

# Inter Vivos Wealth Transfers, 1997 Gifts

by Martha Britton Eller

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

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

and represented 33.0 percent of the full value of discounted assets.

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

## Background

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

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

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

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

at three-quarters of estate tax rates, a level maintained until 1976, when Congress passed the Tax Reform Act (TRA) of 1976 and created the unified estate and gift tax

framework that consisted of a “single, graduated rate of tax imposed on both lifetime gift and testamentary dispositions” [4]. The generation-skipping transfer tax was also introduced in TRA of 1976.

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

While the definition of gift is quite broad, there are three types of transfers that are not recognized as “gifts” under the IRC, and individuals are not required to report these transfers: transfers to qualifying political organizations, direct payments to medical institutions or to individuals who provide medical care to third parties, and direct payments to educational institutions on behalf of third parties. Outright gifts to spouses and outright gifts to qualifying charitable organizations are also provided special treatment under the IRC. The IRC grants an unlimited deduction for all outright gifts to spouses, the marital deduction, as well as an unlimited deduction for all outright gifts to qualifying charitable organizations, the charitable

deduction. There is no reporting requirement for outright gifts to spouses, while charitable gifts that exceed the annual exclusion must be reported.

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

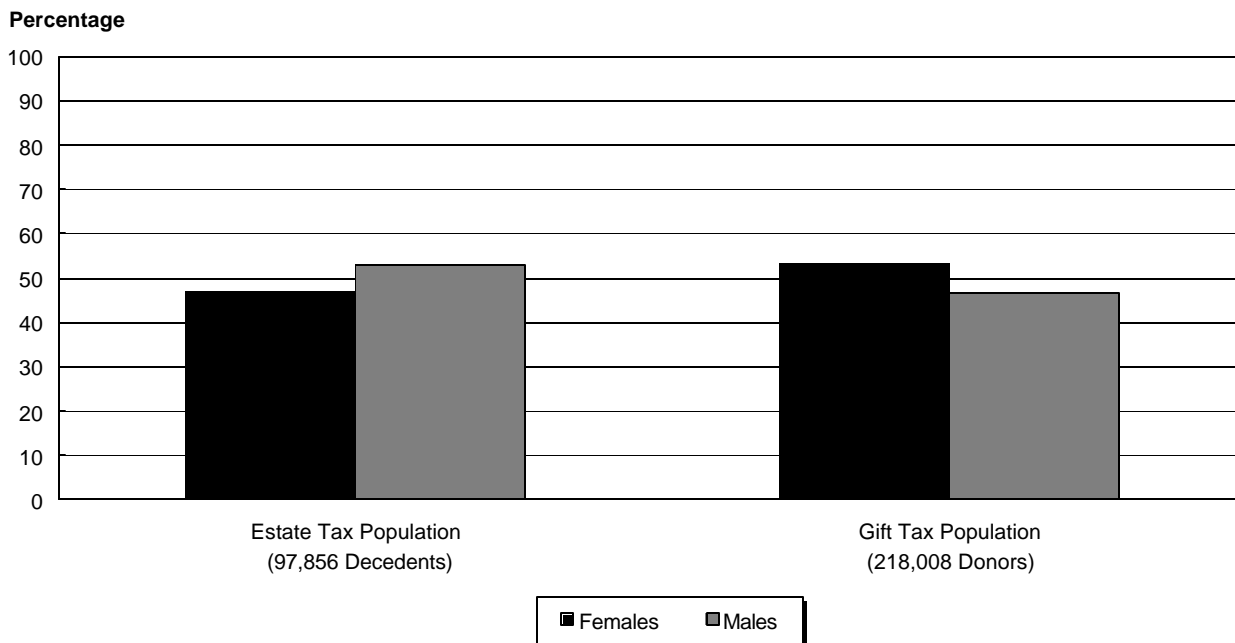
#### The 1997 Donor Population

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

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

Figure A

**Composition of Estate and Gift Tax Populations, by Sex**



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

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

**Married Donors**

Federal gift tax law allows married couples to divide, or “split,” gifts to third parties. By agreeing to split gifts, a couple doubles the value of the annual exclusion allowed under gift tax law, from \$10,000 to \$20,000 per donee. However, in order to qualify for split gifts, certain requirements must be met. For instance, both spouses must be citizens or residents

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

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

Figure B

Percentage of Taxable and Nontaxable Gift Tax Returns, 1997 Donors

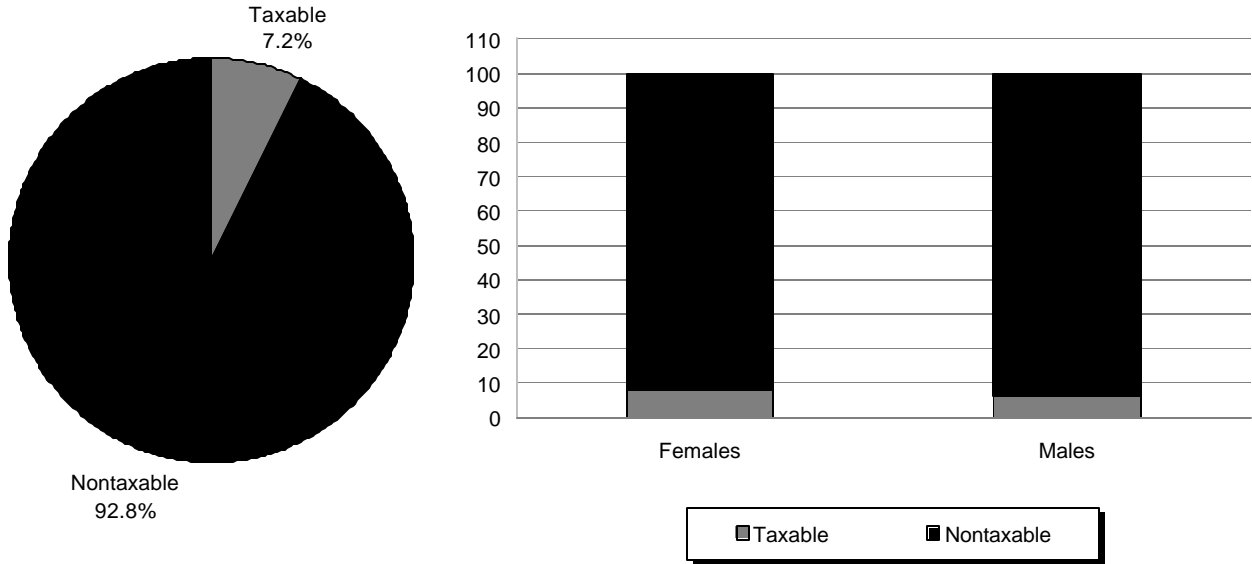
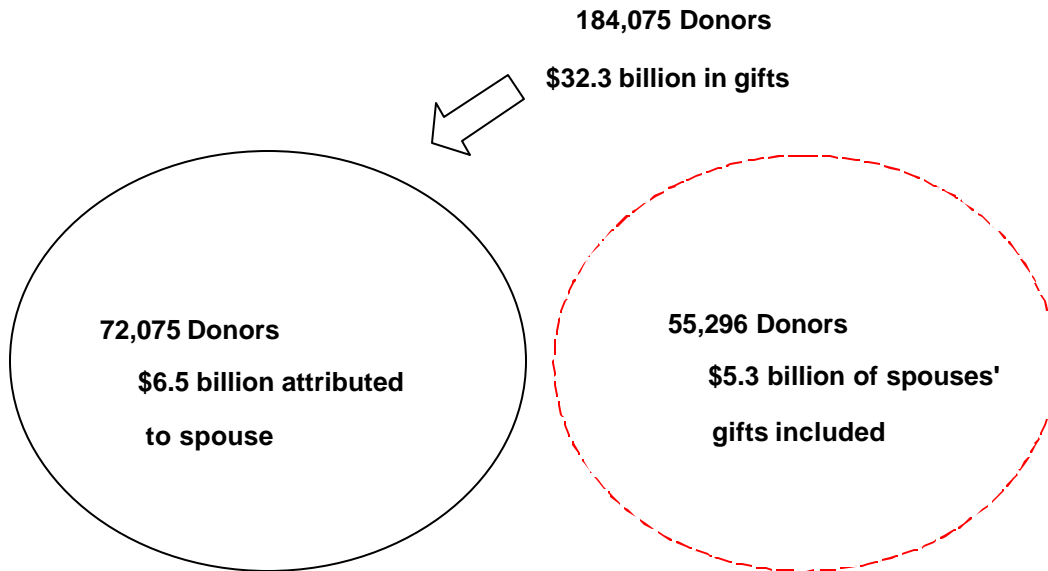


Figure C

Gift-Splitting in the 1997 Donor Population



## Inter Vivos Wealth Transfers, 1997 Gifts

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

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

### Gifts in 1997

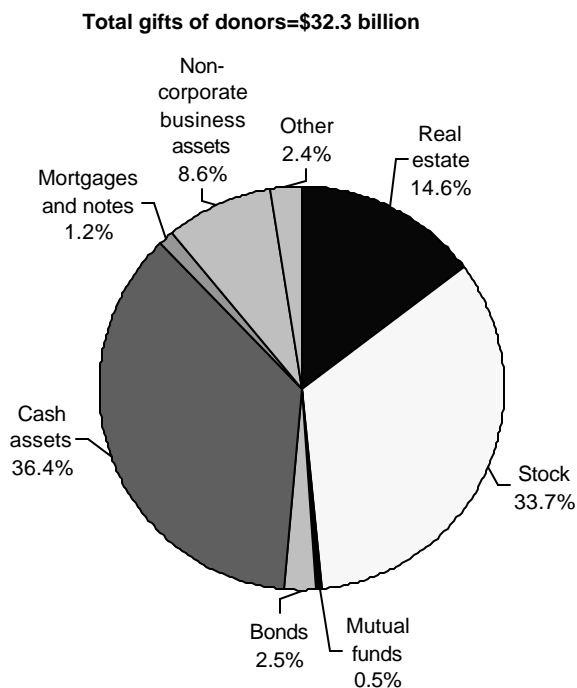
Since the gift tax return requires donors to report transferred assets and the value of those assets, in addition to donor information, SOI has collected data on the asset composition of gifts and the method by which gifts were given, i.e., whether gifts were given directly or through trust. Donors who gave gifts in

1997 transferred assets to almost 690,000 gift recipients, including both individuals and trusts (Figure D). Females and males represented 47.7 percent and 47.0 percent of the recipient population, respectively, while trusts created or maintained through gifts, as well as unknown recipients, represented 5.3 percent of the donee population [9].

The largest category of gifts was cash and cash management accounts. Donors gave \$11.8 billion in cash and cash management accounts, 36.4 percent of total gifts (Figure E) [10]. Donors' second largest category of gifts, at 33.7 percent of total gifts, was

Figure E

### Asset Composition of Gifts



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

stock. Donors gave \$3.6 billion in the stock of closely held corporations and \$7.2 billion in publicly traded corporate stock. The third largest category of 1997 gifts was real estate, which includes the value of personal residences, commercial real estate, real estate partnerships, and other real estate. Donors

Figure D

### Composition of Donee Population

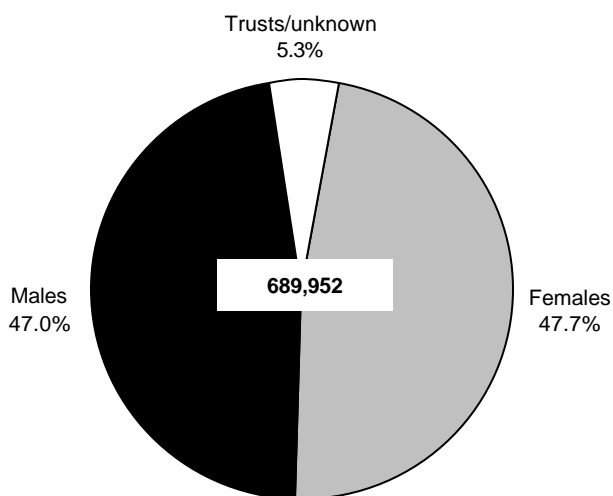
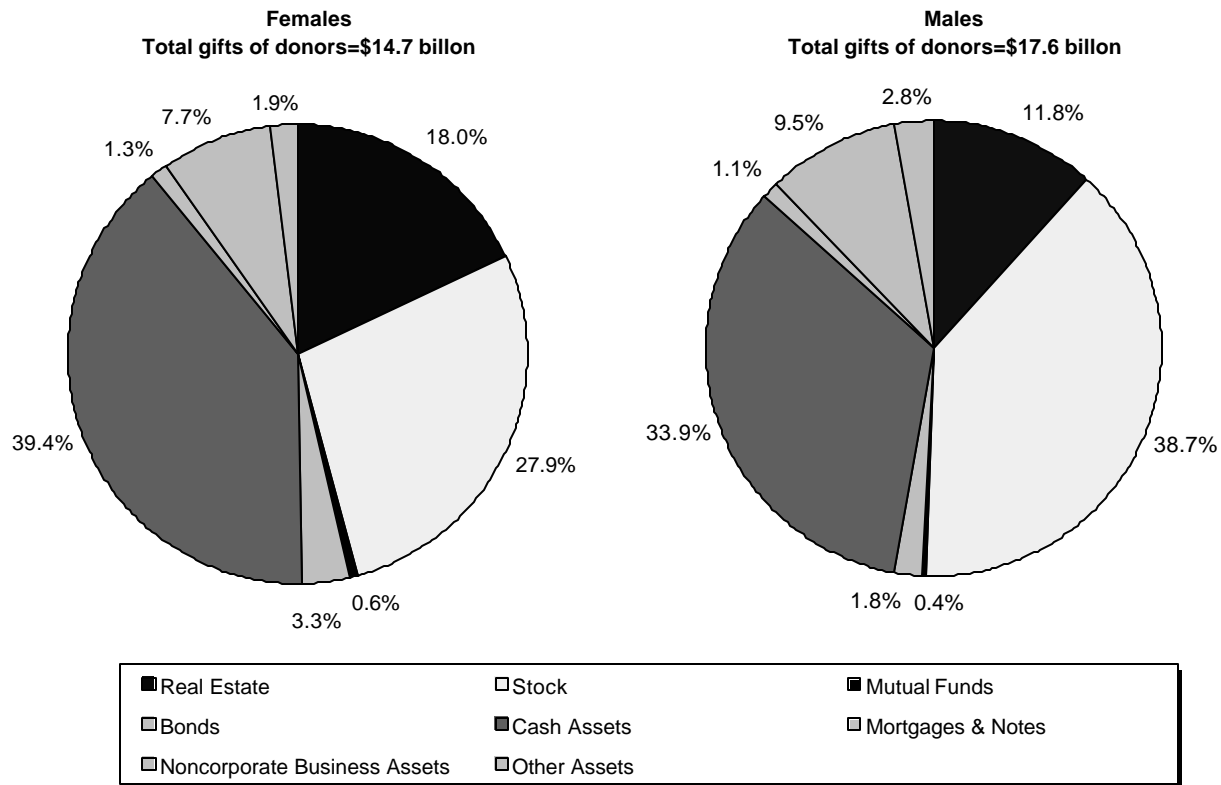


Figure F

**Asset Composition of Gifts, by Sex of Donor**



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

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

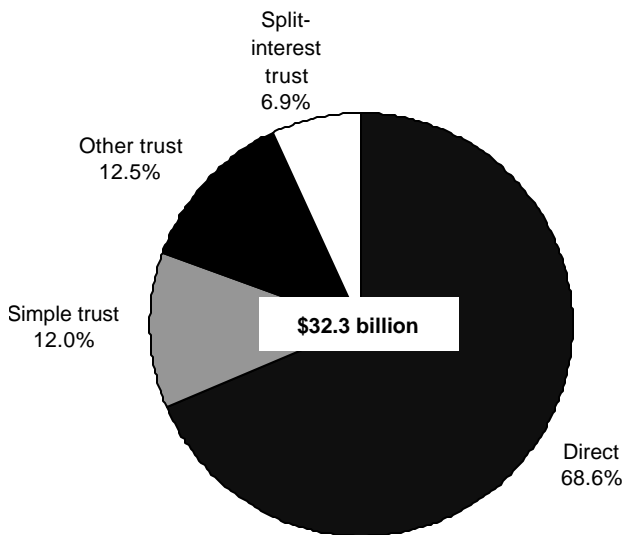
Although women comprised the majority of the donor population, they transferred gifts of lesser total value than the gifts of their male counterparts. Women gave \$14.7 billion in total gifts, while men gave \$17.6 billion in gifts (Figure F). Women and men also differed somewhat in the composition of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

assets, 33.9 percent of gifts. Both women and men selected real estate assets as their third preference.

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

Figure G

Composition of Gifts, by Type of Instrument



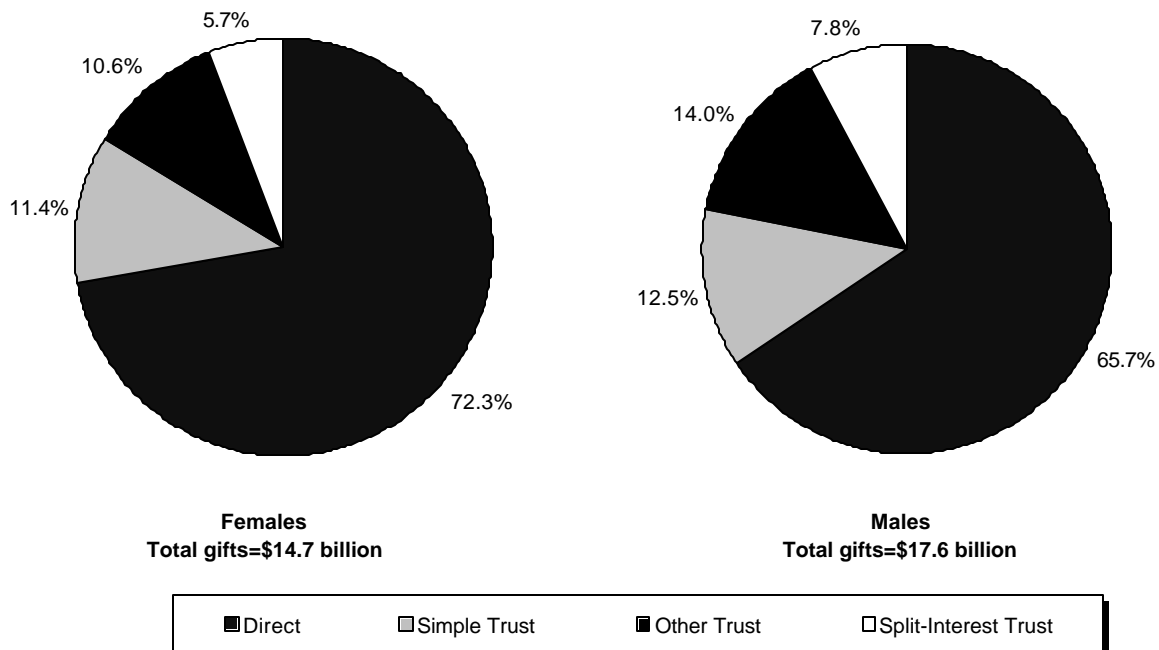
of both charities and private individuals. Split-interest trusts include charitable lead trusts (annuity or unitrust), charitable remainder trusts (annuity or unitrust), and pooled income funds. Women, who tended to give cash gifts, had a higher preference for direct gifts than did men, who gave a higher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

Use of Valuation Discounts

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

Figure H

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



## Inter Vivos Wealth Transfers, 1997 Gifts

Figure I

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

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

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

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

Figure J

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

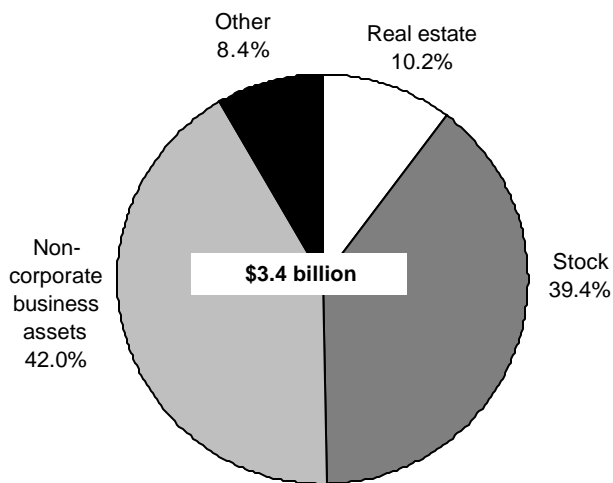
Percentage of valuation discount	Valuation discount	
	Number of discounted gifts	Amount of discount
<b>All discounted gifts</b> .....	<b>93,395</b>	<b>3,433,185,085</b>
Less than 20 percent .....	14,909	116,615,326
20 percent under 40 percent .....	54,799	1,744,410,845
40 percent or higher .....	23,687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

were discounted between 20 percent and 40 percent, while 16.0 percent were discounted less than 20 percent, and 25.4 percent were discounted 40 percent or more.



Figure K

**Composition of Valuation Discounts, by Asset Type**



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

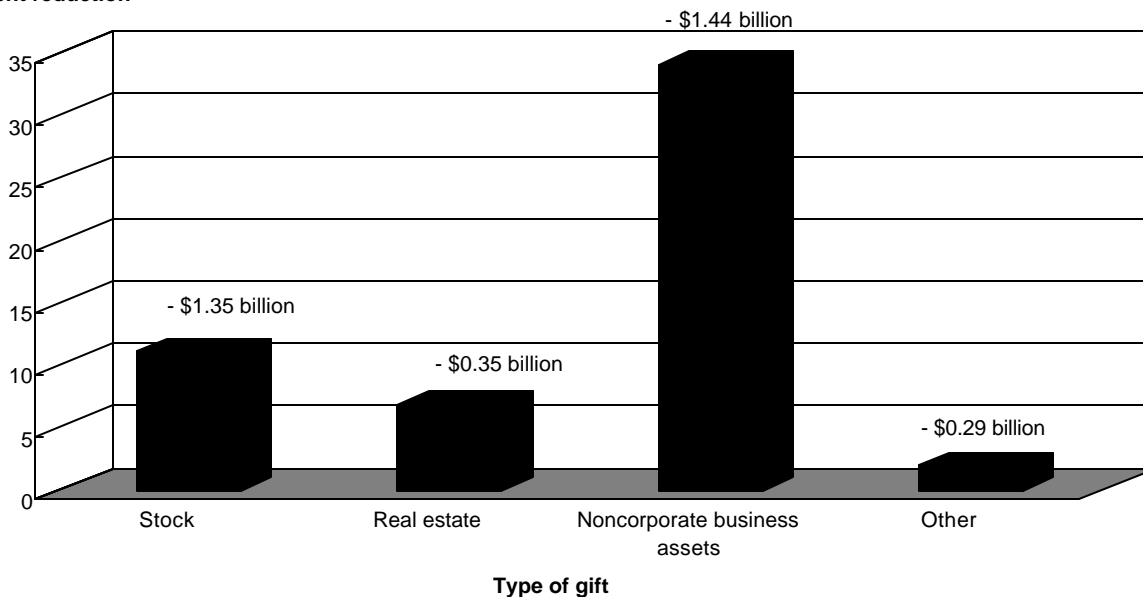
Donors took valuation discounts on a wide variety of transferred assets. The largest percentage of discounts was applied to the value of noncorporate business assets, including limited and family limited partnerships and noncorporate business assets. These discounts represented 42.0 percent of all discounts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

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

Figure L

**Reduction in Value of Gifts Due to Discounts**

Percent reduction



## *Inter Vivos* Wealth Transfers, 1997 Gifts

### Data Sources and Limitations

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

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

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

The sampling selection scheme for each noncertainty stratum is based on the Taxpayer Identification Number (TIN), which is the donor's SSN, as found on the return and the RTF. An integer function of the SSN, called the Transformed Taxpayer Identification Number (TTIN), is computed. The last four digits of the TTIN is a pseudorandom number. A return for which the pseudorandom number is less than the sampling rate multiplied by 10,000 is selected

into the sample. Any returns with total gifts of \$1 million or more were automatically selected. Because all post-1976 gift tax returns for each donor in the sample are included in the study, the total number of Federal gift tax returns in the panel is 46,300.

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

### Summary

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

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

### Explanation of Selected Terms

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

*Charitable deduction.*--An unlimited charitable deduction is available for all outright transfers to

qualified charities. The deduction is available for gifts to trust only if the trust meets certain requirements.

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

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

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

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

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

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

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

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

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

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

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

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

## Notes and References

- [1] Married donors are allowed to split gifts to third parties, and the available \$10,000 annual exclusion per donee is then doubled to \$20,000. In most cases, both spouses must file a Federal gift tax return. There were 184,075 donors who reported gifts of their own, worth \$32.3 billion; 72,075 donors who attributed half of their gifts to their spouses; and 55,296 donors who included their spouse's gifts on their returns. The value of total gifts referenced here is the value after gifts have been split between both spouses' returns; the population of donors with a value for total gifts is 218,008.
- [2] Parts of this article are excerpts from Eller, Martha Britton, "Counting Gifts," *Trusts and Estates*, Vol. 142, No. 1, 2003.
- [3] Zaritsky, Howard and Ripy, Thomas, *Federal Estate, Gift, and Generation Skipping Taxes: A Legislative History and Description of Current Law*, Congressional Research Service, Washington, D.C., Report No. 84-156A, 1984.
- [4] *Ibid.*
- [5] See footnote 1.
- [6] These estate tax figures include returns filed in 1998 for multiple years of death, not just 1997. For detailed data on the estate tax filing population for Filing Year 1998, see Johnson, Barry W. and Jacob M. Mikow, "Federal Estate Tax Returns, 1998-2000," *Statistics of Income Bulletin*, Vol. 21, No. 4.
- [7] A terminable interest is a property interest that expires, or terminates, at some point in the future. Life or income interests are examples of terminable interests. A future interest is a property interest that allows use or enjoyment of transferred property at some point in the future, rather than at present. Examples of future interests include reversions or remainder interests.
- [8] Power of appointment may be defined as the right to freely distribute income and property from a trust.

## *Inter Vivos* Wealth Transfers, 1997 Gifts

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

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

[11] For more detailed information on the sample design and use of the IRS Returns Transaction File (RTF) as a sample frame, see Eller, Martha

Britton and Tamara L. Rib, "The 1998 Gift Tax Panel Study: Using the IRS Returns Transaction File as a Sample Frame," *2001 Proceedings of the Section on Government Statistics and Section on Social Statistics*, American Statistical Association, Alexandria, VA.

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

SOURCE: IRS, Statistics of Income Bulletin,  
Publication 1136, Winter 2003 - 2004