Estate and Gift Tax Incentives and Inter Vivos Giving

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Abstract

A very small but growing body of the literature has examined the pattern of lifetime gifts. Some of these studies relied on cross sectional survey and administrative records. Others have employed aggregate time series data on gifts. Little, however, is known about the pattern of giving during the life cycle. Two questions, for instance, have yet to be explored; how gifts are allocated over life and how frequently are gifts made. These may be determined by wealth and age, but taxes may also play an important role. To address these questions, and explore the role of taxes, we employ two sets of data. The first consists of several waves of the HRS/AHEAD survey, while the second employs longitudinal data on gifts obtained from gift tax returns linked to estate tax returns. The administrative records are particularly useful in studying giving patterns of the wealthy, but do poorly in the case of the less wealthy where the survey data has a comparative advantage. The findings suggest that much of the giving takes place late in life, While these findings also suggest that taxes are an important consideration in the timing of transfers of the rich, this timing is not universally consistent with a tax minimization strategy.

1. Introduction

Policy makers and the American public have strongly supported elimination of the estate and gift taxes, or "death taxes" as they have been termed by some. A recent CBS News/ New York Times poll found that 71 percent of Americans favored eliminating the tax[1] and accountants, tax attorneys, and financial planners appear to be successful in marketing their services to individuals desiring to reduce or avoid the tax. However, despite public sentiment and purported schemes for tax avoidance, little is known about the distortionary effects these taxes on economic behavior. To the extent that we prefer taxes which induce minimal distortions, more evidence along this line is needed.

If the objective is to reduce or avoid- eventual estate taxes, as the development of a sophisticated estate planning industry would suggest, then one of the simplest and effective methods of reducing the tax burden is to alter the timing of giving. Under current law, individuals are permitted to make gifts of $11,000 per recipient, per year, free from any gift and estate taxes. This allowance permits a substantial sum to be transferred to heirs free of tax. There have also been changes in tax rates over time and changes in the relative prices of inter vivos gifts and bequests both of which provide strong incentives for changes in the timing of giving.

In this paper we examine the pattern of inter vivos giving, focusing on the role estate and gift taxes play in influencing behavior. We first look at panel data on older individuals to assess the extent to which the wealthy are taking advantage of the possibility of tax-free transfers. Previous work along these lines has found that individuals do exploit this tax-avoidance mechanism to some extent, but seldom do they reap the maximum possible savings (Poterba, 2001; McGarry 2000). However, these studies have been limited to cross-sectional analysis and

[1] http://www.cbsnews.com/stories/2001/03/14/politics/main278884.shtml

therefore cannot ascertain whether those individuals who do appear to give with an eye towards tax reduction do so consistently over time.

In the second part of the paper we use administrative data drawn from estate and gift tax returns. In particular, we examine changes in the tax law over a period of 60 years in order to identify the effect of taxes on the timing of transfers. High gift tax regimes, for instance, may reduce incentives to give, while anticipated tax increases may enhance these incentives.

We find that taxes are an important determinant of the timing of giving. The wealthy seem to take advantage of the annual exemption to spend-down their estates, and alter giving across years in response to expected changes in gift tax rates. However, despite these apparent changes in behavior, individuals fail to exploit fully, all avenues of tax avoidance.

The outline of the paper is as follows. In section 2 we describe the basic characteristics of the estate and gift tax and their evolution over time. Section 3 discusses the micro-level panel data use to analyze individual giving over time, and section 4 presents the results of this analysis. Section 5 describes the tax data that we use for longitudinal gift-giving behavior and section 6 presents this analysis. A final section discusses the implications of our findings and draws conclusions about the importance of estate and gift taxes on gift giving behavior.

2. The Estate and Gift Tax

Throughout much of their history, the estate and gift taxes functioned as two separate tax systems. The features of each system, and the differences between the two, created numerous incentives for donors to alter the timing of transfers, and make transfers earlier or later than they might otherwise choose in order to reduce the tax bill. Since 1976, however, the estate and gift taxes have functioned as a single tax where the tax liability is a function of the sum of inter

vivos transfers and bequests. However, even with this unified system, the determination of the tax obligation is subject to a variety of deductions, exemptions and credits that can result in large differences in the tax burden depending on when and how an asset is transferred. Individuals seeking to minimize the tax owed have powerful incentives to alter the timing of gifts in response to these aspects of the law. The following is an overview of the estate and gift tax as the system exists currently. This is followed by a discussion of the history of these taxes, highlighting important changes in the structure over time that would be expected to affect the economic behavior of potential donors. For completeness, we also note some the most recent changes in the tax law and what they might mean for future transfers, but these changes are not relevant to our empirical work.

2.1 Current Law

The current law with taxes based on total lifetime giving would appear to be relatively straightforward. However, there are numerous aspects of the law that make optimal tax planning a complicated matter. We detail the more important components here.

Calculation of Tax: Virtually all assets, including life insurance held by the decedent, family businesses, and certain annuities, are included in valuation of the bequests for tax base. The value of these assets, however, is often very subjective as many do not have a known market price. Executors seeking to maximize the amount transferred to heirs obviously have an incentive to establish as low a value as possible. The tax code also provides for preferential treatment of family farms and businesses, with special valuations and delayed payment of taxes owed. Items such as shares of closely held stock may also benefit from special valuations. By taking

advantage of the available accounting techniques, substantial assets can often be transferred with very little tax liability. (See Cooper (1979) for a discussion of these issues and for examples of some more aggressive tactics that have been employed in the past.)

Deductions and Exemptions: Although all estates are in principle subject to the estate tax, in practice only a tiny fraction actually incur any obligation.[2] This exemption from tax is due primarily to the Unified Credit. By virtue of this credit, a decedent may bequeath up to $1 million tax-free. This $1 million limit is relatively new and was reached in a series of step-by-step increases from an amount of $600,000 applicable throughout most of the 1990s. Over the coming years as the estate tax is phased out, the unified credit will continue to increase, eventually exempting estates of less than $3.5 million from tax.[3] In an unusual feature of the new tax code, the estate tax will be eliminated entirely in 2010 only to reappear in 2011 with a return of a $1 million exemption.

Even transfers in excess of $1 million may be made tax free under some circumstances. Transfers made to a spouse and transfers to charities are excluded from the valuation of lifetime transfers. Individual's expecting their estate to be sufficiently large that it will be subject to tax can simply bequeath any taxable portion (i.e. the amount above $1 million) to a spouse (or charity) and avoid estate taxes entirely. By combining the unified credit with the unlimited marital deduction, married couples can transfer $2 million to their children tax-free.[4]

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[2] In most years fewer than 2 percent of decedents leave behind estates subject to tax (**Joint Committee on Taxation, 2001).**

[3] Beginning in 2004 the maximum credit will differ for estates and inter vivos gifts.

[4] One could imagine that wealthy dynasties would transfer much of the same wealth generation after generation. Rather than paying estate taxes each time, they could consider "skipping a generation," transferring directly to grandchildren (or even great-grandchildren) and saving an entire generation's worth of taxes. To recoup some of this lost revenue the government has instituted a supplemental tax on transfers that skip a generation. There is a $1 million exemption before this generation skipping tax kicks in.

In addition to transfers to a spouse or charity, an individual may transfer up to $11,000 per recipient, per year, with no tax obligation.[5] This annual exemption creates a powerful incentive for individuals to make "early bequests." For an individual anticipating leaving an estate subject to a 50 percent marginal tax rate, an additional $11,000 left as a bequest nets heirs "only" $5500. Because the limit is per recipient, parents may wish to direct transfers directly to grandchildren and/or children-in-law. A parent with two children, each of whom is married with two children of his own, can transfer $88,000 (8x$11,000) per year tax-free to his immediate descendents. By taking advantage of the annual exemption and transferring part of the eventual inheritance in $11,000 increments for in the years prior to his death, a wealthy individual can potentially reduce substantially the eventual tax. Life expectancy for a 65 year old is approximately 18 years, supplying an expected spend-down potential from that age onward of nearly $1.6 million, or $3.2 million per married couple. Together with the unified credit, the parents in this example can transfer over $5 million to their children, grand-children, and children-in-law, tax-free.

The Importance of Timing: Other features of the tax code also affect the optimal timing of transfers. When an individual transfers an asset with unrealized capital gains, the only tax incurred by the transfer is the estate and/or gift tax; the recipient pays no income or inheritance tax. However, if and when the recipient sells the asset, capital gains taxes will be due, and the timing of the transfer has important implications for the determination of the capital gains tax amount owed. When an asset with unrealized capital gains is transferred as an inter vivos gift, the recipient retains the donor's original basis. The recipient must thus pay capital gains taxes on

[5] The unlimited marital deduction and the annual exclusion were both established in 1982. Prior to that time the limits were lower. In 1982 the annual exclusion was set at $10,000. It was indexed to inflation in 1998.

the gain accrued while he held the asset as well as the capital gains that accrued to the donor. In contrast, when such an asset is passed along as part of a bequest, the basis value is stepped-up to its value at the date of the transfer and no capital gains taxes are ever paid on the appreciation up until that time. Assets with significant unrealized capital gains might thus be optimally transferred as bequests, despite preferential treatment in other dimensions afforded inter vivos gifts.

Conversely, bequests are disadvantaged relative to gifts in that the gift tax applies on a tax *exclusive* basis, while estates are taxed on a tax *inclusive* basis. To illustrate the implications of this provision, consider an individual facing estate and gift tax rate of 50 percent and a potential transfer of $300. If he transfers $200 to his children while he is alive, he pays 50 percent, or $100 in gift tax. The total transfer costs him $300 implying an effective tax rate of 100/300, or 0.33, well below the statutory rate of 50 percent. The effective gift tax rate is thus $\tau_g/(1+\tau_g)$ where τ_g is the marginal tax rate. In contrast, if the $300 were transferred as a bequest, the tax liability would be 50 percent of $300 or $150, for an effective rate equal to the statutory rate.

Other more subtle issues may affect the decision to transfer an asset during one's lifetime or as part of an estate. The transfer of an illiquid asset may incur sufficient tax liability that it must be sold to meet the tax obligation. Once sold, capital gains taxes would also be due. This lack of liquidity could affect the decision to transfer. Similarly, large illiquid assets such as a work of art or a business may be difficult to transfer in smaller portion to meet the annual exemption limit.[6] There may also be disadvantages to making inter vivos transfers if heirs are thought to be less savvy in managing investments than the potential donor. Conversely, by

[6] Particularly with businesses, tax planners have found ways to work around this limit by transferring shares of ownership with a portion of shares being transferred every year.

transferring an asset early, capital appreciation will incur to the recipient and will not face a transfer tax as it would if the same gains were incurred by the donor and then transferred.

We do not analyze the all these various implications of the tax law. Rather, our empirical work with the HRS data will test simply whether respondents are taking full advantage of the annual exemption and whether the extent to which their aggressiveness with using this form of estate planning varies with observable characteristics such as the liquidity of the asset holdings or expected length of life. If individuals to not exploit this most simple of estate planning techniques, it is difficult to imagine that the distortions created by the tax are huge.

2.2 Historical Record: Although the annual exemption provides a simple means by which to reduce the estate tax, optimal estate planning may be obscured by the fluidity of the tax law. As recent history demonstrates, the estate and gift tax are frequently subject to change and even changes enacted by congress may never be implemented. Individuals may therefore be slow to respond to certain changes in the law, expecting future revisions to be likely. Conversely, they may respond quickly to take advantage of changes that are viewed as temporary or to avoid forthcoming increases in taxes. Although difficult from a lifetime planning perspective, these repeated changes do allow us to assess the effect of taxes on behavior. By focusing on changes in the relative tax rates on gifts and bequests and analyzing the accompanying patterns of transfers, we seek to identify the importance of these taxes in driving economic behavior.

The estate tax as initially established in 1916, applied to decedents with estates of more than $50,000 (just over $840,000 today) and had a maximum marginal rate of 10 percent. It evolved substantially over the subsequent decades becoming more or less burdensome at various times. The first major change came in 1932, when the estate tax (and a number of other taxes) was

increased to bolster the finances of the Treasury; the maximum marginal estate tax rate was raised to 45 percent and a gift tax was introduced. Rates for the gift tax were set at 75 percent of those applicable to estate taxes resulting in a maximum marginal gift tax of 33.75 percent. By setting the gift tax rate below that of the estate tax, the government created an incentive for the wealthy to accelerate their transfers and hence accelerate the flow of funds to the Treasury. Along with the change in rates, the 1932 modifications to the tax code established an annual per donee exemption of $5,000 and an additional lifetime exemption for every donor.

The next decade was met with numerous changes coming in quick succession. In May of 1934, the maximum estate tax rate was increased to 60 percent, and the gift tax rate to 45 percent. However, the increase in the gift tax did not take effect until January 1, 1935, providing a seven month window of opportunity for the wealthy to transfer assets at the lower rate, likely hastening the transfer of wealth. Taxes on both estates and gifts were increased again on August 31, 1935, with top rates being set at 70 and 52.50 percent, respectively. Once again, the change in the gift tax was instituted with a delay of several months. In addition to the rate increase, the 1935 change reduced the lifetime exemption $40,000. Individuals who may not have expected to incur a tax under the old law, would now have to adjust their behavior if they were to avoid it under the new law.

In June of 1940, a surtax of 10 percent on estate and gift taxes was introduced increasing the maximum tax rate on estates to 75.4 percent and that on gifts to 57.75 percent. Unlike earlier legislation, however, the enacted increases went into effect almost immediately forestalling any acceleration in giving.[7] However, this particular increase was temporarily, set to expire at the end of 1945. It thus had the opposite effect of earlier tax increases creating an incentive to *delay*

gifts. Finally, in September 1941 tax rates were raised to 77 and 57.75 percent, respectively, again with a substantial delay in the effective date for gifts.

After this point, further changes in tax rates did not occur until the Tax Reform Act of 1976 (TRA76). This act overhauled the system, restructuring the estate and gift tax system into a unified tax with a single rate schedule, effective January 1, 1977. The maximum tax rate for bequests was *lowered* to 70, but the unification of schedules meant a simultaneous *increase* in the maximum tax on gifts to the 70 percent rate.[8] Consistent with the earlier pattern, these changes took effect some 3 months after the enactment date. In addition, the effective lifetime exemption, through use of the unified credit, was set at $120,667, and scheduled to increase overtime.

This unification of the two systems did not mean an end to the frequent changes. The Economic Recovery Tax Act of 1981 (ERTA81) reduced the maximum tax rate to 50 percent phased in over a four-year phase-in period beginning, falling to 65 percent in 1982, 60 percent in 1983, 55 percent in 1984, and 50 percent in later years. However, the 50 percent rate was never reached as 1984 legislation froze the scheduled rate reduction at 55 percent for a period of three years. In 1987 the tax rate for the upper-most bracket was again frozen at 55 percent for five additional years. In 1993, it was set to 55 percent permanently.[9] In addition to the rate changes, ERTA81 increased the unified credit in stages so that by 1987 lifetime bequests and gifts totaling less than $600,000 were free from tax.

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[7] A savvy individual monitoring the discussion in Congress would have had approximately one month between the initial congressional discussions and the implementation of the law during which to act.

[8] This change has the effect of raising the estate tax rate on gift donors who sought to make anticipatory bequests. Through 1976, gifts made in contemplation of death were added to the estate. This created significant opportunities for donors to make gifts prior to estate tax increases, as it was invariably difficult to prove motive. Beginning in 1977, as the two taxes were unified, all gifts made within three years of the date of death are added back to the estate.

Major changes were introduced in 1997 expanding both exemptions and deductions. The exemption was to be increased in steps to reach one million by 2006. Major rate reductions were also introduced with tax rates scheduled to be reduced to 45 percent by 2009 and to fall to zero in 2010. Perhaps the most unusual aspect of this recent change is its temporary nature. The estate tax is completely repealed in 2010 but returns to roughly its 1997 level with the top 55 percent bracket in 2011. In addition, the exemption was set at one million in 2002 and increased in steps to $3.5 million in 2009, and back to one million in 2011. Changes in gift tax rates mirror those of the estate tax, except that the rate is set at 35 percent in 2010. In contrast to the estate tax, the exemption will remain at one million until 2010.

The history of these changes is summarized in Table 1. Although tedious to document and to read, these changes provide a fertile ground on which to gauge the responsiveness of gift-giving behavior to the estate tax. In the following sections we exploit both current law and this series of changes to understand the potential magnitude of distortions created by estate and gift taxes.

2.3. Framework for the Analyses

Our analyses draw on two important gift-giving incentives stemming from the tax law. First, individuals who expect to leave taxable estates have an incentive to spend down their wealth by making transfers early. These early bequests ought to be made year in and year out as the eventual decedent takes advantage of the yearly exemption to transfer resources. Secondly, when the price of inter vivos gifts falls relative to bequests, as it has several times over the last century, inter vivos giving should rise. Conversely, increases in the price of gifts relative to bequests, should result in a fall in this type of transfer.

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[9] Under ERTA81, the gift tax on gifts made within three years of the date of death is included in the estate and

Although these predictions are nearly axiomatic, the magnitudes of these responses have not before been estimated. And it is the magnitudes of these and other related responses that drive much of the policy discussion surrounding the future of the estate tax.

4 Micro data Analysis

This section draws on data from the Health and Retirement Study (HRS) and the Asset and Health Dynamics study (AHEAD). These two large panel surveys were combined in 1998 under the umbrella of the HRS. The original HRS cohort was first interviewed in 1992 and consists of a nationally representative sample of individuals born between 1931 and 1941 and their spouses or partners. These individuals have been interviewed biennially ever since with the most recent data available for 2000.[10] Interviews for the second cohort of respondents, the AHEAD cohort, were begun in 1993 with follow-up surveys in 1995, 1998 and biennially thereafter. The AHEAD cohort is older than the HRS cohort, consisting of individuals born in 1923 or earlier and their spouses. Other than the difference in age, the two studies are nearly identical. In 1998 the samples were combined and interviewed with a single survey instrument. At the same time the original AHEAD and HRS cohorts were joined by two new cohorts: a sample of individuals born between 1924 and 1930 and those born between the years 1942 and 1947. Because we have only two years of data on these "new" cohorts, we do not include them in our longitudinal analysis. Our sample therefore consists of 5 waves of data for the original HRS cohort (1992, 1994, 1996, 1998, and 2000) and 4 waves of data for AHEAD (1992, 1995, 1998, 2000). We will use the notation HRS to refer to the combined samples as long as there is no confusion. [11]

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subject to the estate tax.

[10] Since the writing of this paper a preliminary release of the 2002 data have been released. These are not incorporated here.

[11] http://hrsonline.isr.umich.edu/intro/sho_uinfo.php?hfyle=sample&xtyp=2#table_1

The HRS provides a unique opportunity to observe patterns of inter vivos giving over time. At each interview respondents are asked to report any transfers to children or grandchildren. This specific mention of children appears to lead to more complete measurement of transfers than that obtained by the more commonly used measures of "transfers to anyone outside the household" (McGarry and Schoeni, 1995). Transfers to each child (and to the child's own children) are measured separately along with characteristics of the child such as marital status and number of children. Thus one can assess the yearly potential of the respondent and spouse to spend down their estate through transfers to children, children-in-law, and/or grandchildren, as well as the degree to which he is exploiting such transfers. The specific questions (with minor modifications across waves) are of the form:

> "Have you [or your husband/partner)] given (your child/any of your children) financial assistance totaling $500 or more in the past 12 months?"

The surveys then ask which children received a transfer and how much. Transfers to children-in-law and grandchildren are treated as transfers to the child.[12]

The surveys also collect detailed asset information. Accurate measurement of assets is crucial if respondents facing potential estate taxes are to be identified. As Smith (1995) shows, the quality of the data on income and assets far exceeds those of most panel surveys such as the Survey of Income and Program Participation (SIPP). The HRS asks specifically about the value of assets held as stocks, bonds, savings and checking accounts, IRAs, real estate (including main and second homes as well as other real estate) certificates of deposits, vehicle equity and

[12] The $500 cut-off was temporarily lowered to $100 in 1994 and 1995. For comparability with other years I have not counted transfers of less than $500 in total as gifts in these two waves.

business equity. With this level of disaggregation it is possible to examine the relationship between giving and the degree of liquidity of asset holdings.

Unfortunately, there is no over sampling of high wealth households in the HRS as is done in the Survey of Consumer Finances (SCF). Because only a small fraction of the population dies with sufficient resources to owe any estate tax, the subset of HRS respondents with potentially taxable estates will be small.

A key factor in our analysis is an indicator of whether a family is likely to have a taxable estate. Because our sample is of living individuals, asset levels at death will undoubtedly differ from current levels. Younger respondents may still be accumulating assets, suggesting that current wealth will be below that held at some later point. Conversely, the life cycle model predicts that wealth will be used to finance consumption in retirement, resulting in a decline as a retired individual ages. Proper estate planning will lead many respondents to "spend down" their estates further. Rather than forecast a wealth trajectory as has been done elsewhere (Bernheim, Lemke, Scholz, 2002) we simply set our indicator of a "potentially taxable estate" equal to one if total bequeathable wealth of the respondent (including housing wealth but excluding pension and Social Security wealth) is above the amount that can be bequeathed tax-free.

As noted earlier, reported transfers pertain to the "preceding 12 months" and will likely thus span two tax years. For most of our sample period this does not create a problem in determining the cut-off for a taxable estate because the tax-free limit does not change: From 1987 to 1998 $600,000 could be bequeathed tax-free by each decedent. Thus transfers in 1991, 1992, 1993, 1995, and 1996 will be based on this expectation. However, the tax-free amount has increased in a series of steps since that time, rising to $625,000 in 1998, $650,000 in 1999 and $675,000 in 2000 and 2001. For transfers reported in 1998, some of the transfer would have been

made in 1997, prior to the increase in the limit, and some in 1998. Transfers reported in 2000 interview similarly span two tax years. In both cases we use the higher limit, $625,000 for the 1998 interview and $675,000 for 2000.[13]

Because transfers and estate planning are decisions made at a family level, we arrange our data so that the respondent and partner/spouse (if present) form a single observation. We keep the household in the sample as long as there is an interview for at least one spouse but scale the potentially tax-free amount for the presence of one or two individuals in the family unit. [14] We also restrict our sample to those families in which the respondent and/or spouse has at least one living child. Certainly the respondent could have heirs other than children, but we do not have complete information on other kin (e.g. cousins, aunts, uncles, nieces and nephews) who would be potential inheritors, nor do we have information on friends whom a respondent might wish to provide for in his will. It is therefore impossible to assess the relevant opportunities for giving. With these restrictions we are left with a sample of 13,357 households.

A key element of this study is the pattern of giving over time. Table 2 reports the distribution of number of observations per family. Although we keep all families in our data set, regardless of the number of times they are observed, the vast majority contribute data for several years. A total of 10,554 families, or 79 percent of the sample are observed four or five times. Another 1341 are observed for three waves. These data can thus provide a good measure of the persistency of transfers and thus the effectiveness of such transfers as part of an estate reducing strategy.

[13] The current $1 million was known well in advance (the law was passed in 1997). A reasonable alternative to the method used above would therefore be to use $1 million for the 1998 and 2000 interviews. The results are qualitative unchanged. We do not believe individuals making transfer decision in 1997 or 1999 would have forecasted the complete elimination of the tax, a change that was passed into law in 2001.

[14] We delete those cases in which the respondent and spouse separate or divorce because financial behavior at the time of these separations may be based on other motives.

5. Analysis of HRS Data

We begin our analysis by focusing on the categorization of eventual estate tax liability. The first row of table 3 shows the fraction of the sample with potentially taxable estates, denoted "rich," on a year by year basis, as well as a count of the number of rich in each survey year. The 1992, 1994, and 1996 data pertain to the HRS cohort only while the 1993 and 1995 data are for the AHEAD cohort. In 1998 and 2000 both cohorts are represented. As the table shows, the fraction of families with potentially taxable wealth in each year is small. In 1992 just 4 percent of the sample had bequeathable wealth (measured per spouse) above the $600,000 level (column a). Among the older AHEAD cohort first observed in 1993, the fraction is just below 3 percent. There is a large increase in the number of rich families over time, reflecting the life cycle savings by those in their 50s and differential mortality, as well as the run up in the value of stocks and real estate throughout the 1990s. Note that this increase over time in the fraction classified as rich exists despite the increase in the exclusion to $650,000. The second set of columns in table 3 reports the fraction rich in each year conditional on being rich in at least one year (column c) and, alternatively, conditional on being rich at the first interview (column d). There is a surprising amount of mobility in wealth categorization among these individuals. Among those who are rich in at least one wave, the fraction rich in any given wave ranges from 30 to 60 percent. Because the first interviews had the smallest number of wealthy families, the probability of being rich in later waves, conditional on being rich in at the first interview, is relatively high at or above 60 percent in each subsequent year. In much of our analysis we will restrict our sample to this group.

If inter vivos transfers are motivated to a significant extent by a tax minimizing strategy then one would expect parents with potentially taxable estates to be substantially more likely to make inter vivos transfers than less wealthy parents. We would also expect transfers to increase as the end of life draws near. We begin to test these predictions by stacking the observations for all years into a single cross section. This procedure yields 46,459 family-year observations. We then analyze the probability of making a transfer as a function of wealth and current age (measured as age of the younger spouse for married couples). As shown in the first set of rows in table 4a, the probability of making an inter vivos transfer is 37.5 percent for the entire sample. It is 36 percent among those who do not have a potentially taxable estate but 63.5 percent among those who do. Among the lower wealth group there is a monotonic decrease in the fraction giving with age, but no such pattern is evident for the rich. To focus in more detail on the high wealth group, we further divide the sample based on the amount of wealth with categories of $600,000 to $1 million, $1 million-$1.5 million, and $1.5 million or more. Consistent with past work, even among those in the highest wealth category and the oldest age bracket, gift giving is far from universal: Only 71 percent of those with wealth over $1.5 million (*per spouse)* who are older than 75 report having made a transfer to at least one child. It is hard to imagine that individuals in this cell would not be affected by the estate tax and yet they do not appear to be engaging in aggressive tax planning. At the other end of the wealth distribution the probability of making a transfer for those in the same age category but with bequeathable wealth of less than $600,000 was just 27 percent.

One can also compare the amount of the transfer actually given with the amount that could be given tax-free. Table 4b is constructed similarly to table 4a but presents the cell average of the ratio of the total amount given to the amount that could have been transferred tax free to

children, children-in-laws, and grandchildren. (This number is multiplied by two for married respondents because the gifts are measured on a couple-level and each spouse is permitted an annual exemption equal to this total). Overall, those with bequeathable wealth of at least $600,000 per person on average met only 25 percent of their gift-giving potential. Although the amount is far less that they could have given, the fraction is substantially above the 3 percent given by less wealthy families. The ratio increases substantially among the wealthiest families and is 56 percent for those with $1.5million or more. However, again, even the oldest and wealthiest leave a substantial portion of the potential to spend-down an estate untapped, with the average ratio of gifts made to potential gifts of less than 70 percent.. These results provide further evidence that while wealthy individuals are doing *something*, they are failing to exploit fully the potential to spend down an estate.

Although similar cross-sectional results have been derived earlier (Poterba 2001, McGarry 2000) little is known about the use of these annual gifts over time as a way to reduce/eliminate the estate tax. Are those making transfers in a given year likely to continue to do so in each period, as active estate planning would predict? Or are transfers variable across years, indicating an alternative motivation? Table 5 reports the probability of making a transfer in each wave conditional on making a transfer in a given wave. Panel A is for those with potentially taxable estates and for comparison panel B repeats the analysis for those who do not appear to be facing eventual estate taxation. The wealth classification is based on wealth at the first observation. As noted earlier, the fraction with potentially taxable estates is lowest at the first observation so in that sense this is using a relatively strict definition of wealthy. Note also that the original HRS cohort was interviewed in 1992, 1994, 1996, 1998 and 2000 while the AHEAD cohort was interviewed in 1993, 1995, 1998, 2000. Individuals who made a transfer in,

say, 1992, would not have been observed in 1993 or 1995 and those cells in the table are thus empty.

Among the subset of individuals who made a transfer in 1992 and who had a potentially taxable estate in that year, 82 percent also made a transfer in 1994, 87 percent in 1996, 82 percent in 1998 and 74 percent in 2000 suggesting a high degree of persistency in giving. The same pattern exists across waves, conditional probabilities are typically in the 65 to 80 percent range. These numbers are indeed higher than the 63.5 percent unconditional probability, but show once again that individuals are not uniformly taking advantage of the potential to make tax-free transfers.

Transfers are also relatively persistent for those with less wealth, although substantially less so than for the wealthy group. As shown in panel B, the conditional probabilities vary from 55 to 65 percent, far greater than the 35 percent unconditional probability, but below the conditional probabilities for the wealthy group.

One can imagine numerous explanations for why the wealthy do not take full advantage of the opportunity to spend-down their estates. Those who have wealth levels only "slightly" above the exempt amount, may be hesitant to give early for fear that they may exhaust their funds before they die. Similarly, because the marginal tax rate rises with the magnitude of the estate, the cost of not spending-down an estate is less for those with smaller taxable estates. Thus the amount of giving, both in terms of the number of years for which the annual exemption is employed, and the extent to which full advantage is taken of the potential tax-free giving, will be positively correlated with income and assets even for those whose estates will be subject to tax. Along these same lines, individuals in poor health may be concerned about large medical expenses and may therefore wish to retain wealth to buffer against these shocks. Conversely,

individuals in poor health likely have shorter life expectancies and need to spend-down at a greater rate than those in better health. In either event, health status and age ought to enter into the decision to transfer resources.

The type of asset holding may also affect the likelihood of early bequests. Assets held in relatively liquid forms such as a bank account or mutual funds may be more readily transferred than less liquid assets such as business or real estate equity. Assets with substantial unrealized capital gains may also be worth more to the beneficiary if they are transferred at death due to the step-up in basis value afforded bequests (see Poterba 2001 and Joulfaian 2000 for a discussion of the pros and cons of this delay).

Table 6 reports the results of a regression analysis used to understand more clearly which individuals are engaged in aggressively in spending down their estates. We restrict our sample to those with wealth above the taxable limits as of the first interview and consider two measures of transfer intensity: the amount given and the frequency with which transfers are made. For the first measure the left hand side variable is the ratio of the amount transferred in year 1 relative to the amount that the individual could potentially have transferred to children, children-in-law, and grandchildren based on a $10,000 gifts to each, with married couples able to give twice this amount. This is the same variable that appears in table 4b. The results of this regression are reported in the first set of estimates in the table. We then repeat this analysis (column 2) for the subsample of those families in which at least some amount was transferred.

Our second analysis uses the panel nature of the data and examines the fraction of survey years in which the family reports making a transfer to at least one child, child-in-law, or grandchild. Here we use the *fraction* of years in which a transfer was made rather than the *number* of years because of the varying number of potential observations for the HRS and

AHEAD cohorts and because of sample attrition. The results of this regression analysis are reported in the right-most set of estimates in table 6.

We expect the right hand side variables to have similar effects in each equation: If individuals alter their behavior in response to the estate tax, we would expect the effects to be the largest for those with the most wealth and who have the shortest life expectancies. The coefficient on assets should therefore be positive (i.e. more giving among the wealthy). To proxy life expectancy we include age and the subjective survival probability reported by the respondent (and averaged for spouses).[15] Because transfers should be negatively related to the number of years over which the respondent expects to finance his own consumption, the coefficient on age should be positive and the coefficient on life expectancy negative. We also include an indicator for whether the respondent or spouse is in poor health. This variable will capture the potential for large medical expenses but could also be thought of as another measure of life expectancy. Because the cost of disposing of assets may depend on the composition of asset holding, we also include a measure of the fraction of assets held in illiquid forms.

As shown in column 1, the ratio of actual to potential tax-free transfers does increase significantly with assets, and less strongly with income, as a tax minimizing strategy would predict. However, in contrast to the predictions of a tax-minimizing strategy, spend-down does not appear to increase significantly as the end of life gets closer. Older respondents on average make lower transfers, but the effect is not significantly different from zero, and the survival probabilities have no effect. Poor health, which is likely also correlated with length of life, has a negative, but again insignificant effect.

[15] In the HRS respondents are asked the probability they will live to age 75 and to age 85, we use the answer to the age 85 question. In AHEAD they are asked the probability of living to the next "round number" that is approximately 10 years away (e.g. a 74 year old respondent is asked about living to age 85). Because the questions

Perhaps unsurprisingly, the ratio of actual to potential transfers decreases with the number of children as the denominator increases. Similarly, married couples have a higher potential gift-giving ability and meet a correspondingly lower fraction of their potential.

Again in contrast to the predictions of a tax minimizing strategy, there is no significant difference in the amount of giving by the composition of asset holdings, suggesting that parents are not liquidity constrained in their giving behavior.

In the second set of estimates, we repeat the same regression solely for the subsample of families who reported having made a transfer at the first interview. The sample size is extremely small, but the effects are, in general, unchanged. Greater assets and fewer children increase the fraction of potential giving that is undertaken, life expectancy and poor health decrease the ratio. The composition of assets has no effect.

In the final set of estimates in table 6 we examine the persistency of gift giving behavior across waves. We find no support for the notion that frequent giving is more common among those with larger estates. The coefficient on assets is basically zero. Older parents give less frequently and life expectancy again fails to play a role. There is some weak evidence that illiquid assets decrease the frequency of giving, but the effect is not significantly different from zero.

Thus, although the HRS data show increased giving among the wealthy as predicted by an estate tax minimization strategy, the degree of the effect appears to be modest.

6. Administrative Data

differ across cohorts, we include and indicator of whether the respondent is in the original HRS cohort and interact this variable with the reported survival probability.

From the analysis of the HRS data, it appears that few respondents are responding fully to minimize the eventual estate tax. Because inter vivos giving is arguably the simplest method of avoiding or reducing their eventual tax, one would expect this behavior to be strongly affected by the prospect of a substantial tax bill . This result thus suggests that the estate tax may not have the large effects that some policy makers fear. However, one limitation of this analysis is that there is no variation in the tax over time. If individuals have already compensated for the tax in other dimensions or through previous giving, we may miss the behavioral effect. Ideally we would like survey data on transfers over an entire lifetime, including information about eventual bequest. And we would like this lifespan to cover the years during which there were substantial changes in tax rates. Unfortunately such data do not exist. We are, however, able to draw on a substantially longer time series with measures of annual gift-giving, by using information obtained from estate and gift tax returns. . Here we employ a sample of estate state returns for decedents in 1992 with matched gift tax records dating back to the 1930s. The estate tax returns provide information and the size and composition of terminal wealth,[16] while gift tax records capture annual inter vivos transfers. Previous studies employing administrative data have used cross sectional information from estate tax returns (Joulfaian, 2000) or aggregate time series data on federal gift tax receipts (Joulfaian, forthcoming). This is the first attempt to employ longitudinal gift tax data linked to estate tax returns.

In 1992, the applicable estate tax filing threshold was $600,000 in gross assets, including lifetime gifts. Because of this threshold, our analysis is restricted to the wealthiest segment of society. We do not know who might bave successfully avoided the estate tax through techniques such as the full use of the annual exemption. The gift tax filing requirement varied over time. Initially it was $4000-$5000.. For the years 1943-1981 the threshold was just $3000, and in 1982

[16] These include the sum of taxable gifts made as of 1977 as well.

it increased to $10,000.. Despite this shortcoming the administrative data provide a valuable complement to the survey data. In particular, the restriction to the wealthiest decedents ensures that there are sufficient observations on high wealth/high transfer individuals, while the HRS likely omits much of this population. Table 7 demonstrates the difference in the measurement of annual transfers between the two surveys. The table shows a tabulation of the amount of gifts transferred in excess of the exemption threshold (i.e. $10,000) observed in the two data sources. Attaching population weights to the HRS data for 1992 and 1993 yields a population estimate of 375,000 individuals making gifts in excess of $10,000 per donee, with a total value of $6.5 billion. In contrast, taxable gifts reported on tax returns for the same years stood at $17 billion for just 140,000 individuals. Of these, 140,000 individuals, about 4,000 reported gross gifts in excess of $600,000 each, for a total of roughly $4.5 billion in taxable gifts.

The greater number of taxable transfers in the HRS is consistent with the capturing of transfer among those who will not exceed the lifetime limits on gifts, while the substantially smaller amount points to under-reporting by the very wealthy. It is precisely these individuals that the survey data will fail to capture.

To maintain some consistency between the HRS and the administrative sample, we restrict the later to decedents born before 1942. This yields a sample of 3,563 observations. Table 8 provides descriptive statistics for select variables. The mean wealth in the sample is about $7.5 million, with mean age of 75 years at death. Fifty-seven percent of the sample is married, 31 percent widowed, and 64 percent male. The average amount of gifts made during life is $287,000. Because these gifts are made over a span of many years, the real value of the transfer varies. If gifts are adjusted for economic growth by using the Standard and Poors (S&P) index, the average amount transferred rises to $641,000.

Table 8 also provides a comparison of the characteristics of donors and non-donors. The donors are about 6.5 years older than non-donors, on average, more likely to be widowed, and less likely to be male: 41 percent of donors are widowed compared to 28 percent for non-donors and males comprise 59 percent of donors but 66 percent of those who do not give.

Wealth is another important difference in the attributes of the two groups. The average wealth of donors is about $16 million, compared $4.5 million for the other group. On average, gifts represent about 7 percent of the wealth of donors or about 14 percent when adjusted for changes in the S&P index.

7. Results

The first portion of the paper focused on the tax advantages of making annual gifts below the taxable threshold. Even if transfers are to incur a gift tax, it is often worthwhile to make the gift during one's life rather than transferring the assets as part of a bequest (Poterba, 2001; Joulfaian 2000). Therefore we look first at the frequency with which those with taxable estates make inter vivos gifts.

The evidence reported in Figure 1 suggests that the majority of donors rarely do so. About 72 percent of the sample failed to report any taxable gifts. As for those making gifts, approximately 30 percent made a taxable gift in just one year,; 16 percent in two years, and 12 percent in three years. .

We also assess this frequency in a multivariate framework using a Poisson regression. The estimates are reported at the bottom of Figure 1. The frequency of inter vivos transfers seems to rise with age, but at a decreasing rate. Perhaps not surprisingly, it also rises with

wealth.[17] Consistent with the differences reported in Table 8, single men make gifts less frequently than women, but there is no difference for married men.

Also of interest is how the relative frequency of giving varies over time. For instance, are individuals more likely to give as they age? Figure 2 provides a snapshot of the relative frequency of making gifts over the period 1936 through 1992. Few make transfers in the earlier years, when they are relatively young, but as time passes, the fraction giving rises steadily and peaks at around 35 percent in 1990 when the average age would have been approximately 77.

OLS estimates of the determinants of the fraction making transfers in each year are provided below Figure 2. Because the majority of information in the data pertains to 1992 we have virtually no time varying information at the individual level. We therefore run a regression using aggregate data. The left hand side variable in this exercise is the fraction of the sample making gifts in a particular year, multiplied by 100. The central explanatory variables are the current and future gift tax prices. These variables are defined as one plus the tax rate to reflect the tax exclusive nature of the gift tax for a transfer of $7 million in 1992, and scaled using real GDP. The estimated coefficients in this regression indicate that high gift taxes are negatively related to transfers while expected future increases in tax rates have a stimulating effect. These results are consistent with the wealthy altering their gift giving behavior in response to changes in the tax rates. Overall, the fraction of the sample making gifts rises over time. Here, time is likely to be a proxy for age, and to indicate that transfers rise as the end of life draws near.[18]

Turning next to the value of transfers, figure 3 shows a steady rise in gifts interrupted with spikes in a few years. The dramatic increase in giving observed in 1976, for instance,

[17] We define wealth by adding back all S&P adjusted lifetime gifts to the value of the eventual estate.
[18] albeit an imperfect proxy as individuals are too young to make gifts in the early years of the sample or may not even have been born.

reflects the acceleration in transfers prior to the expected increase in gift tax rates in 1977. This trend is virtually identical to that observed for aggregate federal gift tax receipts over this period (Joulfaian, 1998). The effects of gift taxes, current and expected, are captured in the OLS estimates reported below the figure. High tax rates again depress gifts and gifts are accelerated prior to tax increases, consistent with the findings in Joulfaian (forthcoming).

Lastly, we examine the allocation of gifts over the life cycle. The annual share of gifts made over the sample period (adjusted for the S&P index) is plotted in Figure 4. A general upward trend is observed, similar to that of figure two. As with figure 3, however, a number of spikes are visible. The two most visible spikes take place in 1976 and 1989, in anticipation of law changes. OLS estimates of the annual share of gifts show that a smaller share of gifts is allocated to periods of high tax rates, with a greater share taking place prior to tax increases.

Thus these figures all point to the same conclusion, at the very least individuals adjust the timing of their gifts in response to taxes. We cannot, however, answer the question of whether *total* lifetime gifts are altered because of, or in response to, taxes.

8. Conclusion

This paper traced the incentives for inter vivos giving under the estate and gift taxes. Features of the tax system, and changes in tax laws over the years, provide significant incentives for timing transfers. Some of these incentives, such as the annual exemption, and temporary delays in tax hikes, provide incentives for individuals to accelerate their gift giving, while others features, such as expected declines in rates, may lead to its postponements.

In this paper we employ both survey data and administrative records to examine how individuals react to these incentives as gleaned from changes in their giving behavior. The results

from survey data suggest that individuals do not take full advantage of the opportunities provided under the gift tax for transfers under $11,000 per donee, but they do appear to respond in a more limited way. Similarly, longitudinal data from gift tax records indicate that the wealthy are influenced by changes in gift rates in that they appear to concentrate inter vivos transfers to years in which tax rates are lower. Overall, however, the importance of these responses with respect to lifetime transfers is limited as they total less than 10 percent of terminal wealth.[19]

[19] This may represent some of the distortionary effects of the tax measured in Holtz-Eakin and Marples, and the overall effects on wealth accumulation.

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Table 1

Changes in Estate and Gift Tax Rates

Estate Tax Changes		Gift Tax Changes	
Dates in Effect	Description	Dates in Effect	Description
June 6, 1932	Maximum estate tax rate raised to 45 percent, effective after 5pm.	June 6, 1932	Gift tax enacted with a maximum rate of 33.75 percent.
May 11, 1934	Rate increased to 60 percent. Act of May 10, 1934.	Jan.1, 1935	Rate increased to 45 percent.
Aug. 31, 1935	Rates increased to 70 percent. Act of August 30, 1935.	Jan.1, 1936	Rate increased to 52.50 percent.
June 26, 1940	Temporary10 percent surtax. Enacted June 25, 1940; and effective through 1945.	June 26, 1940	Same as estate tax.
Sep. 21, 1941	Maximum rate set to 77 percent. Act of September 20, 1941.	Jan. 1, 1942	Rate increased to 57.75 percent.
Oct. 22, 1942	Estate tax exemption increased. Enacted October 21, 1942.	Jan. 1, 1943	Gift tax exemption reduced
Jan. 1, 1977	Rate reduced to 70 percent. Enacted on October 4, 1976.	Jan. 1, 1977	Estate and gift tax unified, and maximum gift tax rate increased to 70 percent.
Jan. 1, 1982	Maximum rate reduced from 70 percent to 50 percent over 4 years (1982-1985). Unlimited deduction for spousal transfers. Enacted on August 31, 1981.	Jan. 1, 1982	Same as estate tax.
Jan.1, 1985	Maximum rate frozen at 55 percent by legislation enacted on July 18, 1984.	Jan.1, 1985	Same as estate tax.
Oct. 23, 1986	Generation skipping tax introduced, with a temporary $2 million exemption per through 1989. Enacted on October 22, 1986.	Sep. 26, 1985	Same as estate tax, but retroactive to 1985.
Jan. 1, 1988	Maximum rate again frozen at 55 percent. Enacted on December 22, 1987.	Jan. 1, 1988	Same as estate tax
Jan. 1, 1993	Maximum rate set at 55 percent permanently. Enacted on August 10, 1993.	Jan. 1, 1993	Same as estate tax

Table 2
Distribution of Number of Observations per Family

Number of Times Observed	Number of families	Percent of sample
1	460	3.4
2	1,002	7.5
3	1,341	10.0
4	5,026	37.6
5	5,528	41.4
total	13,357	100.0

Table 3
Wealthy Families by Year

Year	Number of families	Rich in each year		Probability rich conditional on rich	
		Percent	Number	in any wave	in wave 1
		(a)	(b)	(c)	(d)
1992	7,244	4.0	246	.41	1.0
1993	6,020	2.6	142	.26	1.0
1994	6,604	3.9	217	.38	.62
1995	5,150	6.6	306	.61	.60
1996	6,321	5.3	276	.51	.66
1998	10,557	6.1	552	.55	.61
2000	9,352	6.8	550	.57	.60

The years 1992, 1994, and 1996 consist of observations for the original HRS cohort only.
Data in 1993 and 1995 are for the AHEAD cohort. 1998 and 2000 have data for both cohorts.
Wave 1 refers to 1992 for the HRS cohort and 1993 for AHEAD.

Table 4a
Probability of Making a Transfer by Age and Wealth
(n = 46,459)

Sample	All	Age ≤ 55	55 < Age ≤ 65	65 < Age ≤ 75	75 < Age
All	.375(.002)	.483(.005)	.3856(.004)	.354(.006)	.289(.004)
Less than $600,000	.360(.002)	.473(.005)	.371(.004)	.334(.006)	.272(.004)
Greater than $600,000	.635(.011)	.679(.026)	.629(.017)	.680(.024)	.584(.021)
By detailed wealth category:					
$600,000-$1million	.600(.014)	.669(.036)	.580(.023)	.669(.033)	.541(.029)
$1million-$1.5million	.628(.023)	.717(.052)	.616(.040)	.647(.051)	.573(.047)
$1.5million+	.727(.021)	.659(.061)	.755(.030)	.746(.049)	.709(.043)

Wealth is bequeathable wealth per spouse.

Table 4b
Ratio of Amount Given to Potential Tax-Free Amount
(n = 46,459)

Sample	All	Age ≤ 55	55 < Age ≤ 65	65 < Age ≤ 75	75 < Age
All	.044(.002)	.060(.003)	.048(.003)	.036(.004)	.035(.003)
Less than $600,000	.034(.011)	.054(.002)	.036(.002)	.024(.003)	.025(.002)
Greater than $600,000	.248(.029)	.220(.033)	.268(.052)	.249(.050)	.230(.062)
By detailed wealth category:					
$600,000-$1million	.139(.014)	.166(.029)	.146(.020)	.164(.051)	.101(.016)
$1million-$1.5million	.192(.029)	.342(.096)	.172(.033)	.124(.039)	.182(.067)
$1.5million+	.563(.118)	.190(.058)	.592(.190)	.581(.174)	.671(.309)

Potential tax-free amount is defined as $10,000*(number of children + number of children-in-law + number of grandchildren). This amount is doubled for married couples because they can each give the same amount tax-free and transfers given are measured on a family basis.

Table 5
Prob of Making a Transfer Conditional on Transferring in Given Year

Panel A: Rich in wave 1

	1992	1993	1994	1995	1996	1998	2000
1992	1.0	----	.82	----	.87	.82	.74
1993	----	1.0	----	.70	----	.65	.53
1994	.77	----	1.0	----	.85	.80	.74
1995	----	.81	----	1.0	----	.72	.59
1996	.73	----	.79	----	1.0	.80	.76
1998	.73	.73	.77	.66	.83	1.0	.72
2000	.65	.77	.69	.74	.79	.76	1.0

Panel B: Not rich in wave 1

	1992	1993	1994	1995	1996	1998	2000
1992	1.0	----	.63	----	.61	.54	.50
1993	----	1.0	----	.56	----	.51	.51
1994	.57	----	1.0	----	.66	.58	.53
1995	----	.50	----	1.0	----	.55	.51
1996	.54	----	.64	----	1.0	.62	.56
1998	.51	.50	.61	.57	.67	1.0	.61
2000	.49	.50	.58	.53	.61	.64	1.0

Table 6
Regression Estimates of Giving Behavior

	(1) Ratio		(2) Ratio conditional on giving		(3) Fraction of years obs giving	
	Coeff	Std err	Coeff	Std err	Coeff	Std err
Bequeathable wealth/1,000,000	.071	(.026)	.111	(.037)	.009	(.024)
Income/1,000,000	.036	(.025)	.002	(.035)	.080	(.023)
Age/10	-.044	(.039)	-.053	(.062)	-.100	(.036)
Number of children	-.040	(.011)	-.059	(.018)	-.010	(.010)
Fraction of assets illiquid	-.014	(.033)	-.034	(.067)	-.059	(.030)
Poor health (at least one spouse)	-.012	(.044)	.013	(.084)	-.086	(.040)
Probability live to 85 (HRS)	-.072	(.099)	-.093	(.160)	.034	(.092)
Probability live 5 years (AHEAD)	-.059	(.100)	-.095	(.162)	-.111	(.092)
Married	-.075	(.049)	-.117	(.078)	.021	(.045)
Intercept	.475	(.319)	.646	(.510)	1.353	(.296)
R2	0.11		0.15		0.11	
Mean of dependent variable	0.13		0.22		0.59	
Number of observations	323		194		328	

Also included is a dummy variable indicating an HRS respondent.

Table 7

Gifts Reported in Survey Data and Administrative Records

Gross Gifts per Individual Donor	HRS and AHEAD 1992/3 Data			Tax Returns of Gifts Made in 1993				
	Taxable Gifts*			Taxable Gifts*			Returns w/ Prior Gifts	Prior Gifts ($millions)
	Donors	$millions	Mean	Donors	$millions	Mean		
Under 200,000	372,581	6,517	17,492	110,210	4,773	43,308	63,412	18,916
200,000 to 600,000	-	-	-	22,392	6,791	303,278	9,104	5,034
600,000 to 1,000,000	-	-	-	4,730	2,898	612,685	1,151	1,297
1,000,000 to 2,500,000	-	-	-	880	1,150	1,306,818	685	1,342
2,500,000 to 5,000,000	-	-	-	128	423	3,304,688	121	474
5,000,000 to 10,000,000	-	-	-	54	374	6,925,926	49	303
10,000,000 to 20,000,000	-	-	-	22	305	13,863,636	21	175
20,000,000 to 30,000,000	-	-	-	9	212	23,555,556	9	260
30,000,000 And over	-	-	-	8	394	49,250,000	8	153
Total	372,581	6,517	17,492	138,433	17,319	125,107	74,560	27,954

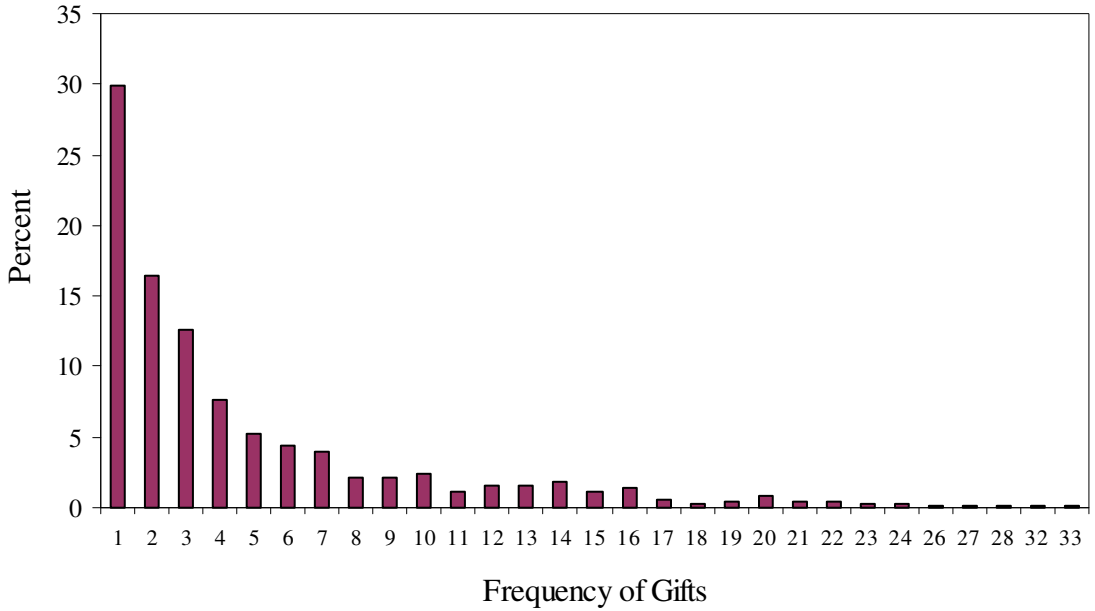
* Taxable donors and gifts refer to gifts in excess of $10,000 per donee. These become truly taxable when they exceed $600,000. Gifts by married households in HRS and AHEAD are split equally between the spouses. Gifts reported in HRS/AHEAD are not reduced by transfers for educational and medical expenses. Tax data are not grossed up for the gift tax.

Table 8

Descriptive Statistics for Select Variables for Decedents in 1992

Variables	All		Donors Only		Other	
	Mean	s.d.	Mean	s.d.	Mean	s.d.
Age	74.58	12.53	79.27	10.48	72.74	12.79
Married	0.57	0.49	0.54	0.50	0.59	0.49
Widowed	0.31	0.46	0.41	0.49	0.28	0.45
Male	0.64	0.48	0.59	0.49	0.66	0.47
Spousal Bequests	2,693,326	23,668,684	4,896,769	43,941,728	1,827,626	4,424,682
Charitable Bequests	1,011,171	9,046,007	2,222,997	16,222,743	535,063	3,138,911
Wealth	7,359,880	29,609,222	14,705,815	53,881,716	4,473,772	7,196,740
Wealth, SP Adj	7,714,449	29,982,493	15,962,861	54,429,165	4,473,772	7,196,740
Lifetime Gifts	287,106	1,075,028	1,017,869	1,831,825	-	-
Lifetime Gifts, SP Adj	641,676	3,189,175	2,274,915	5,689,025	-	-
Observations	3,563		1,005		2,558	

Figure 1. Relative Frequency of Lifetime Gifts

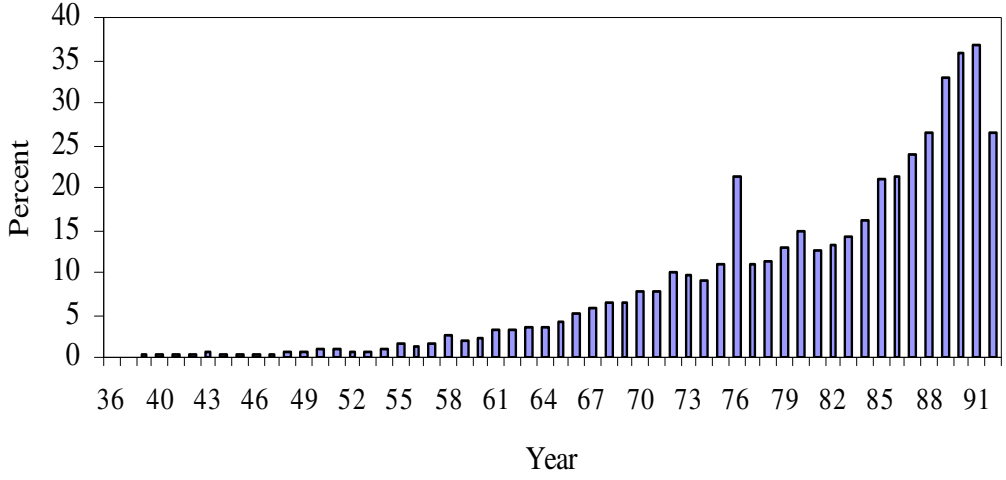


Poisson Regression of Frequency of Gifts During Life

Variable	Coefficient	s.e.
Constant	-23.2180	0.7681
Age	0.2994	0.0194
$Age^2 \cdot 10^{-2}$	-0.1689	0.0123
ln Wealth	0.6808	0.0114
Male	-0.5835	0.0909
Male.Widowed	0.2848	0.0995
Male.Married	0.7373	0.0903

Log Likelihood	-7,337
Observations	3,563
Positive Observations	1,005

Figure 2. Relative Fequency of Giving by Year

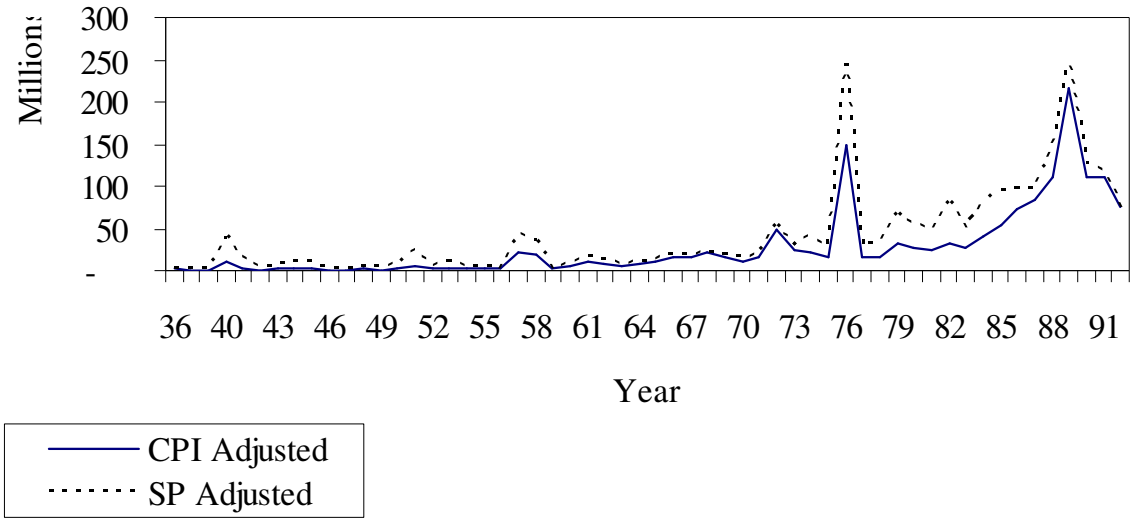


OLS Estimates of the Annual Relative Frequency of Gifts (*100)

Variable	Coefficient	s.e.
Intercept	37.9562	4.6823
ln (1+gtr)	-72.7153	11.9129
ln (1+gftr)	55.1999	10.7201
Time	-1.3464	0.2223
Time^2	1.5498	0.1391
Dummy 1989	5.1979	2.0530
ln S&P	-0.9464	1.1399

Adjusted R^2 = 0.9652
N = 56

Figure 3. Inter-Vivos Gifts ($1992)

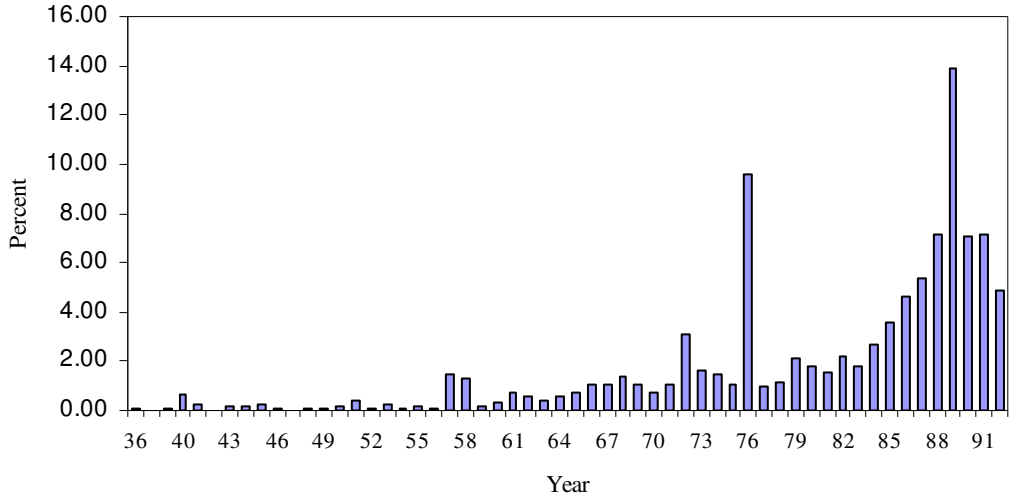


OLS Estimates: *ln* Real Gifts (CPI adjusted)

Variable	Coefficient	s.e.
Intercept	10.2870	1.6982
ln (1+gtr)	-8.3764	4.3206
ln (1+gftr)	8.4501	3.8880
Time	0.0136	0.0806
Time^2	0.0518	0.0504
Dummy 1989	0.6595	0.7446
ln S&P	0.4909	0.4134

Adjusted $R^2 = 0.8153$
N = 56

Figure 4. Allocation of Gifts (CPI Adjusted)



OLS Estimates of the Annual Share of Gifts (x 100)

Variable	Coefficient	s.e.
Intercept	6.9155	2.6024
ln (1+gtr)	-27.9592	6.0106
ln (1+gftr)	29.6952	6.2557
Time	-0.2935	0.0899
Time^2	0.2990	0.0661
Dummy 1989	5.5121	1.1969

Adjusted $R^2 = 0.8837$
N = 56