

**Estate and Gift Taxation in Taiwan: An Analysis of
the Current System and Some Proposals for Reform**

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1. Introduction

The taxation of property left to one's heirs is among the oldest forms of taxation, dating back at least to the time of Ancient Egypt. In Taiwan, as in various other countries, this practice continues today, with both citizens and foreign residents subject to estate and gift taxation. While valuable as a tool for achieving progressivity, concerns have been raised that the current estate and gift tax structure in Taiwan may be contributing to resource distortions and capital flight as a result of efforts by wealthy citizens and residents to avoid taxation. In this paper, we summarize the current structure of estate and gift taxation in Taiwan, review operational statistics on tax payments, and explore the implications of some alternative proposals for short-run reform. We also briefly discuss the scope for longer-term reform involving the integration of the estate and gift tax systems.

The remainder of this paper is organized as follows. In Section 2, we provide an overview of the current estate tax structure in Taiwan. An overview of the current gift tax structure follows in Section 3. In Section 4, we provide a rationale for continued use of estate and gift taxation in Taiwan, while highlighting the scope for possible reform. In Section 5, we present two alternative proposals for short-term reform of the estate and gift tax structures, and we explore the implications of these reforms for tax revenue and tax progressivity under the static assumption of no behavioral response. In Section 6, we examine aggregate time series evidence on the impact of an earlier estate and gift tax rate reduction on tax collections to see what can be learned about longer run behavioral responses. We close in Section 7 with a discussion of the relative merits of eventually integrating the estate and gift tax structures.

2. Estate Tax Structure

The current estate tax in Taiwan applies to both citizens and foreign residents. Resident citizens are subject to estate taxation on their worldwide property, while foreign residents and non-resident citizens are taxable with respect to property located within the Republic of China in Taiwan (ROC).

Within six months of the date of death, the executor or administrator of the estate must file an estate tax return reporting the property left by a decedent. The base of the estate tax is subject to certain exclusions, deductions, and exemptions.

2.1 Exclusions

The following property items are excluded from the estate tax base:

1. Property donated to qualifying government and charitable organizations, including property transferred via charitable trusts;
2. Patents, copyrights, and works of art created by the decedent;
3. “Necessities for daily life” with gross value under NT\$720,000;
4. Apparatus the decedent owned for professional use with a gross value under NT\$400,000;
5. Forests banned or restricted from logging;
6. Life insurance proceeds paid to the designated beneficiary of the decedent;
7. Property inherited by the decedent within 5 years of his or her death on which estate tax had been paid previously;
8. Land used for public passage;
9. Property owned by the spouse or children of the decedent; and
10. Unrecoverable or unexercisable claims that have been inherited.

2.2 Deductions

After applying the above exclusions, various deductions are accounted for in determining the base for the estate tax. These include:

1. Bequests to a spouse, limited to a maximum of NT\$400,000;
2. Bequests to a lineal descendant (child or grandchild), limited to a maximum of NT\$400,000 plus an additional NT\$400,000 for each year between the current age of the descendant and age 20;
3. Bequests to parents, limited to a maximum of NT\$1,000,000 per parent;
4. Bequests to dependent brothers, sisters, and grandparents, limited to a maximum of NT\$400,000 plus an additional NT\$400,000 for each year between the current age of the dependent brother or sister and age 20;
5. The total value of crops and farmland used for agricultural purposes;
6. A portion of the value of any property (ranging from 20 percent to 80 percent, depending on the date of inheritance) for any property the decedent inherited 6 to 9 years prior to his or her death, upon which estate tax had been paid previously;
7. Outstanding debts, taxes, penalties, and fines of the decedent;
8. A standard deduction for funeral expenses in the amount of NT\$1,000,000; and
9. All direct and necessary administrative expenses.

The first three deductions listed above are increased by an additional NT\$5 million if the spouse, lineal descendant, or parent is handicapped. All but the last three deductions listed above are restricted to decedents who were resident citizens. As well, the last three deductions apply only to the extent that the expenses were incurred within the ROC.

2.3 Exemption

Beyond the above exclusions and deductions, an exemption of NT\$7 million is allowed in cases where the decedent was a resident citizen. This exemption is doubled if the decedent was a soldier, policeman, civil servant, or teacher who died while in service.

2.4 Other Offsets and Inclusions

Gifts from the decedent to the spouse and heirs within 2 years of time of death are included in the gross estate. A credit is available to offset any gift tax that has been paid on such gifts. In addition, when property located within foreign countries is subject to the Taiwan estate tax, a deduction is provided for foreign estate or gift taxes that have been paid on the property.

2.5 Tax Rate Structure

The current estate tax is imposed through ten tax brackets with graduated marginal tax rates, ranging from 2 percent for estates valued at NT\$0.6 million or less, to 50 percent for estates valued at NT\$100 million or more. The complete rate structure is presented in Table 1. The threshold values of the tax brackets, as well as the exemption and deduction amounts for the tax are subject to periodic adjustment for inflation.

In cases where the estate tax payable amounts to NT\$300,000 or more, the taxpayer may apply to the tax authority to arrange payment in twelve installments with an interval of no more than two months between each installment. Alternatively, the taxpayer may apply for permission to pay the tax in full by surrendering the taxed property or other easily cashable or storable property.

2.6 Observations

Unlike the estate taxes imposed in some other countries (e.g., the United States), it is interesting to observe that the estate tax in Taiwan permits only a limited deduction for spousal bequests. At the same time, bequests to a spouse or another person are not subject to estate taxation at the time of the recipient's death if the recipient dies within five years of receiving the bequest. Further, should the recipient die between six and nine years of receiving the bequest, only a limited portion of the bequest is subject to estate taxation at the time of the recipient's death.

3. Gift Tax Structure

Since taxation at death otherwise could easily be avoided through inter vivos transfers, Taiwan also imposes a gift tax. Like the estate tax, the current gift tax in Taiwan applies to both citizens and foreign residents. Resident citizens are subject to tax on gifts they make of any of their worldwide property, while foreign residents and non-resident citizens are taxable with respect to gifts they make of property located within the ROC.

The definition of a gift for tax purposes is a broad one that includes not only outright gifts of cash or other property, but also the a full or partial forgiveness of debt, the transfer of property for less than its fair market value, and the execution of trusts that inure benefits to someone other than the settlor.

The responsibility for paying gift taxes falls on the donor, who must file a gift tax return within thirty 30 days of making a gift in excess of the annual exemption of NT\$1 million. However, in cases where the donor cannot be located or otherwise has failed to file a gift tax return, the gift tax can be imposed on the recipient.

3.1 Exclusions

In addition to the annual exemption of NT\$1 million, the base of the gift tax is subject to the following exclusions:

1. Gifts between spouses;
2. Donations to qualifying government and charitable organizations, including payments through charitable trusts;
3. Payments of living, medical, and educational expenses for dependents;
4. Donations of crops and farmland used for agricultural purposes; and
5. Wedding gifts from parents of up to NT\$1,000,000.

3.2 Other Offsets

For taxable gifts of property located in foreign countries, a deduction is provided for foreign gift taxes that have been paid on the property.

3.3 Tax Rate Structure

The current gift tax is imposed through ten tax brackets with graduated marginal tax rates, ranging from 4 percent for gifts of NT\$0.6 million or less, to 50 percent for gifts of NT\$45 million or more. The complete rate structure is exhibited in Table 2. The threshold values for the tax brackets and the exemption amount are subject to periodic adjustment for inflation.

As with the estate tax, in cases where the gift tax payable amounts to NT\$300,000 or more, the taxpayer may apply to the tax authority to arrange payment in twelve installments with an interval of no more than two months between each installment. Alternatively, the taxpayer may apply for permission to pay the tax in full by surrendering the taxed property or other easily cashable or storable property.

3.4 Observations

The annual exemption of NT\$1 million makes it possible for an individual to make substantial inter vivos gifts over a period of years without incurring any tax liability. Further, wealthier individuals are able to achieve a higher tax savings from making a gift of a given value (rather than leaving a bequest at death), owing to the graduated rate structure of the estate tax combined with the exclusion of taxable gifts from the estate tax base.

For all but extremely large transfers, the statutory marginal gift tax rate is higher than the statutory marginal estate tax rate for an equivalent size transfer. This differential helps to offset the impact of taxing gifts on a tax-exclusive basis and estates on a tax-inclusive basis. For example, a taxable estate of NT\$8 million currently would incur a tax liability of NT\$0.943, leaving NT\$7.057 million to be transferred to heirs. The tax liability on an equivalent gift of NT\$7.057 million would be NT\$0.929, or only slightly less than the tax incurred by the estate in this example. Of course, the donor in this example could reduce his tax liability considerably by breaking this lump sum gift into a series of smaller gifts given over a period of years, owing to the graduated gift tax rate structure. As noted in Section 7, over the long run, this consideration may make it worth while to explore options for integrating the estate and gift taxes.

4. Rationale for Estate and Gift taxation

The impact of estate and gift taxes on savings and economic performance is a hotly contested and largely unresolved issue.¹ Few, however, dispute the progressive nature of such taxes. For instance, the estate tax in Taiwan applies to just 3 to 4 percent of

¹ An excellent survey of the pros and cons of estate taxation is provided by Gale and Slemrod (2001).

decedents each year, and only those with rather substantial estates. Nearly half of all estate taxes paid in 2003 was from taxable estates of NT\$100 million or more, and over 75 percent was from estates with more than NT\$40 million. Thus, the statutory incidence of the tax is sharply progressive. To the extent that the final incidence of the tax falls on the decedent, the statutory and final incidence are the same. However, even if the final incidence falls primarily on the recipients, the tax is still quite progressive, because large inheritances tend to be concentrated among wealthy recipients. While the income tax in Taiwan is also capable of achieving a certain degree of progressivity, the exclusion of capital gains on securities from the tax base as well as the utilization of various loopholes by wealthy taxpayers limit its impact. In this sense, the estate and gift tax system serves as an important “backstop” for the income tax.

From a horizontal equity perspective, the estate and gift tax system discriminates against wealthy individuals who leave substantial bequests in favor of those who either consume most of their wealth or engage in substantial tax avoidance or evasion activities. On the other hand, the tax plays at least a small role in leveling the playing field for subsequent generations.

In practice, Taiwan’s estate and gift taxes generate relatively little revenue – NT\$29 million in 2004, or roughly 2 percent of aggregate tax revenue. This relatively low yield is partly attributable to the selective nature of the taxes, which are primarily targeted towards the very wealthy. However, the revenue is also subject to erosion through various avoidance and evasion activities, which exhaust real resources and result in wealth being hidden offshore. In response to these concerns, we consider below some possible modifications of the estate and gift tax structure. These include a lowering of

marginal tax rates to reduce avoidance and evasion as well as a simplification of the overall rate structure.

5. Review and Analysis of Short-Run Reform Proposals

In this section, we consider two alternative proposals for modifying the existing estate and gift tax structure. While admittedly ad hoc, these proposals share the features of simplifying the rate structure and lowering marginal rates, while maintaining a high degree of tax progressivity. The objectives of these proposals are to improve compliance, diminish resource expenditures on avoidance, and reduce capital flight. Below, we lay out the proposals and explore the implications for tax revenues and the progressivity of tax payments. Our analysis focuses on the short-run assumption of no behavioral response. Over time, however, it is anticipated that avoidance and evasion activities would be reduced, which would broaden the base of the tax and dampen the impact of the rate reductions on aggregate revenue. To investigate this issue, we examine some aggregate time series evidence on the impact of an earlier estate and gift tax rate reduction on taxpayer behavior in Section 6.

5.1 Description of Estate Tax Reform Proposals

We explore the implications of two alternative proposals for modifying the estate tax. Both proposals simplify the existing tax rate structure and reduce marginal rates, but they differ in terms of how this is accomplished. The current and proposed estate rate structures are summarized in Table 3. As shown in the table, the current estate tax includes ten separate rate brackets, with graduated tax rates ranging 2 percent for the lowest bracket (estates valued at NT\$0.6 million or less) to 50 percent for the top bracket

(estates valued at NT\$100 million or more). Five of these brackets apply to taxable estates valued at NT\$10 million or less.

Under Proposal A, the ten current tax brackets are collapsed into five, with two brackets covering taxable estates valued at NT\$10 million or less and three covering taxable estates valued above this threshold. Under this proposal, the bottom marginal tax rate of 2 percent, which currently applies to taxable estates valued at NT\$0.6 million or less, is expanded to apply to taxable estates valued at NT\$3 million or less. In addition, the marginal tax rates that apply to all estates above this threshold are reduced, with the top rate falling from 50 percent to 40 percent – the same as the top marginal rate for the personal income tax.

Under Proposal B, the ten current tax brackets are also collapsed into five. Under this scheme, however, a single bracket covers taxable estates valued at NT\$10 million or less. We explore two alternative variants for the tax rate structure applying to these tax brackets. The first variant (B1) imposes marginal rates ranging from 6 percent for taxable estates valued at NT\$10 million or less to 40 percent for taxable estates valued at over NT\$100 million. Compared to the first variant, the second variant (B2) imposes a uniformly higher marginal tax rate for each bracket with the exception of the top one. For the top bracket, the same 40 percent marginal tax rate is imposed. Since the marginal tax rate for the lowest bracket under each of these variants exceeds the current lowest rate of 2 percent, Proposal B calls for an increase in the exemption amount to reduce the effective tax rate paid by relatively small estates. Specifically, variant B1 calls for an additional exemption of NT\$1 million over the current exemption of NT\$7 million,

while variant B2 (with its higher bottom marginal tax rate of 8 percent) calls for an additional exemption of NT\$2 million.²

5.2 *Static Analysis of Estate Tax Reform Proposals*

In this section we analyze the short-run implications of the estate tax reform proposals for tax revenue and the progressivity of tax payments under the assumption of no behavioral response. Our analysis is based on the population of estate tax returns filed in the year 2000. Table 4 summarizes the distribution of estate tax liability by taxable estate value for the current and proposed tax reforms. The proposed reforms all lead to uniformly lower tax payments within each size category. Overall, Proposal B1 yields the lowest aggregate estate tax revenue, NT\$11.3 billion, or 42 percent less than the NT\$19.5 billion collected under the current tax structure. Proposal B2 has the next lowest aggregate revenue of the proposals, NT\$12 billion, or 38 percent less than the current revenue yield. Proposal A yields the highest aggregate revenue of the proposed reforms, NT\$13.8 billion, but this is still some 30 percent less than the yield from the current estate tax structure.

The current estate tax structure is quite progressive. For instance, taxable estates valued at more than NT\$100 million accounted for 35 percent of the total taxable value of all estates reported on tax returns in 2000, but they were responsible for 51.2 percent of all estate taxes paid in that year. Similarly, taxable estates valued at more than NT\$40 million accounted for 56.7 percent of total taxable estate value, but they were responsible for nearly 75 percent of all estate taxes paid. Moreover, only relatively wealthy estates had any tax liability at all in 2000. The proposed estate tax changes are even more

² The additional exemption amount would be made available to all taxpayers.

steeply progressive. For instance, taxable estates valued at more than NT\$100 million pay 55.3 percent of all estate taxes under Proposal A, compared to 51.2 percent under the current tax structure. Under the two variants of Proposal B, these estates pay even a higher share of aggregate estate taxes – in excess of 60 percent.

Table 5 summarizes the distribution of average tax rates by size of taxable estate. Under Proposal A, the average tax rate ranges from 2 percent for taxable estates valued under NT\$3 million to 20.9 percent for estates valued over NT\$100 million. This is uniformly lower than the average rates under the current tax structure, which range from 3.6 percent to 29.7 percent over the same size classes. The average tax rates under the two variants of Proposal B are even lower. Comparing these two variants, generally the second variant is associated with higher average tax rates. The one exception is taxable estates valued under NT\$3 million. The average tax rate under the second variant for this size class (2.19 percent) is substantially lower than the average tax rate for the first variant (3.82). This is attributable to the larger additional exemption (NT\$2 million compared to NT\$1 million) granted to taxpayers under the second variant.

5.4 Description of Gift Tax Reform Proposals

Our alternative tax reform proposals also include plans for reforming the gift tax structure. The current and proposed gift rate structures are summarized in Table 6. As shown in the table, the current gift tax includes ten separate rate brackets, with graduated tax rates ranging 4 percent for the lowest bracket (taxable gifts of NT\$0.6 million or less) to 50 percent for the top bracket (taxable gifts of NT\$45 million or more). Five of these brackets apply to taxable gifts of NT\$5 million or less. As with the estate tax, Proposal A calls for collapsing the ten brackets into five and reducing marginal tax rates. Two of the

brackets cover taxable gifts of NT\$5 million or less, and three cover taxable gifts in excess of this amount. Whereas the current marginal tax rates range from 4 percent for relatively small taxable gifts to 50 percent for taxable gifts of over NT\$45 million, Proposal A calls for rates ranging from 2 percent to 40 percent.

Under Proposal B, the current 10 brackets are also collapsed into 5. However, in this case, a single bracket covers all taxable gifts of NT\$5 million or less, with the four remaining brackets covering taxable gifts above this threshold. As with the estate tax, Proposal B includes two variants with alternative rate structures for these five tax brackets. Under the first variant (B1), the marginal rates range from 6 percent to 40 percent. Under the second (B2), marginal rates are uniformly higher for all but the highest bracket, ranging from 8 percent to 40 percent.

As can be seen by comparing Table 3 and Table 6, the marginal tax rates for the five gift tax brackets under each proposal are the same as those assigned to the five estate tax brackets. However, the higher marginal rates kick in more quickly under the gift tax, owing to the use of narrower tax brackets. For instance, the top rate of 40 percent kicks in for taxable gifts of NT\$45 million, but it does not apply under the estate tax until the taxable value of the estate reaches NT\$100 million.

5.5 Static Analysis of Gift Tax Reform Proposals

As with the estate tax reform proposals, our analysis of the short-run implications of the gift tax reform proposals for tax revenue and the progressivity of tax payments assumes no behavioral change. The analysis is based on the population of gift tax returns filed in the year 2000. Table 7 summarizes the distribution of gift tax liability by taxable estate value for the current and proposed tax reforms. Tax payments within each size category

are uniformly lower under Proposal A than under the current gift tax structure. For taxable gifts exceeding NT\$5 million, tax payments under both variants of Proposal B are also lower than under the current tax structure. However, each of these variants actually imposes a higher tax liability on taxable gifts of less than NT\$5 million. This is because the lowest marginal rate under these proposed gift tax schedules exceeds the lowest rate under the current schedule. While this could be addressed through an increase in the exemption amount, as was done in the case the estate tax, we have elected not to do so. The increased tax on gifts in this bracket may help to offset the relative tax advantages of gift giving over leaving bequests. Such advantages include the taxation of gifts on a tax-exclusive basis, the opportunity to make incremental gifts at a relatively low marginal tax rate over a period of years rather than giving a large lump sum amount at a higher marginal rate, and the annual exemption of the first NT\$1 million in gifts.

The short-run impact of each of the alternative proposed rate structure changes is to significantly reduce aggregate gift tax revenue. Under Proposal A, aggregate gift tax revenue is reduced from NT\$3.9 billion to NT\$3 billion, or by nearly 25 percent. Under the first variant of Proposal B, aggregate revenue declines by a somewhat larger amount (approximately 28 percent). However, with the relatively higher marginal rates imposed under the second variant, the decline in revenue is more modest (just under 10 percent).

Table 8 summarizes the distribution of average tax rates by size of taxable gift. As with the current gift tax structure, the alternative proposed structures are quite progressive.

5.6 Overall Static Revenue Impact of Proposals

Table 9 summarizes our static estimates of aggregate estate and gift tax revenues from the alternative proposed reforms under the assumption of no behavioral response. The reduction of marginal rates leads to a 28.7 percent reduction in aggregate combined revenues under Proposal A, 39.6 percent under the first variant of Proposal B, and 33.5 percent under the second variant of Proposal B. Over time, we would expect that the reduction in rates under these proposals would lead to less avoidance and evasion, thereby increasing the tax base and dampening the revenue impact. We investigate available evidence on this issue below.

6. Impact of Proposed Reforms on Reporting Behavior

To assess the behavioral response of taxpayers to the alternative proposed estate and gift tax reforms, we examine aggregate time series evidence on revenue collections before and after an earlier reform that became effective on January 13, 1995. The estate tax structures before and after this reform are summarized in Table 10. Under the reform, the number of tax brackets was reduced from eighteen to ten, and the marginal tax rates applied to most taxable estates were significantly reduced. At the top of the size distribution, taxable estates valued at more than NT\$160 million experienced a marginal rate reduction of 10 percentage points, from 60 to 50 percent.

The gift tax structures before and after the 1995 reform are summarized in Table 11. For the gift tax, the number of tax brackets was reduced from seventeen to ten, and the marginal tax rates applied to taxable gifts were in most cases significantly reduced. As with the estate tax, the top marginal rate was reduced by 10 percentage points.

Table 12 displays the trends in estate and gift tax revenues from 1986 to 2004. Fueled in part by the stock market boom, estate and gift tax collections showed vigorous growth over the period from 1986 to 1994, the last year before the estate and gift tax reductions took effect. Subsequent to the tax reform, estate tax revenue has continued to grow, albeit in a somewhat unsteady fashion. On the other hand, gift tax revenue declined immediately following the 1995 rate reduction, proceeded to rebound over the next few years, and then declined once again. Between 2002 and 2004, gift tax revenues have again begun to climb, but they still remain below their 1994 level.

To aid in the interpretation of the above results, Table 13 displays the trends in estate and gift collections as shares of GNP and aggregate tax revenue. During the early 1990s, estate tax collections grew steadily as a share of GNP, from 0.09 percent in 1990 to 0.24 percent in 1994. Subsequent to the estate tax rate reductions that became effective the following year, this growth abated. Between 1995 and 2004, estate tax collections as a share of GDP have hovered around an average of about 0.22 percent – somewhat below their peak value of 0.24 percent for the pre-tax reform period. Although estate tax collections have not grown in relation to GDP since 1994, they have grown in relation to aggregate tax revenue. Whereas estate tax collections represented 1.33 percent of aggregate revenue in 1994, they represented 1.67 percent of aggregate revenue in 2004.

Like estate tax collections, gift tax receipts grew as a share of GNP during the early 1990s, from 0.029 percent in 1990 to 0.093 percent in 1994. Subsequent to the gift tax rate reductions of 2005, however, gift tax receipts have declined as a share of GNP, averaging about 0.059 percent between 1995 and 2004. Gift tax receipts as a share of

aggregate tax revenue have also declined since the gift tax rate reduction, from 0.517 percent in 1994 to 0.424 percent in 2004.

Although there was a bit of a rebound in the final two years, overall there has been a decline in combined estate and gift tax receipts as a share of GNP between 1994 and 2004. At the same time, the combined receipts have grown somewhat over this period in relation to aggregate tax revenue.

Taking the above results together, it is difficult to draw any firm conclusions about the long-term impact of the tax rate reductions of 1995 on overall estate and gift tax revenue. In the case of the estate tax, we have no way of assessing whether the upward trend in estate taxes as a share of GNP during the early 1990s would have continued in the absence of the rate reductions. What we do know is that, following the rate reductions, this trend leveled off. However, tax receipts did continue to grow as a share of aggregate tax revenue. These results suggest that the negative direct impact of the tax rate reductions on estate tax revenue was largely offset by an expansion in the estate tax base. It is plausible that at least some of this expansion reflects a reduction in avoidance and evasion activities in response to the lower tax rates.

In the case of the gift tax, receipts declined following the 1995 rate reduction, both in relation to GNP and aggregate tax revenue. This suggests that the negative direct impact of the rate reductions on gift tax revenue was at best only partially offset by an expansion of the gift tax base.

Using the above results as a guide, it seems plausible that the proposed estate and gift reforms discussed in Section 5 are likely to have the desired effect of reducing overall evasion and avoidance activities. However, it seems plausible that the resulting

increase in the tax base may not be sufficient over the long term to fully offset the negative impact of the tax rate reductions on tax revenue. In other words, there is no clear evidence of a “Laffer Curve Effect” with respect to estate and gift tax rate reduction.”

7. Estate and Gift Tax Integration

Over the long term, it may be advisable to consider integrating the estate and gift tax programs in Taiwan. Under an integrated system, taxes would be assessed on the basis of one’s total lifetime wealth transfers, rather than separately assessing taxes on an annual basis for inter vivos gifts and on a one time basis for property transferred at death through bequest. This helps to ensure that total lifetime wealth transfers would be subject to the same progressive rate of taxation, regardless of whether property was transferred gradually over a period of time or in a single lump sum.³

Under an integrated system, a lifetime tax exemption (or credit) would be available against lifetime wealth transfers in order to exclude all but very wealthy individuals from taxation. Annually, individuals would be required to file a tax return reporting the details of any gifts above a specified threshold.⁴ The purpose of this threshold would be to avoid administrative and compliance burdens associated with the reporting of small gifts. No tax would be applied against the annual reported gifts until their cumulative value exceeded the lifetime exemption. From that year on, the donor would be taxed on the basis of cumulative lifetime taxable gifts to that point. The tax

³ To the extent that gifts are subject to an annual exemption, this objective will not be fully achieved. A second complication is that gifts will be taxed more lightly than bequests under an integrated estate and gift tax if taxes paid on gifts during one’s lifetime are excluded from the lifetime tax base.

⁴ Various types of gifts (transfers between spouses, qualifying charitable donations, etc.) could be excluded from reporting requirements.

liability for that year would be computed by applying the unified tax schedule to cumulative lifetime gifts and then subtracting the cumulative amount of taxes paid on gifts in earlier years. Upon death, cumulative lifetime taxable reported gifts would be added to the value of the taxable estate to compute taxable lifetime wealth transfers.⁵ The tax due from the estate would then be computed by applying the unified tax rate schedule to taxable lifetime wealth transfers and then subtracting cumulative lifetime tax payments.⁶

The institution of a unified estate and gift system would require substantial changes beyond the necessary enacting legislation. Individuals would need to be educated on the purpose of the new system, its operation, and their responsibilities. As well, the tax administration would need to make provisions to receive annual gift returns and track lifetime property transfers. Taxpayer assistance and enforcement programs for the new tax system would need to be developed. Given sufficient time, all of these challenges should be surmountable.

⁵ Various types of exclusions and deductions (transfers between spouses, qualifying charitable donations, etc.) could be accounted for in arriving at the definition of a taxable estate. As well, one would apply the remaining portion (if any) of the lifetime exemption.

⁶ In principle, the cumulative lifetime wealth transfer tax base could include taxes paid on gifts during the decedent's lifetime. For instance, the U.S. includes taxes paid on gifts in the preceding three years in the base. By including such tax payments, gifts and bequests are put on a more even footing, with both taxed on a tax-inclusive basis.

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Table 1: Current Estate Tax Rate Schedule

Taxable Estate (NT\$)	Marginal Tax Rate
Below 0.6 million	2 %
0.6 – 1.5 million	4 %
1.5 – 3 million	7 %
3 – 4.5 million	11 %
4.5 – 6 million	15 %
6 – 10 million	20 %
10 – 15 million	26 %
15 – 40 million	33 %
40 – 100 million	41 %
Over 100 million	50 %

Table 2: Current Gift Tax Rate Schedule

Taxable Gift (NT\$)	Marginal Tax Rate
Below 0.6 million	4 %
0.6 – 1.7 million	6 %
1.7 – 2.8 million	9 %
2.8 – 3.9 million	12 %
3.9 – 5 million	16 %
5 – 7.2 million	21 %
7.2 – 14 million	27 %
14 – 29 million	34 %
29 – 45 million	42 %
Over 45 million	50 %

Table 3: Comparison of Current and Proposed Estate Tax Structures

Taxable Estate (NT\$)	Marginal Tax Rate			
	Current Estate Tax	Proposal A	Proposal B1*	Proposal B2**
Below 0.6 million	2%	2%	6%	8%
0.6 – 1.5 million	4%			
1.5 – 3 million	7%			
3 – 4.5 million	11%	10%	13%	16%
4.5 – 6 million	15%			
6 – 10 million	20%			
10 – 15 million	26%	20%	21%	24%
15 – 40 million	33%			
40 – 70 million	41%	30%	30%	32%
70 – 100 million			40%	40%
Over 100 million	50%	40%	40%	40%

*Exemption increased by NT\$1 million under Proposal B1

**Exemption increased by NT\$2 million under Proposal B2

Table 4: Static Estimates of Estate Tax Payments by Size of Estate, Year 2000

Taxable Estate (NT\$)	Aggregate Taxable Estate Amount (NT \$millions)	Aggregate Estate Tax Liability (NT \$millions)				# Returns
		Current	Proposal A	Proposal B1	Proposal B2	
Below 3 million	1,968.47	70.34	39.37	336.22	192.39	1,978
3 – 10 million	6,834.04	648.30	390.40			1,221
10 – 40 million	19,681.71	4,279.31	2,705.02	1,769.41	2,117.08	993
40 – 70 million	8,674.04	2,759.15	3,018.43	1,080.55	1,288.71	184
70 – 100 million	5,527.00	1,759.20		1,106.77	1,164.37	53
Over 100 million	23,035.21	9,975.50	7,598.64	7,040.34	7,280.87	106
All	65,720.47	19,501.65	13,751.86	11,333.3	12,043.4	4,535

Table 5: Static Estimates of Average Estate Tax Rates by Size of Estate, Year 2000

Taxable Estate (NT \$)	Average Tax Rate (percent)				# Returns
	Current	Proposal A	Proposal B1	Proposal B2	
Below 3 million	3.57	2.00	3.82	2.19	1,978
3 – 10 million	9.49	5.71			1,221
10 – 40 million	21.74	13.74	8.99	10.76	993
40 – 70 million	31.81	21.25	12.46	14.86	184
70 – 100 million	31.83		20.02	21.07	53
Over 100 million	43.31	32.99	30.56	31.61	106
All	29.67	20.92	17.24	18.33	4,535

Table 6: Comparison of Current and Proposed Gift Tax Structures

Taxable Estate (NT\$)	Marginal Tax Rate				
	Current Estate Tax	Proposal A	Proposal B1	Proposal B2	
Below 0.6 million	4%	2%	6%	8%	
0.6 – 1.5 million	6%				
1.5 – 1.7 million		10%			
1.7 – 2.8 million	9%				
2.8 – 3.9 million					12%
3.9 – 5 million	16%				
5 – 7.2 million		21%	20%	13%	16%
7.2 – 14 million	27%				
14 – 15 million					
15 – 29 million	42%	30%	21%	24%	
29 – 30 million					30%
30 – 45 million			40%	40%	
Over 45 million	50%	40%			40%

Table 7: Static Estimates of Gift Tax Payments by Size of Gift, Year 2000

Taxable Gift (NT\$)	Aggregate Taxable Gift Amount (NT \$millions)	Gift Tax Liability (NT \$millions)				#Returns
		Current	Proposal A	Proposal B1	Proposal B2	
Below 1.5 million	8,417.07	379.07	168.34	1,211.09	1,614.78	15,752
1.5 – 5 million	11,767.69	810.20	597.65			4,826
5 – 15 million	6,638.28	1,000.98	807.48	569.33	726.52	839
15 – 30 million	2,881.82	699.63	846.69	381.98	461.24	144
30 – 45 million	1,212.48	352.75		210.74	243.99	36
Over 45 million	2,047.60	692.84	541.00	451.54	499.83	42
All	32,964.94	3,935.47	2,961.16	2,824.68	3,546.37	21,639

Table 8: Static Estimates of Average Gift Tax Rates by Size of Estate, Year 2000

Taxable Gift (NT\$)	Average Tax Rate (percent)				#Returns
	Current	Proposal A	Proposal B1	Proposal B2	
Below 1.5 million	4.50	2.00	6.00	8.00	15,752
1.5 – 5 million	6.88	5.08			4,826
5 – 15 million	15.08	12.16	8.58	10.94	839
15 – 30 million	24.28	20.68	13.25	16.01	144
30 – 45 million	29.09		17.38	20.12	36
Over 45 million	33.84	26.42	22.05	24.41	42
All	11.94	8.98	8.57	10.76	21,639

Table 9: Static Estimates of Aggregate Estate and Gift Tax Revenue, Year 2000

	Current Revenue (NT \$millions)	Proposal A		Proposal B1		Proposal B2	
		Revenue (NT \$millions)	% Change	Revenue (NT \$millions)	% Change	Revenue (NT \$millions)	% Change
Estate Tax	19,501.7	13,751.9	29.5%	11,333.3	41.9%	12,043.4	38.2%
Gift Tax	3,935.5	2,961.2	24.8%	2,824.7	28.2%	3,546.4	9.9%
Total	23,437.2	16,713.1	28.7%	14,158.0	39.6%	15,589.8	33.5%

Table 10: Comparison of Pre-1995 and Post-1995 Estate Tax Structures

Taxable Estate (\$NT)	Marginal Tax Rate	
	Effective June 19, 1981 to January 12, 1995	Effective January 13, 1995 to Present
Below 300,000	2%	2%
300,001-600,000	3%	
600,001-1,140,000	5%	4%
1,140,001-1,500,000	7%	
1,500,001-1,620,000		7%
1,620,001-2,160,000	9%	
2,160,001-2,700,000		
2,700,001-3,000,000	14%	
3,000,001-3,510,000		17%
3,510,001-4,080,000	20%	
4,080,001-4,500,000		23%
4,500,001-5,100,000	26%	
5,100,001-6,000,000		30%
6,000,001-7,650,000	34%	
7,650,001-10,000,000		38%
10,000,001-10,200,000	42%	
10,200,001-14,400,000		46%
14,400,001-15,000,000	52%	
15,000,001-24,000,000		60%
24,000,001-33,600,000	60%	
33,600,001-40,000,000		60%
40,000,001-48,000,000	60%	
48,000,001-90,000,000		60%
90,000,001-100,000,000	60%	
100,000,001-160,000,000		60%
Over 160,000,000	60%	

Table 11: Comparison of Pre-1995 and Post-1995 Gift Tax Structures

Taxable Gift (\$NT)	Marginal Tax Rate	
	Effective June 19,1981 to January 12, 1995	Effective January 13, 1995 to Present
Below 300,000	4%	
300,001-570,000	5%	4%
570,001-600,000		
600,001-1,140,000	6%	
1,140,001-1,620,000	8%	6%
1,620,001-1,700,000		
1,700,001-2,160,000	11%	
2,160,001-2,700,000	14%	9%
2,700,001-2,800,000		
2,800,001-3,315,000	17%	
3,315,001-3,900,000		12%
3,900,001-4,080,000	20%	
4,080,001-5,000,000		16%
5,000,001-5,100,000	23%	
5,100,001-7,200,000	26%	21%
7,200,001-9,600,000	30%	
9,600,001-14,000,000		27%
14,000,001-14,400,000	35%	
14,400,001-28,800,000	40%	34%
28,800,001-29,000,000		
29,000,001-45,000,000	45%	42%
45,000,001-90,000,000	50%	
90,000,001-150,000,000	55%	50%
Over 150,000,000	60%	

Table 12: Aggregate Trends in GNP and Tax Collections (NT \$Millions)

Calendar Year	GNP	Aggregate Tax Revenue	Estate Tax Revenue	Gift Tax Revenue	Combined Estate & Gift Tax Revenue
1986	2,925,772	415,621	2,847	406	3,253
1987	3,303,031	514,905	4,404	794	5,198
1988	3,611,536	617,889	3,970	698	4,668
1989	4,029,254	736,718	4,822	1,306	6,128
1990	4,411,995	839,898	3,972	1,298	5,270
1991	4,927,801	875,415	6,383	2,626	9,009
1992	5,459,814	1,028,075	8,635	5,831	14,466
1993	6,032,180	1,074,437	10,695	4,630	15,325
1994	6,571,009	1,181,520	15,763	6,106	21,869
1995	7,129,131	1,211,832	17,991	5,467	23,458
1996	7,787,626	1,191,386	17,088	5,933	23,021
1997	8,394,878	1,367,257	18,783	5,827	24,610
1998	8,967,841	1,372,668	16,417	8,154	24,571
1999	9,334,956	1,330,014	18,731	4,337	23,068
2000	9,752,049	1,348,813	21,974	4,577	26,551
2001	9,639,673	1,257,841	19,462	3,248	22,710
2002	9,977,866	1,225,601	19,417	4,120	23,537
2003	10,173,076	1,252,766	24,671	5,435	30,106
2004	10,584,790	1,387,300	23,162	5,885	29,047

Table 13: Trends in Estate and Gift Collections as a Percentage of GNP and Aggregate Tax Revenue (NT \$Millions)

Calendar Year	Estate Tax		Gift Tax		Combined Estate and Gift Tax	
	As percentage of GNP	As percentage of aggregate revenue	As percentage of GNP	As percentage of aggregate revenue	As percentage of GNP	As percentage of aggregate revenue
1986	0.097%	0.685%	0.014%	0.098%	0.111%	0.783%
1987	0.133%	0.855%	0.024%	0.154%	0.157%	1.010%
1988	0.110%	0.643%	0.019%	0.113%	0.129%	0.755%
1989	0.120%	0.655%	0.032%	0.177%	0.152%	0.832%
1990	0.090%	0.473%	0.029%	0.155%	0.119%	0.627%
1991	0.130%	0.729%	0.053%	0.300%	0.183%	1.029%
1992	0.158%	0.840%	0.107%	0.567%	0.265%	1.407%
1993	0.177%	0.995%	0.077%	0.431%	0.254%	1.426%
1994	0.240%	1.334%	0.093%	0.517%	0.333%	1.851%
1995	0.252%	1.485%	0.077%	0.451%	0.329%	1.936%
1996	0.219%	1.434%	0.076%	0.498%	0.296%	1.932%
1997	0.224%	1.374%	0.069%	0.426%	0.293%	1.800%
1998	0.183%	1.196%	0.091%	0.594%	0.274%	1.790%
1999	0.201%	1.408%	0.046%	0.326%	0.247%	1.734%
2000	0.225%	1.629%	0.047%	0.339%	0.272%	1.968%
2001	0.202%	1.547%	0.034%	0.258%	0.236%	1.805%
2002	0.195%	1.584%	0.041%	0.336%	0.236%	1.920%
2003	0.243%	1.969%	0.053%	0.434%	0.296%	2.403%
2004	0.219%	1.670%	0.056%	0.424%	0.274%	2.094%