff

of the

JOINT COMMITTEE ON TAXATION



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CONTENTS

	<u>Page</u>
INTRODUCTION	1
PHASE IN REPEAL OF ESTATE, GIFT, AND GENERATION-SKIPPING TRANSFER TAXES	2

INTRODUCTION

The House Committee on Ways and Means has scheduled a markup of H.R. 8 (the "Death Tax Elimination Act of 2000") on May 25, 2000.

This document,¹ prepared by the staff of the Joint Committee on Taxation, provides a description of the provisions contained in H.R. 8.

¹ This document may be cited as follows: Joint Committee on Taxation, *Description of "The Death Tax Elimination Act of 2000" (H.R. 8)* (JCX-51-00) May 23, 2000.

PHASE IN REPEAL OF ESTATE, GIFT, AND GENERATION-SKIPPING TRANSFER TAXES

Present Law

A gift tax is imposed on lifetime transfers and an estate tax is imposed on transfers at death. The gift tax and the estate tax are unified so that a single graduated rate schedule applies to cumulative taxable transfers made by a taxpayer during his or her lifetime and at death. The unified estate and gift tax rates begin at 18 percent on the first \$10,000 in cumulative taxable transfers and reach 55 percent on cumulative taxable transfers over \$3 million. In addition, a 5-percent surtax is imposed on cumulative taxable transfers between \$10 million and the amount necessary to phase out the benefits of the graduated rates. Thus, estates between \$10,000,000 and \$17,184,000 are subject to an effective top marginal rate of 60 percent. Estates over \$17,184,000 are subject to a top marginal rate of 55 percent, as the benefit of the graduated rates has been phased out.

A unified credit is available with respect to taxable transfers by gift and at death. The unified credit amount effectively exempts from tax transfers totaling \$675,000 in 2000 and 2001, \$700,000 in 2002 and 2003, \$850,000 in 2004, \$950,000 in 2005, and \$1 million in 2006 and thereafter. The benefit of the unified credit applies at the lowest estate and gift tax rates. For example, in 2000, the unified credit applies between the 18-percent and 37-percent estate and gift tax rates. Thus, in 2000, taxable transfers, after application of the unified credit, are subject to estate and gift tax rates beginning at 37 percent.

A generation-skipping transfer tax generally is imposed on transfers, either directly or through a trust or similar arrangement, to a "skip person" (i.e., a beneficiary in a generation more than one generation below that of the transferor). Transfers subject to the generation-skipping transfer tax include direct skips, taxable terminations, and taxable distributions. The generation-skipping transfer tax is imposed at a flat rate of 55 percent (i.e., the top estate and gift tax rate) on cumulative generation-skipping transfers in excess of \$1 million.

The basis of property acquired or passing from a decedent is its fair market value on the date of the decedent's death (or, if the alternative valuation date is elected, the earlier of six months or the date the property is sold or distributed by the estate). This step up (or step down) in basis eliminates the recognition of any income on the appreciation of the property that occurred prior to the decedent's death, and it has the effect of eliminating any tax benefit from any unrealized loss.

Description of Proposal

Beginning in 2010, the estate, gift, and generation-skipping transfer taxes would be repealed.

Prior to repeal, each of the estate and gift tax rates would be reduced by 5 percentage points per year, starting in 2000. Each of the state death tax credit rates also would be reduced by 1.5 percentage points per year, starting in 2000.

Effective Date

Reduction of the estate and gift tax rates and reduction of the State tax credit would occur in 2000 through 2009.

The estate, gift, and generation-skipping transfer taxes would be repealed for estates of decedents dying and gifts and generation-skipping transfers made after December 31, 2009.