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# Death and Taxes:
## *The History of the Estate Tax in America*

The history of the American estate tax is, in many ways, the history of America's uneasy relationship with wealth itself. We are a nation born in rebellion against monarchy and inherited privilege. Thomas Jefferson famously wrote that "the earth belongs to the living," reflecting a deeply American suspicion of entrenched dynasties and hereditary aristocracy. And yet we are also a nation built upon private property rights, entrepreneurship, and the freedom to accumulate capital and pass it to one's children.

Those competing impulses have never fully reconciled. The federal estate tax is where they collide.[1]

For much of American history, transfer taxes existed only temporarily, usually appearing in moments of national emergency and disappearing once the crisis passed. It was not until the economic and political upheaval of the twentieth century that the estate tax evolved into a permanent feature of the American tax system and, eventually, a philosophical instrument aimed not merely at raising revenue, but at influencing the concentration and transfer of wealth itself.

Ironically, despite the passion and controversy surrounding it, the estate tax has almost never represented a meaningful source of federal revenue.[2] This would suggest that the constant debate over the last century of national politics makes transfer taxes a proxy for broader social policy.

### <u>Early American Transfer Tax History</u>

America's first federal inheritance tax was enacted in 1797, not long after the nation's founding, during the Quasi-War with France[3]. The tax was relatively modest and designed primarily as a temporary wartime revenue measure. Once the crisis passed, the tax disappeared. It might also be worth noting that it was an "inheritance" tax, being taxed on receipts rather than a transfer tax, which is taxed to the donor. That pattern would repeat itself several times over the next century.

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[1] Much of the historical framework for this article was informed by the IRS Statistics of Income publication *The Estate Tax: Ninety Years and Counting*, which remains one of the more thoughtful historical overviews of the American transfer tax system.

[2] OMB published data show that transfer tax revenue has not exceeded 3.30% of federal tax receipts since 1942. For purposes of this article, "transfer taxes" are the broad term to denote estate tax, gift tax, and generation skipping transfer (GST) taxes as a separate federal tax regime from income taxes or other forms of taxation.

[3] The Quasi-War with France (1798–1800) was an undeclared naval conflict fought largely in the Caribbean and Atlantic after revolutionary France began seizing American merchant ships, prompting the young United States government to impose some of its first federal direct taxes to help finance military preparedness.

The next reemergence of federal transfer taxes came during the Civil War. Congress again imposed a federal inheritance tax to help finance the Union war effort in the Revenue Act of 1862. Again, the justification was practical and temporary: the nation needed revenue to finance the war. Once the war ended and Reconstruction stabilized, the tax was repealed in 1870.

The same thing occurred again during the Spanish-American War at the end of the nineteenth century. Congress enacted a federal inheritance tax in 1898 to help fund military expenditures associated with the conflict. Once again, the tax was repealed following the conclusion of the costly military intervention.

For roughly the first 125 years of American history, transfer taxes were viewed less as permanent policy and more as emergency fiscal tools. They came and went with war, debt, and national necessity.

## **<u>Transfer Taxes in the 20th Century</u>**

The modern federal estate tax traces its origins to the Revenue Act of 1916. Historians often point to this moment as the birth of the "permanent" estate tax, and technically that is true. The initial motivation resembled earlier versions of the tax, as the nation was on the brink of World War I, which would prove to be the costliest war in human history, in dollars and lives both.

However, an important difference was the political climate of the so-called Progressive Era. Industrialization had created fortunes previously unimaginable in American life. Rockefeller, Carnegie, Vanderbilt, Morgan, and others had accumulated wealth on a scale that alarmed many Progressive Era reformers. Ironically, some of the loudest voices supporting higher taxation of inherited wealth came from members of that same tycoon class. Andrew Carnegie himself argued that large fortunes should be dispersed for public benefit rather than preserved indefinitely through inheritance. The political atmosphere increasingly viewed concentrated capital not merely as an economic issue, but as a civic and moral one.[4]

Still, the early estate tax looked very different from the one Americans would later come to know. Exemptions were relatively generous, shielding estates below $50,000 (roughly $1.5–$1.7 million today), while the top 10% rate applied only to fortunes exceeding $5 million — the equivalent of well over $150 million in modern terms. And perhaps most importantly, the tax still largely carried the political character of a revenue measure rather than a broad social philosophy.

## **<u>Changes in the Wake of The Great Depression</u>**

The Revenue Act of 1932 dramatically increased estate tax rates while also reviving and strengthening the federal gift tax. The timing was no coincidence. The federal government faced collapsing revenues, massive unemployment, and growing demands for intervention. Franklin Roosevelt's administration increasingly embraced the idea that taxation could serve purposes

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[4] Notably, this pattern persists in the modern progressive rhetoric of the 21st tycoon class. Buffett, Gates, Bezos, and other billionaires frequently advocate for higher taxes on wealth and inheritance. Yet modern political rhetoric often collapses wildly different categories of wealth into a single caricature of "the rich." There is an enormous practical difference between a family worth $25 million and one worth $2.5 billion, even if tax policy and political messaging sometimes treat them as morally interchangeable.

beyond simply funding government operations. While the phrase "K-shaped recovery" would not emerge until nearly a century later during the COVID-era economy, post-Depression America exhibited many of the same characteristics: financial and industrial capital recovering unevenly and often far faster than broad segments of working America.

Roosevelt spoke openly and frequently about excessive concentrations of inherited wealth. In a 1935 message to Congress, he argued that "great accumulations of wealth cannot be justified on the basis of personal and family security." This was no longer simply about wartime financing or balancing budgets. The estate tax had become part of a broader ideological project concerning economic fairness, opportunity, and the circulation of capital. In many ways, the New Deal permanently changed the philosophical character of the estate tax.

Before the twentieth century, the federal government generally taxed transactions, tariffs, and consumption. The modern estate tax introduced something different: a tax aimed explicitly at intergenerational wealth transfer itself. And yet, throughout this transformation, one fact remained remarkably consistent: the estate tax generated relatively little federal revenue.

Between 1932 and 1976, a series of tweaks to the transfer tax regime were introduced. Among other nuances, they added a gift tax for lifetime transfers, included a marital deduction, provided an alternate method/time for the timing of estate valuation. The Tax Reform Act of 1976 then unified the credit between the estate and gift taxes and introduced the concept of GST taxes. In 1981, the marital deduction became unlimited so that no tax should be due until the death of a surviving spouse. At the turn of the 21st century, EGTRRA made it possible that George Steinbrenner's estate would avoid paying estate taxes entirely in 2010.[5] Since 2001, the estate and gift tax laws have experienced change literally every single year. With built-in sunsets, each new act created uncertainty at best. Most recently, OBBBA has made "permanent" the transfer tax laws, providing for a $15mm unified credit, to be indexed for inflation.

With all that energy directed at legislative overhauls of the transfer tax system since 1916, the revenue generated from transfer taxes must be incredibly important to the federal government's budget, right? Let's dig into that.

**Tax Policy: Political Philosophy With a Spreadsheet**

Groucho Marx famously said that "Politics is the art of looking for trouble, finding it everywhere, diagnosing it incorrectly, and applying the wrong remedies."

According to historical federal budget data from the Office of Management and Budget and Treasury Department records, estate and gift taxes have typically represented only a tiny fraction of overall federal receipts. In many years, the figure has been below 1% of total federal revenue. Even during periods of historically high estate tax rates, the tax rarely became a major funding source for the federal government.

The percentage of annual American deaths that triggered the need to file an estate tax return peaked in 1976 at just under 8%. It has remained securely under 3% since the early 1980s. But looking one level closer at those whose estate do trigger a tax liability, there have been two groups of Americans who have borne a much higher share of that burden: American farmers and American small business owners. Both groups have been considered the "backbone" of the US

[5] Indeed, one of the very last episodes of Law & Order (the original series) used the 2010 estate tax repeal as a central plot point.

economy. And indeed the pressure on these groups has directly led to the exemptions steadily increasing in the last few changes in Congress.

All of this leads to an uncomfortable but important question: If the estate tax has rarely financed more than a small percentage of federal spending, what is its true purpose? Or asked another way, if it makes so little difference to the federal budget, why do politicians spend so much time, money, and energy debating it?

Supporters of the estate tax often argue that it serves as a safeguard against hereditary aristocracy. America rejects inherited titles of nobility, but wealth itself can function as a form of social and economic power. To many, the estate tax represents an imperfect but necessary mechanism to preserve some degree of economic mobility and prevent the indefinite concentration of capital within a relatively small number of families.

Critics, meanwhile, view the estate tax as a form of double taxation imposed on assets often built from previously taxed income, negative impact to family-owned businesses and farms, and threats to entrepreneurial risk-taking, to charitable giving, and to long-term investment. They argue that the tax punishes savings and family continuity while forcing costly and economically unproductive planning behavior.

And like every debate worth having, both "sides" have valid points, and if President Hayes' quote on Democracy ("the best government is that which does the greatest good to the greatest number") is a guiding principle, then it's no wonder that this nation continues to struggle on striking the proper balance.

The estate tax unquestionably influences behavior. Entire industries exist largely because of it: trust planning, family limited partnerships, life insurance structures, valuation discounting, charitable planning, grantor trusts, dynasty trusts, private foundations, donor-advised funds, and increasingly sophisticated multigenerational planning structures. Some of these techniques are highly productive. Others are little more than economic friction generated by the tax code itself.

The modern estate planning profession, in many respects, exists because the government created a tax so economically consequential that affluent families could not afford to ignore it. And yet the tax itself still produces relatively modest revenue compared to the scale of the federal government.

## **So What's the Point?**

This creates one of the most fascinating tensions in American public policy: enormous political symbolism surrounding a tax that contributes comparatively little to federal finances. The emotional intensity surrounding the estate tax has always far exceeded its actual budgetary significance. Too often, the issue functions more as a political weapon than a policy problem genuinely seeking resolution. Why?

Part of the reason may be that inheritance itself occupies a morally ambiguous space in American culture. Americans admire success, entrepreneurship, and wealth creation. But we also remain deeply uncomfortable with the idea of entrenched dynasties or inherited privilege disconnected from merit or effort.

We celebrate self-made fortunes. We are less certain about inherited ones. That tension explains why the estate tax debate never fully disappears, regardless of exemption levels or political cycles. It is not merely an argument about revenue. It is an argument about fairness, merit, family, property rights, equality of opportunity, and the proper role of government itself.

And perhaps that is why the estate tax continues to occupy above-the-fold ink despite its relatively modest contribution to federal revenues. The irony, of course, is that modern America increasingly exhibits many of the characteristics the estate tax was supposedly designed to prevent. Access to elite education, housing, investment opportunities, social networks, and political influence has become increasingly stratified. Wealthy families often possess enormous advantages that extend far beyond what any transfer tax can meaningfully address.

At the same time, the truly ultra-wealthy frequently possess the resources, liquidity, and planning sophistication necessary to minimize or avoid much of the tax's practical impact altogether. This leaves an uncomfortable middle ground: successful business owners, landowners, and multigenerational families who are affluent enough to face the tax, but not always liquid enough to absorb it easily.

## Conclusion Without Resolution

The estate tax has survived for more than a century not because it finances the federal government in any meaningful way, but because it sits directly atop one of America's oldest unresolved debates: whether a free society can simultaneously celebrate wealth creation while remaining suspicious of inherited economic power.

In that sense, the estate tax is not merely a tax policy. It is a mirror. It reflects the country's competing instincts toward meritocracy, equality, property rights, family continuity, and opportunity. The debate persists because those values themselves remain in tension.

And perhaps that explains why transfer taxes continue to command such outsized political attention despite representing such a small fraction of federal revenue. The argument has never really been about balancing the budget. It has always been about deciding what kind of republic Americans believe we are trying to preserve or become.