

WISCONSIN INHERITANCE, ESTATE AND GIFT TAXES

State of Wisconsin

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Structure of State and Federal Death and Gift Taxes

Estate, inheritance and gift taxes are taxes on accumulated wealth which are imposed at the time property is transferred. Estate and inheritance taxes are imposed on transfers at death and represent alternative approaches to the taxation of such transfers. The estate tax, a tax on the right to transfer wealth, is based on the value of the estate, without consideration for the amount received by any beneficiary or the relationship between the deceased and the beneficiary. The federal death tax is an estate tax.

In contrast, the Wisconsin inheritance tax is a tax on the right to receive property. The amount of wealth transferred to each heir and the relationship of the beneficiary to the deceased are considered in imposing the tax. As a companion to the state inheritance tax, a gift tax is imposed on transfers of property during life to provide a neutral tax treatment of wealth transfers and to minimize incentives to circumvent the taxation of transfers at death.

Wisconsin Inheritance Tax

Under state law, the inheritance tax is imposed upon transfers of property at death by Wisconsin residents; however, transfers of real property or tangible personal property located outside Wisconsin are not taxable. Nonresidents may be subject to the Wisconsin inheritance tax for transfers of real and tangible personal property located in the state. The net taxable estate is the gross estate reduced by a number of exemptions and deductions. The gross estate consists of:

--All property owned by the decedent at death including both real property (land and buildings) and personal property (household goods, cash, stocks, bonds, savings accounts);

--Transfers made in contemplation of death;

--Decedent's interest in partnerships and businesses;

--Annuities and death benefits;

--Value of transfers to take effect after death;

--Insurance, if the decedent retained any ownership or if it is paid to the estate; and

--The appropriate share of property owned jointly by the decedent. (For property held as a joint tenancy completed transfer, in which the signatures of all of the joint tenants are required to transfer the

property (real estate, stocks or bonds), only the share of the property attributable to the deceased based on the proportion of the property owned by the decedent is included in the estate. For property held as a joint tenancy incomplete transfer, in which one owner may withdraw all the funds without the signature or consent of other joint owners (savings and checking accounts), only the portion contributed by the decedent is taxable.)

The value of the gross estate is determined as of the date of the decedent's death. Exemptions from tax are provided for the value of property passing to qualified charities or governmental units; certain death benefits paid to a surviving spouse; property transferred to a spouse; and the value of household furnishings and tangible personal property, except money, up to \$10,000. In addition, the gross estate is reduced by several deductions: funeral and burial expenses; the decedent's liabilities such as debts, mortgages and liens; expenses of administering the estate; federal estate taxes paid; and property taxes accrued prior to death along with state and federal income taxes on income earned prior to death. If the decedent owned out-of-state property not subject to the Wisconsin inheritance tax, the deductions are prorated.

Under certain conditions, a tax credit is available for property transferred to children (and grandchildren) if the property transferred from the parents (or grandparents) is subject to the state inheritance tax more than once within a six-year period.

The inheritance tax is not applied directly to the value of the net taxable estate but, rather, upon each distributee's share of the estate. The classes of distributees, exemptions and tax rates are shown in Table I. Depending on the class of distributee, inheritance tax rates on bequests range from 2.5% to 30%. Within each category, a progressive tax rate structure applies. However, the total tax on the share of any one distributee cannot exceed 20% of the value of the property transferred.

In 1983 Wisconsin Act 194, the inheritance tax exemption for Class A distributees was increased in two stages from the prior level of \$10,000 to \$25,000 for transfers due to deaths occurring on or after April 13, 1984, and to \$50,000 for transfers due to deaths occurring on or after July 1, 1985.

The inheritance tax is due and payable upon the date of the decedent's death, but may be paid at any time within one year after the date of death without penalty. After that time, a 12% rate of interest, computed from the date of death, accrues. Inheritance taxes may be paid on an installment basis over a period of 15 years for certain farms and closely-held businesses.

TABLE I

Wisconsin Inheritance and Gift Tax Rates and Exemptions

Inheritance or Gift to:	Personal Exemptions			Tax Rate				
	Inh. Tax	Gift Tax Annual	Life- time	Over Exemption* to \$25,000	\$25,000 to \$50,000	\$50,000 to \$100,000	\$100,000 to \$500,000	Over \$500,000
<u>Class A</u>								
Spouse	-	-	-	-	Exempt	-	-	-
Lineal Issue or Lineal Ancestor**	\$25,000	\$10,000	\$10,000	2.5%	5.0%	7.5%	10.0%	12.5%
<u>Class B</u>								
Brother, Sister or Descendant of	1,000	10,000	None	5.0	10.0	15.0	20.0	25.0
<u>Class C</u>								
Uncle, Aunt or Descendant of	1,000	10,000	None	7.5	15.0	22.5	30.0***	30.0***
<u>Class D</u>								
All Others	500	10,000	None	10.0	20.0	30.0***	30.0***	30.0***

*All exemptions are taken from the lowest bracket. Balance, if any, is taxed at the rate shown.

**1983 Wisconsin Act 194 modified the inheritance and gift tax exemptions in three ways: (1) the inheritance tax exemption for Class A distributees was increased in two stages from the prior level of \$10,000 to \$25,000 for transfers due to deaths occurring on or after April 13, 1984, and to \$50,000 for transfers due to deaths occurring on or after July 1, 1985; (2) the lifetime gift tax exemption for Class A distributees was raised in two stages from \$10,000 to \$25,000 for gifts made during 1985 and to \$50,000 for gifts made during 1986 and thereafter; and (3) the annual gift tax exemption of \$3,000 for all donees was increased to \$10,000, effective for transfers made during calendar year 1985 and thereafter. Lineal issue/ancestor also includes son- or daughter-in-law, adopted or mutually acknowledged child and mutually acknowledged parent.

***Total tax is limited to 20% of the value of the property transferred to a distributee.

Wisconsin Estate Tax

Along with the state inheritance tax, Wisconsin also imposes an estate tax if the amount of the state inheritance tax is insufficient to recover the full amount of the federal death tax credit. Federal law provides a credit against federal estate taxes for death taxes paid to a state government. The credit is equal to state death taxes paid, up to a maximum of 80% of the federal estate tax liability as defined in 1926 federal law. Up to this limit, state death taxes imposed result in a dollar-for-dollar reduction of federal estate tax liability and do not lead to an increase in total taxes due on an estate. To capture this portion of the federal estate tax liability, the state in which the taxpayer resides must impose a state death tax which equals or exceeds the federal credit. A state death tax which is just equal to the federal credit is known as a "pick-up" or "gap" tax. Typically, the Wisconsin inheritance tax liability for an estate is greater than the amount provided under federal law through the state death tax credit. However, in cases in which the total state inheritance tax liability for a particular estate is insufficient to recover the full amount of the federal tax credit, an additional tax will be assessed through the current Wisconsin estate tax provisions. Table II shows the schedule for computing the state death tax credit provided under federal law.

Wisconsin Gift Tax

The Wisconsin gift tax, which complements the state inheritance tax, is imposed upon transfers of property during life. Transfers taxable under the gift tax include:

--Gifts by a donor who is a Wisconsin resident, except for gifts of real estate or tangible personal property located outside Wisconsin;

--Gifts of real estate and tangible or intangible personal property located in Wisconsin regardless of the residency of the donor or donee;

--Forgiveness of a debt;

--The sale or exchange of property for less than market value;

--Funds withdrawn from a joint bank account by a joint tenant who is not the original owner of the funds;

--Property transferred to a completed joint tenancy to the extent the contribution of all joint tenants is not equal.

Exemptions from the gift tax are provided for transfers of out-of-state real estate or of personal property permanently located outside Wisconsin by a nonresident to a Wisconsin donee; employer-financed benefits for sickness, retirement or death annuities; amounts to cover the current maintenance, support or education of a dependent; and gifts to qualified charities or governmental units.

TABLE II

Federal Credit for State Death Taxes

Computation of Maximum Credit for State Death Taxes
 (Based on Federal Adjusted Taxable Estate Which is the
 Federal Taxable Estate Reduced by \$60,000)

Adjusted Taxable Estate Equal to or More Than	Adjusted Taxable Estate Less Than	Credit on Amount in Column (1)	Rate of Credit on Excess Over Amount in Column (1)
(1)	(2)	(3)	(4)
0	\$40,000	0	-0-
\$40,000	90,000	0	0.8%
90,000	140,000	\$400	1.6
140,000	240,000	1,200	2.4
240,000	440,000	3,600	3.2
440,000	640,000	10,000	4.0
640,000	840,000	18,000	4.8
840,000	1,040,000	27,600	5.6
1,040,000	1,540,000	38,800	6.4
1,540,000	2,040,000	70,800	7.2
2,040,000	2,540,000	106,800	8.0
2,540,000	3,040,000	146,800	8.8
3,040,000	3,540,000	190,800	9.6
3,540,000	4,040,000	238,800	10.4
4,040,000	5,040,000	290,800	11.2
5,040,000	6,040,000	402,800	12.0
6,040,000	7,040,000	522,800	12.8
7,040,000	8,040,000	650,800	13.6
8,040,000	9,040,000	786,800	14.4
9,040,000	10,040,000	930,800	15.2
10,040,000		1,082,800	16.0

Classes of distributees and rates of tax are comparable to provisions used under the inheritance tax. As illustrated in Table I, two exemptions are provided under the gift tax: a noncumulative exemption of \$10,000 annually between each donor and donee and an additional \$25,000 lifetime exemption for certain closely-related donees. The annual, noncumulative exemption was raised to \$10,000 from the prior level of \$3,000 by 1983 Wisconsin Act 194. In addition, Act 194 increased the lifetime gift tax exemption for Class A distributees in two stages from \$10,000 to \$25,000 for gifts made during 1985 and to \$50,000 for gifts made during 1986 and thereafter.

If the total value of gifts between a donor and donee exceeds the annual exemption of \$10,000 in a calendar year, both persons are required to file a gift tax return. The donee is liable for the tax; however, the donor may pay the tax without incurring an additional tax. Interest accrues at 12% per year for taxes not paid by the due date for gift tax returns of April 15.

Federal Unified Transfer Tax on Estates and Gifts

In contrast to Wisconsin's tax on the privilege of receiving property, the federal government imposes an estate and gift tax on the privilege of transferring property at death and during life. A single unified transfer tax applies to estate and gift taxes under federal law. The rates are progressive on the basis of the cumulative value of transfers during life and at death. The unified transfer tax rate schedule for 1984 to 1987, with tax rates which range from 18% to 50%, is illustrated in Table III. For 1988 and thereafter, the maximum tax rate, as shown in Table III, will be 50%. Although specific classes of distributees are generally not recognized under the federal unified transfer tax, an unlimited marital deduction is provided for transfers of assets to a surviving spouse. In place of an exemption for each heir or donee, federal law provides a unified estate and gift tax credit for all transfers made during life and at death to all beneficiaries. The amount of the credit for 1985 is \$121,800; it is equivalent to an exemption of \$400,000. As Table III shows, the federal unified credit will be increased annually until the maximum credit of \$192,800 (equivalent to an exemption of \$600,000) is reached in 1987. In addition to the federal unified credit, an annual gift tax exemption of \$10,000 between each donor and donee is provided under federal law. Finally, as noted earlier, federal law provides a credit against federal estate taxes for death taxes paid to a state government. The credit, commonly called a "pick-up" or "gap" tax, is based on the schedule shown earlier in Table II.

Rationale and Issues of Death and Gift Taxation

A primary argument underlying inheritance, estate and gift taxes relates to the role of government in property ownership. Because the state contributes to the private accumulation of wealth by defining and protecting property rights, the transfer of property has been viewed as a valid object of taxation. Taxation of accumulated wealth is also consistent with ability-to-pay theories of taxation and with egalitarian

TABLE III

Federal Unified Credit and Unified
Transfer Tax Rate Schedules
(1984 to 1988 and thereafter)

I. Federal Unified Credit

<u>For Decedents Dying</u>	<u>Amount of Credit</u>	<u>Amount of Estate Exempt From Tax</u>
1985	\$121,800	\$400,000
1986	155,800	500,000
1987 and thereafter	192,800	600,000

II. Federal Unified Transfer Tax Rate Schedules

<u>Value of Taxable Estate</u>		<u>Tax on Amount in Column A</u>	<u>Rate of Tax on Excess Over Amount in Column A</u>	
<u>Column A</u>	<u>Column B</u>		<u>1984 to 1987</u>	<u>1988 and Thereafter</u>
0	\$10,000	0	18%	18%
\$10,000	20,000	\$1,800	20	20
20,000	40,000	3,800	22	22
40,000	60,000	8,200	24	24
60,000	80,000	13,000	26	26
80,000	100,000	18,200	28	28
100,000	150,000	23,800	30	30
150,000	250,000	38,800	32	32
250,000	500,000	70,800	34	34
500,000	750,000	155,800	37	37
750,000	1,000,000	248,300	39	39
1,000,000	1,250,000	345,800	41	41
1,250,000	1,500,000	448,300	43	43
1,500,000	2,000,000	555,800	45	45
2,000,000	2,500,000	780,800	49	49
2,500,000	3,000,000	1,025,800	53	50
3,000,000	---	1,290,800	55	50

objectives of preventing the permanent concentration of wealth in the hands of a few members of society and of encouraging economic fluidity. Wealth taxes also are seen as an adjunct to income taxes, under which income from unrealized property appreciation and certain interest and investment income may be excluded from taxation during one's lifetime. In conjunction with death taxes, the gift tax is designed to provide a neutral tax treatment of wealth transfers by minimizing the incentives to circumvent the intent of the inheritance or estate tax.

Arguments against inheritance, estate and gift taxes are based on several concerns. A tax on accumulated wealth may subject income that has previously been taxed to an additional tax. These taxes may also alter economic incentives and thus affect savings, capital formation and investment. Taxes on property transfers may also create special cashflow problems for certain kinds of property. Arguments have been most strongly raised in regard to transfers of small, closely-held business or farm properties where it is claimed that the tax may force liquidation of the property. It is also argued that inheritance taxes promote the migration of wealthy individuals to states with low inheritance taxes, producing a loss in other revenue sources and a loss of human capital to the state.

Wisconsin Inheritance and Gift Tax Collections

A breakdown of inheritance and gift tax revenues collected in Wisconsin for the past ten years is shown in Table IV. As Table IV illustrates, inheritance and gift tax collections may vary significantly from year to year. These tax collections have been affected not only by year-to-year changes in the value of inheritances subject to tax, but also by changes in both state and federal tax laws and general economic conditions. In the last ten fiscal years, annual percentage changes in inheritance and gift tax collections have ranged from a decrease of 18.4% in 1975-76 to a gain of 38.5% in 1976-77. In general, however, inheritance and gift tax revenues have comprised approximately 2.0% to 2.5% of total state general fund tax revenues.

TABLE IV

Wisconsin Inheritance and Gift Tax Collections

Fiscal Year	Inheritance Taxes		Gift Taxes		Inheritance and Gift	
	Amount	% Change	Amount	% Change	Amount	% Change
1974-75	\$45,034,989	-0.6%	\$2,112,280	-27.7%	\$47,147,269	-2.2%
1975-76	36,158,607	-19.7	2,305,025	9.1	38,463,632	-18.4
1976-77	42,359,404	17.1	10,897,025	372.8	53,257,047	38.5
1977-78	47,064,897	11.1	1,908,563	-82.5	48,973,460	-8.7
1978-79	52,963,735	12.5	2,232,599	17.3	55,196,334	12.7
1979-80	54,511,107	2.9	2,280,267	2.1	56,791,374	2.9
1980-81	51,095,769	-6.3	3,419,358	50.0	54,515,127	-4.0
1981-82	56,550,121	10.7	2,932,668	-14.2	59,482,789	9.1
1982-83	64,044,317	13.3	3,213,023	9.6	67,257,340	13.1
1983-84	67,416,378	8.1	4,577,610	42.5	71,993,988	7.0

The Wisconsin Inheritance and Gift Tax Sample

The Wisconsin inheritance and gift tax sample was designed, collected and documented by the Wisconsin Department of Revenue. With data from almost 2,000 inheritance and gift tax returns, weighted to reflect the total population of taxfilers, the sample provides a unique capability to analyze tax return information of taxfilers subject to the state inheritance and gift taxes. In analyzing the impact of federal and state transfer taxes on Wisconsin taxpayers in the remainder of this paper, the primary source of detailed data will be the Wisconsin inheritance and gift tax sample for estates closed and gift tax returns filed during the 1980-81 fiscal year.

Several points of caution must be noted, however, in interpreting and using this data. First, data from cases in the sample reflect information for taxfilers in a particular year. The taxfiling population with an inheritance tax liability may vary considerably from year to year. Differences in the number and types of estates subject to tax, the occupation of decedents, and changes in wealth, deductions or the distribution of assets over time are not captured by the sample. Second, cases in the sample are based only on estates that were closed during the 1980-81 fiscal year, adjusted to bring all estates under 1981 tax law; estimated tax payments and additional and delinquent tax collections are not included. Therefore, the tax liability indicated from the sample data is not comparable to fiscal year tax collections. Third, for some indicators, data were not present on a significant number of inheritance tax returns. For example, of all inheritance tax returns closed in the 1980-81 fiscal year, 40% did not indicate an occupation code. Although caution should be used in projecting information from the sample to future years, the sample provides a detailed and consistent base of information regarding the impact of the state inheritance tax on various estate sizes, occupations and classes of distributees. Moreover, if, within a net

taxable estate class, many of the same characteristics continue to exist in later years, simulations of taxfilers with the model data may be useful to determine the potential impact of various tax law changes on future taxable estates under the Wisconsin inheritance tax.

Distribution of Wisconsin Inheritance and Gift Tax Liability

Although the Wisconsin inheritance and gift tax sample reflects the distribution of taxable transfers and tax liability for taxpayers who filed a tax return during the 1980-81 fiscal year, the sample may be used to illustrate the impact of more recent tax law changes on Wisconsin taxpayers. The following tables on the distribution of inheritance and gift taxes by the size of estate or amount of gift tax and by the class of distributee have been adjusted to incorporate the higher exemption amounts enacted by Chapter 93, Laws of 1981 and by 1983 Wisconsin Act 194.

Chapter 93 provided a complete exemption from inheritance and gift taxation for transfers between spouses. Wisconsin Act 194 modified the inheritance and gift tax exemptions in three ways: (1) the inheritance tax exemption for Class A distributees was increased in two stages from the prior level of \$10,000 to \$25,000 for transfers due to deaths occurring on or after April 13, 1984, and to \$50,000 for transfers due to deaths occurring on or after July 1, 1985; (2) the lifetime gift tax exemption for Class A distributees was raised in two stages from \$10,000 to \$25,000 for gifts made during 1985 and to \$50,000 for gifts made during 1986 and thereafter; and (3) the annual gift tax exemption of \$3,000 for all donees was increased to \$10,000, effective for transfers made during calendar year 1985 and thereafter.

Distribution of Inheritance Taxes by Size of Estate

During the 1980-81 fiscal year, 25,218 estates which filed a Wisconsin inheritance tax return were closed. The distribution of these estates by size of net taxable estate and the taxes paid by size of estate is shown in Table V. After factoring in the effect of the complete exemption for interspousal transfers enacted in Chapter 93, Laws of 1981 and the \$50,000 exemption provided to Class A distributees by 1983 Wisconsin Act 194, over 20,000 estates, or 80% of the total, would have had no inheritance tax liability. This reflects the impact of the exemptions available for different classes of distributees and the complete exemption of interspousal transfers from tax. Almost 70% of estates with a tax liability had a net taxable estate value under \$100,000. These estates represented 25.3% of the net taxable value of estates subject to tax and were liable for 20.7% of the tax. The lower mean estate values and concentration of estates in these brackets reflect the uneven distribution of wealth within the state. Although estates with net taxable value greater than \$100,000 comprised only 32.7% of total estates with a tax liability they represented 74.7% of the total net taxable value of estates and paid 79.3% of the inheritance taxes.

TABLE V

Distribution of Wisconsin Net Taxable Estates and Inheritance/Estate Tax Liability by the Size of the Wisconsin Net Taxable Estate As Affected by the Tax Law Changes Adopted in Chapter 93, Laws of 1981 and 1983 Wisconsin Act 194 (Estates Closed During the 1980-81 Fiscal Year)

Wisconsin Net Taxable Estate	All Estates					Estates With a Wisconsin Inheritance/Estate Tax								
	Count	% of Count	Amount	% of Amount	Mean Amount	Count	% of Count	Amount	% of Amount	Mean Amount	Tax	% of Tax	Mean Tax	Effective Tax Rate*
Zero	220	0.9%	---	---	---	10	0.1%	---	---	---	\$64,871	0.2%	\$6,487	---
\$1 - \$5,000	1,636	6.5	\$3,688,799	0.2%	\$2,255	234	3.4	\$736,914	0.1%	\$3,149	28,452	0.1	122	3.86%
5,000 - 10,000	1,775	7.0	13,585,050	0.8	7,654	190	2.7	1,464,053	0.2	7,706	78,858	0.2	415	5.39%
10,000 - 15,000	1,661	6.6	20,737,154	1.3	12,485	166	3.3	2,035,383	0.3	12,261	125,618	0.4	757	6.17
15,000 - 20,000	1,737	6.9	31,001,478	1.9	17,848	136	2.7	2,463,739	0.4	18,116	123,579	0.4	909	5.02
20,000 - 25,000	1,630	6.5	36,726,452	2.3	22,532	179	3.6	3,987,475	0.7	22,276	208,538	0.6	1,165	5.23
25,000 - 50,000	6,487	25.7	237,430,521	14.6	36,601	1,035	20.5	37,260,403	6.3	36,000	1,275,713	3.6	1,233	3.42
50,000 - 75,000	3,959	15.7	240,984,796	14.8	60,870	916	18.2	56,594,959	9.5	61,785	2,805,758	8.0	3,063	4.96
75,000 - 100,000	2,118	8.4	180,719,354	11.1	85,325	531	10.5	45,697,973	7.7	86,060	2,607,673	7.4	4,911	5.71
100,000 - 250,000	3,325	13.2	491,017,246	30.2	147,674	1,222	24.3	186,357,142	31.4	152,502	11,443,318	32.5	9,364	6.14
250,000 - 500,000	491	2.0	167,312,737	10.3	340,759	285	5.7	97,009,808	16.4	340,385	6,267,371	17.8	21,991	6.46
500,000 +	179	0.7	202,582,299	12.5	1,131,745	134	2.7	159,269,274	26.9	1,188,577	10,203,127	29.0	76,143	6.41
TOTAL	25,218	100.0%	\$1,625,785,886	100.0%	\$64,469	5,038	100.0%	\$592,877,123	100.0%	\$117,681	\$35,232,876	100.0%	\$6,993	5.94%

*The effective tax rate is the ratio of tax liability to the amount of the net taxable estate subject to tax.

Totals may not add due to rounding.

Source: 1981 Inheritance Tax Sample

For all estates closed during the 1980-81 fiscal year, after the adjustment for the higher exemption of \$50,000 for Class A distributees, the effective rate of inheritance taxation was 2.17%. (The effective rate measures the ratio of taxes to the value of assets transferred in the estate.) When only those estates with a tax liability are considered, the average effective rate of tax was 5.94%. As illustrated in Table V, the effective tax rate varies between classes of net taxable estate value. As a general rule, the effective rate increases with increasing estate value. However, since the tax is based not only on value of the assets transferred but also on the relationship of beneficiaries to the decedent, the average effective tax rate also depends on the distribution of assets to distributees within a particular estate. For example, significant bequests to spouses or qualified charities lower the effective rate of tax, while larger transfers to less closely-related heirs raises the effective rate of tax. The aggregate effective rate of tax for the net taxable estate classes in Table V ranged from 3.42% to 6.46%.

In summary, although a significant number of inheritance tax returns were filed by taxpayers with a net taxable estate value under \$100,000, the total value, taxes paid and effective rate of tax for higher valued estates is substantially greater than for lower valued estates. In terms of the distribution and progressivity of the Wisconsin inheritance tax, the data indicate that taxpayers with estate values in excess of \$100,000 bear the primary burden of the state inheritance tax and that the tax liability becomes proportionately greater as the value of the estate rises. (The tax law changes of 1983 Wisconsin Act 194 have been incorporated into the data in Table V.) Finally, although the inheritance tax may rise to 20% of the value of the net taxable estate transferred to any single beneficiary, on average the inheritance tax liability represented 5.94% of the total value of all taxable estates, based on estates closed during the 1981 fiscal year with adjustment for the recent legislative changes.

Distribution of Inheritance Tax Liability by Class of Distributee

The distribution of the count, net taxable estate value and inheritance tax liability by type of beneficiary for all estates closed during the 1980-81 fiscal year is shown in Table VI. As with Table V, the impact of Chapter 93, Laws of 1981 and 1983 Wisconsin Act 194 has been incorporated. Among all estates closed in 1980-81, spouses comprised 20.2% of the distributees and received 52.6% of the value of assets transferred. Children represented another large class of distributees, totalling 32.5% of the distributees and receiving 27.2% of the asset value. Among distributees with an inheritance tax liability (after adjustment to reflect the complete exemption of interspousal transfers and the higher exemption in Act 194), Class A distributees received almost 58.4% of the net taxable estate. Of these, 4,909 distributees, or 20.7% of the total number of distributees, were children and received \$265.5 million, or 44.8% of the net taxable estate value transferred. The share of inheritance taxes paid by children was 36.3% at \$12.8 million, with an average tax of \$2,605.

The second major class of distributees subject to tax was Class B distributees--brothers, sisters or their descendants. Among estates with a

TABLE VI

Distribution of Wisconsin Net Taxable Estates and
Inheritance/Estate Tax Liability by Class of Distributee
As Affected by the Tax Law Changes Adopted in
Chapter 93, Laws of 1981 and 1983 Wisconsin Act 194
(Estates Closed During the 1980-81 Fiscal Year)

<u>Distributee</u>	<u>All Distributees</u>					<u>Distributees With a Wisconsin Inheritance/Estate Tax</u>								
	<u>Count</u>	<u>% of Count</u>	<u>Amount</u>	<u>% of Amount</u>	<u>Mean Amount</u>	<u>Count</u>	<u>% of Count</u>	<u>Amount</u>	<u>% of Amount</u>	<u>Mean Amount</u>	<u>Tax</u>	<u>% of Tax</u>	<u>Mean Tax</u>	<u>Effective Tax Rate*</u>
Class A														
Spouse	14,763	20.2%	\$854,965,697	52.6%	\$57,913	---	---	---	---	---	---	---	---	---
Children	23,683	32.5	442,049,548	27.2	18,665	4,909	20.7%	\$265,484,262	44.8%	\$54,081	\$12,787,487	36.3%	\$2,605	4.82%
Lineal Ancestor	538	0.7	9,371,970	0.6	17,420	80	0.3	3,718,574	0.6	46,482	166,587	0.5	2,082	4.48
Other Lineal Issue	6,123	8.4	53,483,960	3.3	8,735	1,093	4.6	77,146,999	13.0	70,583	2,564,380	7.3	2,346	3.32
Class B														
Brother, Sister or Descendant of	16,705	22.9	173,449,493	10.7	10,383	11,877	50.0	163,537,281	27.6	13,769	13,174,821	37.4	1,109	8.06
Class C														
Uncle, Aunt or Descendant of	787	1.1	8,527,646	0.5	10,836	477	2.0	8,006,754	1.4	16,786	895,276	2.5	1,877	11.18
Class D														
Others with Tax	7,216	9.9	45,941,893	2.8	6,367	5,330	22.4	74,983,253	12.6	14,068	5,644,325	16.0	1,059	7.53
All Others Without Tax	3,127	4.3	37,980,209	2.3	12,146	---	---	---	---	---	---	---	---	---
TOTAL	72,942	100.0%	\$1,625,770,416	100.0%	\$22,289	23,766	100.0%	\$592,877,123	100.0%	\$24,946	\$35,232,876	100.0%	\$1,482	5.94%

*The effective tax rate is the ratio of tax liability to the amount of the net taxable estate subject to tax.

Totals may not add due to rounding.

Source: 1981 Inheritance Tax Sample

tax liability, transfers to Class B distributees comprised 50.0% of the total number of distributees, 27.6% of the net taxable estate distribution and 37.4% of the inheritance taxes paid. The effective rate of tax for Class B distributees of 8.1% was substantially higher than the 4.8% effective rate of tax for children. The difference in the effective rate of tax between these classes of distributees reflects the preferential tax treatment of more closely-related heirs; under the state inheritance tax, children have higher exemptions and lower tax rates than Class B distributees.

Distribution of Wisconsin Gift Tax Liability

As noted earlier, the Wisconsin gift tax, which complements the state inheritance tax, is imposed upon transfers of assets made during life. Classes of distributees and rates of tax are comparable to provisions used under the inheritance tax. Two exemptions are provided under the gift tax: a lifetime exemption for Class A distributees and an annual exemption of \$10,000 between each donor and donee.

The distribution of gifts, exemptions used, and gift tax liability by the amount of the gift is shown in Table VII. (For purposes of this table, a \$50,000 exemption for Class A distributees was assumed.) Over 20,500 gift tax returns were filed in the 1980-81 fiscal year, reporting total gifts valued at \$258 million and total exemptions of \$250.7 million. With the changes enacted in Chapter 93 and Wisconsin Act 194, 98.6% of the returns filed in 1980-81 would have had no gift tax liability. Of the 284 returns which would have had a gift tax, about 60, or 21.1%, had a gift valued under \$25,000. These returns represented 6.3% of taxable gifts and 2.8% of gift taxes paid. In contrast, 224 gift tax returns with transfers in excess of \$25,000 represented 93.7% of taxable gifts and 97.2% of gift tax liability.

Table VIII shows the distribution of gifts, exemptions used and gift tax liability by class of donee. Of 284 taxable gift tax returns, almost 61% were attributable to gifts to children. Children received 65.5% of the total value, 66.6% of the taxable value and paid 68.5% of the gift taxes collected in 1980-81 fiscal year. Although gifts to children and other Class A donees comprise the greatest share of taxable gift tax transfers according to the 1981 gift tax sample, the availability of a lifetime exemption for all Class A donees (children, other lineal donees) results in a significantly lower average rate of tax for Class A donees compared to less closely related donees.

TABLE VII

Distribution of Gifts, Gift Tax Exemptions
and Gift Tax Liability by Amount of Gift
As Affected by the Tax Law Changes Adopted in
Chapter 93, Laws of 1981 and 1983 Wisconsin Act 194
(Gift Tax Returns Filed During the 1980-81 Fiscal Year)

Amount of Gift	All Gift Tax Returns						Returns With a Gift Tax Liability						
	Count	% of Count	Total Value		Exemptions Used		Count	% of Count	Taxable Gifts		Gift Tax		
			Amount	% of Amount	Amount	% of Amount			Amount	% of Amount	Amount	% of Amount	Tax Rate*
0 - 10,000	13,152	63.9%	\$68,609,335	26.6%	\$68,609,335	27.4%	---	---	---	---	---	---	---
10,000 - 25,000	5,365	26.1	82,936,845	32.1	82,471,385	32.9	60	21.1%	\$465,460	6.3%	\$23,273	2.8%	5.0%
25,000 - 50,000	1,325	6.4	46,287,494	17.9	45,887,334	18.3	18	6.3	400,160	5.4	26,516	3.2	6.6
50,000 - 100,000	633	3.1	48,029,252	18.6	44,796,804	17.9	173	60.9	3,232,448	44.0	418,047	50.1	12.9
100,000 - 200,000+	93	0.5	12,205,835	4.7	8,961,336	3.6	33	11.6	3,244,499	44.2	366,059	43.9	11.3
TOTAL	20,568	100.0%	\$258,048,761	100.0%	\$250,726,194	100.0%	284	100.0%	\$7,342,567	100.0%	\$833,895	100.0%	11.4%

*The effective rate of tax is the ratio of gift tax liability to the amount of taxable gifts.

Totals may not add due to rounding.

Source: 1981 Gift Tax Sample

TABLE VIII

Distribution of Gifts, Gift Tax Exemptions
and Gift Tax Liability by Class of Distributee
As Affected by the Tax Law Changes Adopted in
Chapter 93, Laws of 1981 and 1983 Wisconsin Act 194
(Gift Tax Returns Filed During the 1980-81 Fiscal Year)

Distributee	All Gift Tax Returns						Returns With a Gift Tax Liability						
	Count	% of Count	Total Value		Exemptions Used		Count	% of Count	Taxable Gifts		Gift Tax on Transfers		
			Amount	% of Amount	Amount	% of Amount			Amount	% of Amount	Amount	% of Amount	Tax Rate*
Spouse	1,642	8.0%	\$59,554,916	23.1%	\$59,554,916	23.8%	---	---	---	---	---	---	---
Children	15,183	73.8%	\$169,132,113	65.5%	\$164,257,077	65.5%	174	61.3%	\$4,875,036	66.6%	\$571,100	68.5%	11.7%
Other Lineal Donees Class B	2,524	12.3	17,871,005	6.9	17,734,875	7.1	7	2.5	136,130	1.9	17,872	2.1	13.1
Brothers, Sisters	809	3.9	7,193,265	2.8	7,141,541	2.8	8	2.8	51,724	0.7	12,879	1.5	24.9
Class C Uncle, Aunt	42	0.2	432,937	0.2	277,500	0.1	17	6.0	155,437	2.1	10,662	1.3	6.9
Class O All Others	<u>368</u>	<u>1.8</u>	<u>3,864,525</u>	<u>1.5</u>	<u>1,760,285</u>	<u>0.7</u>	<u>78</u>	<u>27.5</u>	<u>2,104,240</u>	<u>28.7</u>	<u>221,472</u>	<u>26.6</u>	<u>10.5</u>
TOTAL	20,568	100.0%	\$258,048,761	100.0%	\$250,726,194	100.0%	284	100.0%	\$7,322,567	100.0%	\$833,985	100.0%	11.4%

*The effective rate of tax is the ratio of gift tax liability to taxable gifts.

Totals may not add due to rounding.

Source: 1981 Gift Tax Sample