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CHAPTER 3

Adjustment of Basic Variant Estimates for 1953 to Approximate Aggregates of "Prime Wealth" and "Total Wealth"

ALTHOUGH the multiplying process described in Chapter 2 may be the most important "adjustment," at least in quantitative terms, of the basic data on top wealth-holders, the fragment of a wealth distribution thus derived differs in some important respects from the fragment that would be derived by an ideal census of the wealth of living persons. This chapter considers the deficiencies of the basic variant estimates as measured against ideal definitions and methods of valuation of wealth. Two such definitions are introduced. Prime wealth is defined as the wealth owned outright and over which the owner has full power of disposal. Total wealth includes prime wealth and also wealth to which a person does not necessarily have actual title but in which he has an income interest.

The deficiencies of the basic variant estimates spring from the fact that estate tax data record only the parts of estates that must be reported for tax purposes by statute, court decisions, and administrative regulation. Estate tax laws, as well as inheritance tax, gift tax, and income tax laws, provide incentives to avoid tax liability by such devices as division of property within the family through gift or bequest, personal trust funds, and life insurance. Evasion by nonreporting or underreporting may also contribute to the incompleteness of the data as wealth estimates.

Every student of wealth distribution who has worked with these data has been aware of deficiencies in them. Crum,[1] for example, wrote that "The estate tax data do not, obviously, constitute a satisfactory sample of the wealth holdings of living individuals. Not only do the observations apply to a date when many individuals have made property arrangements in anticipation of death or in recognition that active life is over; but they record the facts in terms of the

[1] W. L. Crum, *The Distribution of Wealth,* Boston, 1935, p. 20.

special definitions of the tax law, and exclude from the record a very large number of estates too small to be taxed." He continues as follows: "And yet these data reflect highly important facts concerning the distribution of wealth for this peculiarly defined sample, and they reveal such striking relationships that the analyst becomes the more eager to have equally precise data for a more inclusive sample of the entire population."

Similarly, the literature on taxes alerts us to possible difficulties in the data. Thus Harold M. Groves and Wallace I. Edwards assert that in the case of the estate tax " . . . as nowhere else in the tax system, opportunity is afforded to divide oneself like an amoeba in the face of progressive rates (and exemptions), thus defeating progression and creating a capricious relative tax burden."[2]

General Provisions of Estate Tax Law

It should be emphasized at the outset that our interest in estate tax law is here confined to its usefulness as a source of information about the wealth of persons. Hence, those provisions of the law which enable a person to minimize tax liability without altering his reporting of gross estate are generally of no concern in this chapter.

Before discussing in detail the particular ways in which estate tax data are deficient for wealth estimation, it will be useful to consider the nature and general provisions of the federal estate tax law. Technically, the estate tax is an excise imposed upon the transfer of wealth. Unlike inheritance taxes, which are based upon the receipt of transfers, the estate tax looks to the whole estate of the decedent transferor.[3]

An estate tax return is required for the estate of every citizen or resident of the United States whose gross estate value at death exceeds $60,000.[4] The return is due fifteen months after the decedent's

[2] "A New Model for an Integrated Transfer Tax," *National Tax Journal*, December 1953, pp. 353–360. For another discussion of the loopholes in the law, see C. Lowell Harriss, "Sources of Injustice in Death Taxation," *National Tax Journal*, December 1954, pp. 289–308. Also by the same author is "Erosion of the Federal Estate and Gift Tax Bases," *Proceedings of the Forty-Eighth Annual Conference on Taxation*, National Tax Association, 1955, pp. 350–358.

[3] Many interesting controversies arise out of the distinctions among wealth transferred, wealth held before death, and wealth received. Some property interests, of course, are of very different value to the transferor and transferee. For example, consider life insurance and interest in personal trust funds. The marital deduction makes the estate tax somewhat like an inheritance tax in that tax liability is determined by disposition of estate.

[4] *Statistics of Income for 1953*, Washington, 1956, pp. 63–69.

death, although an extension of time for filing may be granted upon request. Valuation of gross estate by the standard of "fair market value," defined as "the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts," may be declared either as of the date of the decedent's death or under the optional valuation, whichever the executor may elect. The optional valuation is determined as of the date one year after the decedent's death, except that property distributed, sold, exchanged, or otherwise disposed of within the year is valued as of the date of disposition. This provision for optional valuation does not affect the minimum value of gross estate for which a return must be filed.

In computing the tax base, deductions from gross estate are allowed for liabilities and indebtedness of the decedent at the time of death, administrative expenses, losses during administration, property previously taxed, transfers for public, charitable, and religious uses, bequests to surviving spouse, and specific exemption. Progressive tax rates run up to a maximum of 77 per cent of the portion of the net estate over $10,000,000. Tax credits are allowed in whole or in part for state inheritance taxes, gift taxes, and foreign death duties.

The various classes of property interests[5] which make up the gross estate are described in detail in the statute. Among the includable interests are the dower or curtesy interests of the surviving spouse, property held in certain forms of joint ownership with right of survivorship, interests subject to the decedent's general power of appointment, proceeds of insurance on the life of the decedent,[6] interest in a joint and survivor annuity, and in some cases, property transferred by the decedent during his lifetime. The Internal Revenue Code requires, with stated exceptions, the inclusion of all types of property without regard to its location, with the exception of real property situated outside the United States. In general, the code requires inclusion of property to the extent of any interest therein.[7] The includable interest may be held as a partner, as a tenant in common, under community prop-

[5] The following several paragraphs are based upon James B. Lewis, *The Estate Tax,* New York, 1957, pp. 2–16 and pp. 95–112.

[6] Such life insurance could be excluded in 1953 if the decedent did not pay the premiums and did not possess any of the incidents of ownership at the time of his death. In 1954 the incidents of ownership test was eliminated. Insurance upon the life of another person is includable.

[7] The property law of the particular state generally controls the extent of an individual's interest.

erty laws, or as an interest in trust income or trust corpus or in the estate of a prior decedent.

The gross estate also includes any property deemed to have been transferred in contemplation of death. Only property transferred less than three years before death is ever considered as such and the executor may undertake to rebut the presumption. Certain incomplete lifetime transfers, where the deceased had retained a "string" or right of some kind, are includable in his gross estate. As to transfer of trust property, only that property transferred by a general power of appointment is within reach of the statute.

Where property was held in joint ownership with a surviving spouse or other person, only that part of the property economically attributable to him is includable in the decedent's gross estate. The statute looks to the origin of the property as well as to the form of title in such determinations.

The valuation of items included in gross estate is, of course, the subject of much controversy and litigation involving taxpayers and the government. Such controversies are most likely to arise where there is no established market for the property or where each property is unique. Evidence called for in setting a valuation may include market quotations, sales prices, original cost, and expert appraisals. One authority observes that "the Commissioners and the Courts both tend to view the fixing of value as a compromise process."[8] Insurance on the life of the decedent is valued on the basis of the amount receivable upon his death. This amount may differ from the face value of the insurance by virtue of double-indemnity provisions, loans against the policy, or benefit options of beneficiaries. Life estates, annuities, remainders, and reversions are valued on the basis of the present worth of the promised income using stated mortality tables and a stated interest rate.[9]

Classification of Wealth Items and Tabulation by Type of Property

In making adjustments to the basic variant estimates, it is important to know how the various wealth items have been classified and tabulated. *Statistics of Income* shows, for recent years, nine types of property.

[8] Lewis, *Estate Tax,* p. 99.

[9] After 1953 the value of an annuity arising out of employer contributions to qualified pension, profit-sharing and stock bonus plans is exempt from inclusion in gross estate. Survivor benefits under Old Age and Survivors Insurance have never been includable.

Information for that breakdown was assembled from the various taxpayer schedules in which they were reported.

Real estate in this tabulation includes "all real property situated in the United States, regardless of the schedule in which it is reported and embraces contracts to buy land, real estate jointly owned, as well as transfers of real estate made during life (by trust or otherwise) other than bonafide sales, and real estate with respect to which decedent possessed a general power of appointment."[10]

Bonds are tabulated in three categories: federal, state and local, and other bonds. The two categories of government bonds include all such bonds whether the interest thereon is taxable, tax-exempt, or partly tax-exempt. Any interest accrued on "other bonds" at time of death is reported with the value of the bonds.

Corporate stock includes common and preferred shares and debenture stock of domestic and foreign corporations, building and loan or savings and loan shares or certificates, Federal Land Bank stock, and similar holdings in corporate enterprises evidenced by certificates of ownership. Dividends accrued at time of death on such holdings are reported with the value of the stock.

Cash includes currency on hand or in safety deposit, bank notes, checks, bank deposits, postal savings accounts, cash in brokers' accounts, building and loan accounts, savings and loan accounts and the like.

Mortgages and notes include promissory notes, loans, mortgages, trust deeds, and contracts to sell land.

Taxable insurance is life insurance carried on the life of the decedent. Most life insurance is included in gross estate whether receivable by the estate or by other beneficiaries.

Miscellaneous property is the value of all other property in the gross estate not elsewhere tabulated, such as judgments, leaseholds, mineral and patent rights, pensions, royalties, tax sale certificates, debts due decedent, interest in unincorporated business, household goods and personal effects, farm products and growing crops, livestock, farm machinery, automobiles, shares in copartnerships or trust funds, remainderman interest, and annuities unless reported as insurance.[11]

For purposes of this study a special tabulation was made of economic estate, defined as gross estate less debts and mortgages. Debts and mortgages, in turn, are defined as " . . . all valid debts of the decedent existing at time of death whether or not then matured. In-

[10] *Statistics of Income for 1953,* p. 67.
[11] *Ibid.*

cluded are obligations secured by mortgages, notes secured by collateral, promissory notes, debts, claims against the decedent at date of death or other unsecured liens, and bonafide pledges or subscriptions of the decedent to make a contribution or gift for the use of religious, public, or charitable organizations."[12]

Adjustments to Basic Variant Estimates

As discussed above, the estate tax returns provide a "peculiar" sample for estimating the distribution of wealth among living persons. Correction is made for the main peculiarity—the nonrepresentative age

TABLE 29

SUMMARY OF ADJUSTMENTS MADE IN ESTIMATING BASIC, PRIME, AND TOTAL WEALTH VARIANTS OF ESTATE TAX WEALTH AND WEALTH-HOLDERS, 1953

	Persons	Wealth
Unadjusted basic variant	*1,609,530*	*$292,803,000,000*
Account for those returns with age unspecified	+49,265	+16,400,000,000
Basic variant	*1,658,795*	*309,203,000,000*
Those originally included with less than $60,000 gross estate	−1,492	−79,000,000
Wealth-holder overcount after reduction from face value of life insurance to equity	−111,704	−7,976,404,000
Underreporting by taxpayers	+75,000	+33,800,000,000
Gifts in "float"	+500	+60,000,000
Proceeds of life insurance in "float"	+4,513	+451,280,000
Trust property included		−6,000,000,000
Annuities and pensions included		−2,000,000,000
Total adjustments	−33,183	+18,255,876,000
Prime wealth variant	*1,625,612*	*327,458,876,000*
Personal trust funds	+50,000	+44,000,000,000
Annuities	+100,000	+5,300,000,000
Pensions, private		+1,900,000,000
Pensions, government		+2,400,000,000
Total adjustments	+150,000	+53,600,000,000
Total wealth variant	*1,775,612*	*381,058,876,000*

distribution—in the estate-multiplier process by the use of age-sex specific inverse mortality rates. A second peculiarity was also compensated for by using different multipliers for insurance to reduce the amounts reported for that asset to estimated equity. Both these corrections are discussed in Chapter 2.

[12] *Ibid.*

A list of further adjustments and the quantitative corrections arising from them for moving from basic variant to prime wealth and total wealth aggregates are summarized in Table 29. All these estimates are made on the basis of 1953 data. The items listed are discussed in order below. Several of the adjustments are necessarily crude and some turn upon quite arbitrary assumptions. Hence, the reader is cautioned against accepting them as facts. Our rough estimates lead to the conclusion that the basic variant aggregate estimates are not substantially different from a hypothetical and ideally arrived at estimate of prime wealth, but are considerably lower than the aggregates of total wealth. That is, we found that about 1.7 million persons had $309.2 billion of basic variant wealth; 1.6 million persons had $327.5 billion of prime wealth; and 1.8 million persons had $381.1 billion of total wealth.

There are two corrections which need to be made for overcounting of wealth-holders and aggregate gross estate. One is necessary because some decedents with less than $60,000 filed estate tax returns. The small correction called for is the subtraction of 1,492 wealth-holders and of $79 million of gross estate.[13]

OVERCOUNT ARISING FROM INSURANCE VALUATION

The second overcount arises from the fact that while the original returns include the face value of life insurance, we have, in the estate-multiplier process, reduced life insurance amounts to equities. Hence, some persons are included in the basic variant count even though they do not in fact have $60,000 when their insurance is thus reduced. In the basic variant estimates, the average size of gross estate in the $60,000 to $70,000 estate size group is only $60,051, which would

[13] Since legal peculiarities rather than economic realities govern the filing of returns with under $60,000 of gross estate, the information on decedents is of more interest than estimates of living persons in this class. These decedents were distributed among the age-sex groups as follows:

		Non-Community Property		*Community Property*	
Age	Total	Male	Female	Male	Female
Under 40	3	1	2	0	0
40 to 65	3	1	1	1	0
65 and over	17	9	5	2	1
Total	23	11	8	3	1

The sample size is only twenty-three, but it is otherwise notable only in that there is an overrepresentation of non-community property females. Composition of estate by type of property is not markedly different for this group than for the $60,000 to $70,000 gross estate class.

TABLE 30

ADJUSTMENTS TO NUMBER OF TOP WEALTH-HOLDERS AND AGGREGATE OF GROSS ESTATE DUE TO INSURANCE OVERCOUNT

Gross Estate Size (thous. dollars)	*Numbers of Wealth-Holders Removed from Group*					Estimated Average Gross Estate of Those Removed from Group (dollars)	Total Gross Estate Removed (dollars)
	Males, NCP States[a]	Males, CP States[b]	Females, NCP States[a]	Females CP States[b]	Total		
60 to 70	40,323	7,911	8,000	432	56,666	63,000	3,569,958,000
70 to 80	17,307	4,473			21,780	73,000	1,589,940,000
80 to 90	17,634	100			17,734	83,000	1,472,022,000
90 to 100	11,483				11,483	93,000	1,067,949,000
100 to 120	2,375				2,375	107,000	254,125,000
120 to 150	1,666				1,666	135,000	22,410,000
150 to 200							
Total	90,788	12,484	8,000	432	111,704		7,976,404,000

[a] NCP = Non-Community Property.
[b] CP = Community Property.

indicate that a considerable number in this class are not properly located in the ranking (Table 24). How much should the basic variant estimates be revised to take account of this revaluation of insurance?

Going back to the original tabulations and computing the face value of life insurance for living wealth-holders, we can obtain the average amount of face value minus equity per person in each age-sex group within each gross estate class. From these data we can, making certain assumptions, estimate the numbers in each age-sex group who should properly be ranked in a gross estate class of below $60,000. The necessary assumptions, which admittedly are very rough, are: (1) that in each age-sex group 60 per cent have $62,500 of gross estate and 40 per cent have $67,500; and (2) that within each age group of men 20 per cent have no insurance, 40 per cent have one-half the average face value minus equity found for the group, 20 per cent have one and a half times the average, and 20 per cent have twice the average; for women, that 30 per cent have no insurance, 25 per cent have one-half, 25 per cent have one and a half times, and 20 per cent have twice the average face value minus the equity.[14]

Following these assumptions, a total of 111,704 persons are reclassified as falling below the $60,000 gross estate class and $8 billion is removed from the aggregate gross estate. A summary of these calculations is shown in Table 30.

Most of the persons thus reclassified are men under 50. Few of the women, all of whom were in the $60,000 to $70,000 gross estate class, were found to be subjects for this reclassification. These findings are consistent with the knowledge that more men than women have insurance, that equity in insurance rises with age, and that the share of insurance in gross estate does not rise as estate size increases.

UNDERREPORTING

The first reason to suspect that estate tax data fail to indicate the full amount of "estate tax wealth" is the possibility of evasion by taxpayers. Not only may some of those who should file a return fail to do so, but there may also be underreporting of the full list of properties and undervaluation of some of the properties. It may be presumed that the number of persons who fail to file returns is quite small and

[14] These assumptions, which are critical in this calculation, are based upon data on insurance holdings of upper occupational and higher income groups as shown in *The Life Insurance Public,* New York, n.d., pp. 20–21.

that those who do so are mostly at the lower end of the estate size range.[15]

There is probably some underreporting, most commonly with tangible personalty (such as jewelry) and unregistered intangible property (such as cash). Undervaluation, especially according to a full market value standard, is also possible. The law provides for optional valuation dates which allow the executor of the estate some leeway in selecting a time most favorable to the taxpayer's interest.

It should also be pointed out that many extraordinarily difficult problems of valuation arise in administration of the estate tax. It is in regard to valuation that the greatest amount of death tax litigation arises. Among the most controversial subjects are the valuation of shares in closed corporations, interest in unincorporated business, and fractional and contingent interests in property through trust agreements. While we cannot venture far into this troubled territory of valuation and underreporting, it should be carefully noted that all the tabulated estate tax data are preaudit figures. C. Lowell Harriss made a special study of the effect of auditing on a sample of returns closed in 1941. He estimated the amount and distribution of additions to "net estate before specific exemption" resulting from audit and summarized his findings as follows:

> On the average the increase was about one-tenth. It was somewhat greater for large than for small estates. The method of estimating, unfortunately, could not eliminate certain biases, and the data themselves are no better than the auditing process, which is by no means perfect. Some wealth which should be reported and taxed escapes the auditors; some, probably very much less, may be included improperly. On balance, the adjustment described in this article may fail by more than nominal amounts to account for all original underreporting. Unfortunately, there is no visible prospect of getting data which will offset the specific deficiencies which seem most serious, those resulting from poor taxpayer compliance. This poor compliance results in part from ignorance and in part from strong financial motives to reduce tax liability by minimizing

[15] The frequency distribution of wealth-holders, while highly skewed, does not rise as sharply with fall in estate size at the lower end of the range near $60,000 as one might expect a priori. The number in the $90,000 to $100,000 class was 147,000; in the $80,000 to $90,000 class, 169,000; in the $70,000 to $80,000 class, 171,000; in the $60,000 to $70,000 class, 176,000 (see Table 24). A possible explanation of this virtual flattening out of the frequency curve between $90,000 and $60,000 is that nonreporting is relatively more important near the minimum required for filing. The fact that the penalty for not reporting is not as large when no tax is due as when tax *is* due is, of course, a contributing factor. These facts have been borne in mind in estimating how many persons to add to the top wealth-holder group aside from those reporting $60,000 or more of gross estate.

the amount of wealth reported. The value of the adjustment may be questioned on other grounds. The basic data are . . . [for 1941]. The economy is obviously very different today from 1941. The writer suspects that the results of audit of estate tax returns have changed much less.[16]

Although Harriss' finding of a 10 per cent average increase due to auditing applies to net estate before specific exemption, it seems plausible to apply it without adjustment to our aggregates of gross and economic estate. It may tend to slightly overstate the case, since the auditing sometimes disallows deductions which reduce net estate before specific exemption but do not alter gross estate. On the other hand, this overstatement is undoubtedly offset by the tendency of audits to be on the low side of actual market value.

Harriss is unable to supply us with an estimate of the number of wealth-holders who should be added because of underreporting. Using data supplied in Harriss' article, we can make a rough estimate of the number of persons and the amount of wealth which should be transferred to the above $60,000 class from the group we have recorded as falling below that line. Since few of the smaller estates were adjusted upward by audit by more than 10 per cent, we may confine our attention to the $55,000 to $60,000 interval. In projecting the frequency of wealth-holders back below $60,000, it appears that a maximum of 150,000 persons would be in this class. Harriss found that about half of all returns were closed with no auditing change.[17] A maximum adjustment, therefore, would seem to be that half of those in the $55,000 to $60,000 class—75,000 persons—would have up to a 10 per cent adjustment which would be sufficient to move them up to $60,000 or more of gross estate. (See footnote 15 above.) 75,000 times $60,000 —$4.5 billion—should therefore be added to aggregate gross estate.

Thus it is concluded that underreporting and undervaluation should be corrected for by adding about 10 per cent to the aggregate of previously accounted for "estate tax wealth" and admitting another 75,000 to the group of "estate tax wealth-holders" along with their gross estates of $60,000 each. This correction as entered on Table 29 is $33.8 billion.

GIFTS

It is well known that by "estate planning" a person may seek to minimize his estate tax. The estate tax and the differential tax rates which

[16] C. Lowell Harriss, "Wealth Estimates as Affected by Audit of Estate Tax Returns," *National Tax Journal,* December 1949, p. 333.

[17] *Ibid.,* p. 321.

apply to gifts, as well as inheritance tax savings and income tax savings which follow from making gifts, provide an incentive to distribute property before death and undoubtedly equalize wealth-holding much more than would otherwise be the case.

Gifts and bequests are, of course, important determinants of the current distribution of wealth and one cannot look into all these transfers to find out what the distribution would be like without them. We are, however, interested in knowing how much wealth is actually in the possession of persons with at least $60,000 of gross estate but which we have not counted by the peculiar method of sampling that we have used.

One should not be so carried away by the emphasis on estate planning as to believe that tax minimization is the sole or even a major influence in wealth-holding decisions for all persons.[18] Neither should it be forgotten that planning to die with a certain estate is difficult. As Ecclesiastes (9:11) assures us " . . . time and chance happen to them all, for man does not know his time. Like fish which are taken in an evil net, and like birds which are caught in a snare, so the sons of men are snared at an evil time, when it suddenly falls upon them."

As far as outright gifts from one person to another are concerned, one should not leap to the conclusion that all such gifts are planned in preparation for death, nor that all gifts are excluded from the basic variant estate tax wealth estimate. Gifts determined to be "in contemplation of death" are properly to be counted in gross estate for tax purposes. Further, some of the wealth given away as *inter vivos* gifts by older persons (and hence not counted in their gross estates at time of death) is caught in the estimate of the gross estates of younger persons who received the gifts. Therefore, unless it can be demonstrated that either donors or donees have different mortality expectations from others in their age-sex groups,[19] the estate-multiplier method

[18] On this point W. L. Crum (*Distribution of Wealth*, p. 2) concluded that "The measurements of wealth afforded by the estate tax are impaired to an unknown degree by property arrangements made in anticipation of death. Some such arrangements are prompted merely by the desire of the property owner to carry into effect, under his living supervision, plans for the future distribution of his estate. Other arrangements are occasioned by the tax, and reflect the attempt of the property owner to organize his estate so that the tax will be minimized."

[19] It might seem reasonable to assume that persons, particularly at older ages, with shorter than average life expectancy for their age group, would be more likely to be donors than those with longer expectancies. To the extent that their gifts are not found to be "in contemplation of death," there is, then, an understatement of the total amount of estate tax wealth and of the size of the estates of old persons relative to those of younger persons. We have no evidence to support

may be assumed to give a generally accurate accounting of the "after-gifts" distribution of wealth.

It is useful to conceive of the problem this way. Consider three groups, each of which includes donors and donees.

A	*B*	*C*
Non-Estate-Tax Wealth-Holders	*Estate Tax Wealth-Holders*	*Nonpersonal Wealth-Holders*
Donors	Donors	Donors
Donees	Donees	Donees

Now, every year a certain amount of wealth passes back and forth among and within these groups. Some of it passes at the time of death and some before. By making gifts before death, some persons transfer themselves from group B into group A. On the other hand, some persons, by virtue of being donees, move from group A into group B. In the case of a gift by a donor in group B to a donee in group C, the wealth moves outside the sphere of personally held wealth. We shall return to this case in the discussion of trust funds which follows.

In the case of a gift by a donor in group B to a donee in either group A or B in an earlier year (before 1953), we may assume that the donees share the same probability of dying in 1953 as all others of their age-sex group and hence are properly represented in the draw by death and subsequently in the multiplier process by which we derived the estimate of living "estate tax wealth-holders."[20] These probabilities are quite upset, however, in the case of gifts in 1953 by donors in group B who died in 1953. Their gross estates are reduced by the amount of the gifts, and it is highly unlikely that we picked up the donees in group B in the draw by death since many of the 1953 donors here considered died in the last half of 1953 and would have been unlikely to have made gifts to persons who died in the first half of 1953. Hence, we can refer to this amount as "float," or wealth which is not counted in the estate tax wealth estimate. This is undoubtedly a relatively small amount since no multiplication process is involved.

In 1953 there were 44,695 gift tax returns which reported a total

these assumptions, but this line of argument has been presented most persuasively to the author in conversation by Harold M. Groves.

[20] The "net deduction for property previously taxed" on 1953 estate tax returns was $30 million. This deduction applies to property taxed to another estate within the past five years either for gift tax or estate tax purposes.

A special problem exists in the case of a gift of life insurance on the life of the donor. This is discussed below in the section on proceeds of life insurance.

of $1,012,054,000 in gifts. All but $128,021,000 were noncharitable gifts, or gifts made to persons. There is no separate record of the share of these gifts made by persons who died in 1953. A very liberal estimate would be $200 million. Some of this amount, moreover, should be subtracted to compensate for some double-counting on both gift tax and estate tax returns of gifts determined to be "in contemplation of death." The 1953 estate tax returns claimed credit for gift tax paid of $2,093,000, which reflects a gift total of about $8 million. Perhaps one half of the latter was actually transferred in 1953. This indicates that perhaps as much as $4 million of gifts were determined to be in contemplation of death and included in the gross estate of decedents of that year. When submitted to the estate-multiplier process, this $4 million was translated into $160 million of estate tax wealth. Hence, our estimate of estate tax wealth already may include as much as $160 million of "float." $200 million minus $160 million equals $40 million, which is our estimate of gifts not previously counted.

It is, of course, possible that some of the donees of this $40 million are, through the receipt of gifts, raised into the $60,000 and over wealth class. We have no clues to what this number would be. To illustrate the problem, however, let us assume that the $40 million was given in equal parcels of $20,000 each to 2,000 donees. Suppose further that 1,000 of them were in the under $60,000 class and that 500 of them were thus moved into the over $60,000 class, bringing with them $40,000 of wealth apiece, totaling 500 times $40,000, or $20 million. Lacking any better evidence on this question, we estimate the full adjustment necessary for gifts "in float" to be an addition of 500 individuals to the wealth-holder total and an addition of $60 million ($40 million in float in 1953 plus $20 million of estate added by elevating the 500 persons into the $60,000 and over class) to the aggregate gross estate.[21]

[21] This conclusion that virtually nothing should be added to the "estate tax wealth" total because of *inter vivos* gifts is in sharp contrast to Mendershausen's conclusion that about 10 per cent of net estate should be added. He reasoned that since gifts in each year have averaged about 10 per cent of net estate and since gifts are encouraged by the estate tax, the estates of decedents filing estate tax returns were smaller by the amount of the gift total of one year. Following this line, he added 10 per cent to the inflated gross estate figure (this would mean an adjustment of $29 billion in 1953) to approximate the corrected wealth estimate. This procedure is wrong on three counts. First, it quite overlooks the fact that while estates of some decedents are smaller because of *inter vivos* gifts, others are larger. Second, it multiplies the gifts by the inverse mortality rates, when the gifts are, unlike the estates in the sample, an actual and full count of the transfers (with the exception of unreported gifts) during the year and hence do not need to be

PROCEEDS OF LIFE INSURANCE

The same problem of "float" appears with regard to the proceeds of life insurance on the lives of 1953 decedents. Here again we have a problem of transfer during the year of the sampling by death and less than random chance of drawing the insurance beneficiaries. It will be recalled that the estimating of estate tax wealth above involved multiplying the equity in life insurance owned by decedents. But what about the face value of the life insurance on the lives of the decedents of 1953? It should be noted that the life insurance proceeds following from deaths of earlier years are fully exposed to the "sampling-by-death" process.

The face value minus the policy holders' equity in insurance on the lives of 1953 estate tax wealth-holder decedents was $361 million. Some part of this amount undoubtedly goes to living persons with less than $60,000 of gross estate. Following the same assumptions as those made above for gifts to persons with less than $60,000, if the insurance proceeds were divided into $20,000 parcels and if half went to persons with less than $60,000, half of whom were thereby raised into the over $60,000 class, there would be 4,513 additional wealth-holders[22] who would bring an additional $270,780,000 of gross estate into the count. There would also be 9,025 beneficiaries who were already in the group of estate tax wealth-holders and who would have $180,500,000 which should be added to gross estate. The final estimate of the necessary correction for the effect of life insurance proceeds is: addition of 4,513 beneficiaries and addition of $451,280,000 to aggregate gross estate.

There is another matter having to do with life insurance which should be mentioned here. It is possible to make a gift of life insurance on one's life. By having the policy fully paid up and by having no incidents of ownership in the policy, the insured is legally entitled to exclude the full amount of the policy from his estate tax return. A 1954 amendment to the law widened this avenue of tax avoidance. Presumably the named beneficiary of such an insurance policy would

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multiplied. Third, if one really wanted to know the pattern of estates before the effects of the estate tax were felt, he should include all gifts which could plausibly be interpreted as being made "in preparation" for death and not merely the arbitrary sum of one year's gifts. The latter sum may, indeed, include some gifts not properly assignable to the tax effect. There are, of course, many motives for making gifts other than minimizing estate tax.

[22] Method: 18,050 beneficiaries, 9,025 under $60,000, 4,513 raised to over $60,000. 4,513 times $60,000 equals $270,780,000 of additional gross estate.

value the policy on his estate tax return, if he predeceased the insured, by reckoning the face value discounted over the remaining life expectancy of the insured. To the extent that this is done, no correction of the basic variant estimate is needed.

LAST MEDICAL EXPENSES

Somewhat like the problem of gifts in preparation for death is the problem of "last medical expenses." The two problems are similar because they both suggest that the method of sampling by death may present a distorted picture of the wealth distribution among living persons. It may be that some estate tax decedents have, just prior to their deaths, consumed considerable portions of their estates in a period of illness with loss of income, high expenditure on medical and hospital care, and other expenses associated with serious illness. While this is true in some cases, it is not true in all; and not all long and expensive illnesses are closely followed by death. While it must be admitted that a sample of living persons would be superior to the sample of decedents, we are not sure what, if any, adjustments should be made on this particular count. It should be noted that the medical and hospital bills which are unpaid at time of death will be entered as debt on the estate tax return and will reduce economic estate but not gross estate.

PERSONAL TRUST FUNDS, ANNUITIES, AND PENSION FUNDS

The next subject to claim our attention is personal trust funds. The above discussion was about outright gifts. With a trust fund, a transfer of property is made from the creator of a trust agreement to an impersonal entity with a person or group of persons named to enjoy the income of the property settled in the trust. In some cases a creator may name himself as a beneficiary. Furthermore, the creator may retain during his lifetime the right to change the terms of the trust agreement. Trusts with such revocable clauses are sometimes referred to as "living trusts," as opposed to "irrevocable" and "testamentary" trusts. The trust agreement may specify that the beneficiaries are to receive either the income or the principal of the trust only in the event of certain contingencies. The trust agreement may also specify who will be (or the method of naming) the successor to the original beneficiaries of the trust.[23] Hence, property placed in trust is not of the same

[23] It should not be overlooked that there are often important strategic advantages to being a trustee with power to administer the property in trust.

character, particularly from the viewpoint of the beneficiary, as property owned outright and over which one has the power of disposal both during his life and at death. The only similarity in some cases, indeed, is the right to income. However, property in personal trust funds is personally owned wealth. At least it is not government-owned or corporate-owned property. Neither is it held in title by nonprofit organizations. As such, it is important to relate such property to the estate tax wealth distribution. The distinction between wealth owned outright and wealth in trust is made in this study in the definitions of the prime and total wealth variants.

The problems in estimating and allocating the amounts of wealth in trust are complex. Difficult conceptual issues are complicated by insufficient data. The general purpose of the following sections on personal trust funds, annuities, and pension funds is: (1) to estimate the amount of trust items included in the basic variant estimates; (2) to subtract that amount from the basic variant total to "purify" the prime wealth estimate; (3) to derive total wealth from prime wealth by adding to the latter an estimate of the full amount of trust items which are allocable to those with estate sizes of more than $60,000.

Personal Trust Funds

The basic variant wealth estimate of $309.2 billion includes some part of wealth in personal trust funds. Decedents must report their connection with personal trusts under certain circumstances if they are creators of trusts and under certain other circumstances if they are beneficiaries. Some persons who are either creators or beneficiaries do not have to report their connections at all. A creator must report if he had transferred property to a trust fund in contemplation of death or if he had placed property in trust but retained a "string" to it during his life, in other words, never completed the transfer during his life. In these cases the property is classified in the tabulations of estate tax returns according to its original form and not as interest in trust property. (See discussion of tabulation on pp. 60 ff.) Some property in personal trust funds is included in the gross estates of decedents who were not creators of trusts. In broad terms, the law reaches only those who have general, as opposed to special or no, powers of appointment. (For example, a beneficiary with full power of appointment over a $100,000 trust fund should report the full $100,000.) The gross estate of a person with an includable interest in property now in trust should report the present value of that future interest. For example, suppose a man dies at 40 while his mother, aged 70, is alive. Suppose further that the mother has an income interest in a $100,000 trust fund, the principal of which is to go to the son at the time of her death. The 40-year-old decedent would have as part of his estate $100,000 discounted over the years of life expectancy of his mother. For a slightly more complicated case, assume that the 40-year-old son, like his mother, has only an income interest in the property and that his son, aged 15, is the remainderman. If the latter dies at 15, his estate tax return would include the $100,000 discounted over the years of life expectancy of his 40-year-old father. It is apparent, therefore, that the fraction of all beneficiaries' interest in trust funds which is subject to the estate-multiplier process is dependent on the ages of all those who precede the remainderman in the line of succession to property in trust. In those instances where the remainderman is not a person, but an institution, for instance, we would not get any such reporting, of course.

It is known that the top wealth-holder group makes extensive use of personal trust funds. Evidence of this is provided by a study which matched gift tax returns with estate tax returns of 1945.[24] This study suggests that about 25 per cent of net estate, and hence about 20 per cent of gross estate, of decedent wealth-holders moves into trust funds. The relevant findings of that study, which was made by the Treasury staff, are summarized here. In 1945 there were 13,869 estate tax returns with $2.7 billion of net estate; 753 returns with over $500,000 of net estate were examined and matched with gift tax returns. These returns represented $1 billion of net estate and $0.3 billion of gifts. Of this $1.3 billion, 30 per cent was used to pay federal estate and gift taxes, 8 per cent went to charitable causes, and 63 per cent appeared in noncharitable transfers. Of the noncharitable transfers, 45 per cent was placed in trust. One-half of this, in turn, was set up to escape estate tax until the death of grandchildren and virtually all of it to pass the spouse without payment of tax. Hence, out of $2.7 billion of net estate (or $3 billion including gifts), at least 45 per cent of 63 per cent, or $0.8 billion, went into trust funds. This amount, which is 28 per cent of the total net estate, would, of course, be greater if this practice were followed by those with less than $500,000 net estate.

Knowledge of how much wealth moves into trust funds does not solve the problem of how much basic variant wealth held by living

[24] *Revenue Revision of 1950,* Hearings before the Committee on Ways and Means, 81st Congress, 2nd Session, Washington, 1950, Vol. I, pp. 75–89.

persons is simultaneously in trust. This estimate can be broken down into two parts: (1) How much creators' interest in trust funds is included in the basic variant aggregate? (2) How much beneficiaries' interest is included in that same aggregate?

Looking first at the creator's interest, it is clear that testamentary trusts are not involved in the double-counting, since the wealth in these cases does not move into trust until after the estate tax base has been accounted for. Further, irrevocable trusts established as outright gifts are not involved in the double-counting, since such wealth is not ordinarily reported as estate tax wealth. Except for gifts in contemplation of death, the double-counting which occurs involves revocable trusts, since such property is in trust but is also part of the creator's estate tax wealth.

Therefore the problem is to find out how much of all trust fund wealth is in revocable trusts. It is worth noting that the definition of "revocable" differs for income tax and estate tax purposes and has also differed over time. To put it another way, at a given time, how much of all wealth in trust was placed there by persons who are now living and who hold a string to the wealth? Undoubtedly a great part of the wealth now in trust was placed there by persons now deceased and some by persons long since deceased. However, it is probable that a sizable part of trust fund wealth is held under revocable clauses. Some such trust arrangements, known as short-term trusts and reverter trusts, are formulated as part of a lifetime strategy for minimizing income taxes rather than as ways of transferring property. More commonly a revocable trust is used as a will substitute. One authority summarizes the advantages of using it for this purpose as follows:

The revocable trust, as a will substitute, is and always has been an extremely useful estate planning tool. For any one of a variety of reasons, it may be adopted as the vehicle for the transmission of part or substantially all of an estate at death.

1. It assures a continuity of investment management and flow of income.
2. It avoids the publicity attendant on probate.
3. It eliminates, in most cases, court supervision.
4. It reduces the likelihood of attacks on the ground of fraud and undue influence by dissatisfied heirs.
5. It may in many cases be a less expensive means of transmitting the estate.
6. It offers a choice of law, where the law of the domicile prohibits the accomplishment of particular objectives.

7. In many states it offers immunity from the claims of creditors of the estate.
8. It may be used to avoid statutory restrictions on charitable gifts.
9. In some jurisdictions it permits avoidance of the widow's "forced share"; a result the testator may desire in order to protect rather than to deprive his spouse.
10. It offers opportunities for the creation of additional income tax entities.

In most cases the selection of a revocable trust as the medium for transmitting property at death will be dictated by one or two of the above reasons. In all cases, where the nature of the estate owner's assets does not make a living revocable trust undesirable, it will be worth considering.[25]

Lacking any good evidence on the point, we estimate that 10 per cent, or $6 billion, of the total wealth in trust was in revocable trusts. Another clue to how much creators' interest in trust property is included in the basic variant estimate is found in estate tax tabulations for recent years before 1953, which show that transfers during a decedent's life amount to about 4 per cent of gross estate. Some part of these transfers was undoubtedly done via trust funds, half of it, we might guess. The same source indicates that only 0.5 per cent of gross estate was in the form of powers of appointment and hence gives a clue to the amount of beneficiary interest in trust property. On this basis, and making some adjustment for differing blow-up factors for creators and beneficiaries, we estimate that 2 per cent of aggregate gross estate is simultaneously in trust and included in our estimate of the basic variant estate tax wealth of living persons; 2 per cent of $309 billion is $6 billion. Hence, to get an estimate of prime wealth "purified" of trust property, we subtract $6 billion from the basic variant aggregate. This amount is entered in Table 29.

How much wealth is in personal trust funds is difficult to estimate. Capitalizing at 5 per cent the amount of total income of personal trust funds reported on fiduciary income tax returns, namely $2.8 billion, yields the estimate of $56 billion in 1952. (The year 1952 is used because tabulations of these returns are published only for alternate years.) The 5 per cent yield rate is arbitrarily selected and subject to dispute, but the composition of income reported shows heavy emphasis upon equity investment. Dividend income is 59 per cent of total

[25] William J. Bowe, *Estate Planning and Taxation,* Buffalo, 1957, pp. 183–184.

income, while interest income is only 11 per cent. Capitalizing at 4 per cent would produce the larger estimate of $70 billion.[26]

Taking $56 billion as a conservative estimate of the total amount in personal trust funds, the next question is how much of that total is allocable to persons with estates of $60,000 or over.

In 1952, 422,663 taxable and nontaxable fiduciary income tax returns were filed, reporting a total income of $2,788,160,000. Of these returns 301,507 with $2,250,683,000 of the income were classified as "trusts" returns, and 121,156 with $537,477,000 of the income were classified as "estates" returns.

The total money income of fiduciaries is reduced to "balance income" by allowable deductions. The "balance income" of $2,551,246,000 (the fiduciaries with "balance deficits" of $38,531,000 are tabulated separately) is then assignable for tax purposes either to beneficiaries or to fiduciaries. The "amount distributable to beneficiaries" was $1,942,771,000 and the net income taxable to fiduciaries was $636,054,000. In the case of returns for "estates," over half the total income was net income taxable to the fiduciaries, while in the case of "trusts" only about a fifth was taxable to the fiduciaries. In these cases where income is taxable to the fiduciaries, it may be presumed that income is not flowing out to beneficiaries until some condition is fulfilled or a legal determination is made. For example, income and principal may be held in trust until a child attains a stated age or in an estate until a contest over the validity of a will is resolved. Hence, an aggregate of $12.7 billion (the result of capitalizing $636 million) might be classified as "contingent assets." While marking them out as such, it would seem plausible to include them, along with annuities, as part of the trust fund variant of wealth.

In the same year, 1952, 425,669 individual income tax returns reported $1,711,235,000 of income from estates and trusts. This amount differs from the $1.9 billion "distributable to beneficiaries" because (aside from possible evasion and underreporting) some of the beneficiaries have less than $600 adjusted income and hence do not file an income tax return, some of the income is tax-exempt interest, and some of the beneficiaries are not persons.

[26] For a more extensive discussion of estimation of personal trust funds, see Raymond W. Goldsmith, *Financial Intermediaries in the American Economy Since 1900,* Princeton for National Bureau of Economic Research, 1958, pp. 174–176 and 295–296. Also see the paper by Raymond W. Goldsmith and Eli Shapiro entitled "An Estimate of Bank-Administered Personal Trust Funds," in *Journal of Finance,* March 1959, pp. 11–17.

TABLE

INDIVIDUAL INCOME TAX RETURNS WITH INCOME

Adjusted Gross Income Size	Number of Returns (1)	Under $100 (2)	$100 to $200 (3)	$200 to $300 (4)	$300 to $400 (5)	$400 to $500 (6)	$500 to $1,000 (7)
	Size of Specific Source (number of returns with income from estates and trusts)						
Taxable and nontaxable returns							
No adjusted gross income	3,236	a	a	a	a	—	a
Under $600	5,945	a	a	a	a	—	a
$600 to $1,000	14,178	a	2,287	a	a	a	8,231
$1,000 to $1,500	28,356	2,287	2,287	a	3,202	a	6,861
$1,500 to $2,000	20,582	a	a	a	2,287	a	6,860
$2,000 to $2,500	24,242	a	a	a	2,287	a	3,202
$2,500 to $3,000	21,494	2,287	2,741	a	2,287	a	2,287
$3,000 to $4,000	40,276	2,287	5,950	5,489	2,744	a	4,574
$4,000 to $5,000[b]	32,688	4,578	2,329	2,308	2,287	3,222	5,489
$5,000 to $8,000	76,145	5,966	10,083	3,659	7,358	3,202	12,845
$8,000 to $10,000	29,023	4,575	2,287	a	2,287	a	4,141
$10,000 to $30,000	90,804	4,699	4,416	3,526	3,463	1,978	9,073
$30,000 to $50,000	19,918	610	561	410	362	377	1,499
$50,000 to $100,000	12,909	376	302	255	185	175	727
$100,000 to $500,000	5,568	128	68	61	43	51	171
$500,000 to $1,000,000	222	1	—	2	1	2	6
$1,000,000 and over	83	4	—	—	—	—	4
Total	425,669	32,373	36,974	22,569	30,164	17,262	68,259

There is considerable evidence to support a conclusion that most of the amount in trusts and estates should be allocated to persons with estates of over $60,000.

Of the 425,669 individual tax returns with income from estates and trusts, 106,244 show more than $3,000 income from estates and trusts alone (Table 31). Each of these 106,244 returns may be considered to represent a $60,000 principal. Their aggregate income is estimated to be $1.5 billion, which is 79 per cent of the total distributed income. Capitalized at 5 per cent, this is $30 billion.

Data gathered from a small sample of "active investors" by Butters, Thompson, and Bollinger suggests that the percentage of persons who have beneficial interest in trust funds rises with income and with total wealth (Table 32). Further, they found that while trust property made up only about 3 per cent of estates under $100,000, it made up between 8 and 22 per cent of larger estates (Table 33). For all those

31
FREQUENCY DISTRIBUTION FROM ESTATES AND TRUSTS

Size of Specific Source										
$1,000 to $1,500	$1,500 to $2,000	$2,000 to $2,500	$2,500 to $3,000	$3,000 to $4,000	$4,000 to $5,000	$5,000 to $10,000	$10,000 to $25,000	$25,000 to $50,000	$50,000 to $100,000	$100,000 and over
(number of returns with income from estates and trusts)										
(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
[a]	—	[a]	[a]	[a]	—	[a]	[a]	[a]	[a]	—
[a]	—	—	[a]	—	—	[a]	—	—	—	—
—	—	—	—	—	—	—	—	—	[a]	—
9,603	[a]	—	[a]	—	—	—	—	—	—	—
[a]	5,489	—	—	—	—	—	—	—	—	—
[a]	5,031	6,403	—	[a]	[a]	—	[a]	—	—	—
3,202	[a]	[a]	3,202	[a]	—	—	—	—	—	—
5,489	4,117	[a]	2,287	4,594	—	—	—	—	—	—
2,785	[a]	2,288	[a]	[a]	2,745	[a]	[a]	[a]	[a]	[a]
5,966	5,031	3,679	2,287	4,137	2,744	9,188	—	—	—	—
2,804	[a]	1,850	[a]	[a]	[a]	5,091	[a]	—	—	—
7,820	4,961	4,312	3,372	5,664	5,649	14,945	16,263	652	[a]	—
1,045	909	719	665	1,160	836	2,996	4,663	3,073	32	[a]
522	495	433	338	551	496	1,766	2,582	2,170	1,508	28
184	118	113	85	153	182	535	968	833	988	887
2	2	2	4	21	3	13	12	20	24	107
1	1	—	—	1	1	5	8	5	8	45
43,084	29,813	23,919	15,008	20,858	14,485	35,468	24,990	6,771	2,599	1,073

SOURCE: *Statistics of Income for 1952*, Washington, 1956, p. 30, Table 5.

[a] Number of returns is subject to sampling variation of more than 100 per cent; therefore, data are not shown separately. However, they are included in totals.

[b] Includes nontaxable returns with adjusted gross income exceeding the class limit.

spending units who had trust property, such property averaged between a third and a half of total wealth for the several estate size groups (Table 33). While these findings apply to spending units rather than individuals, they seem to indicate that the greater part of property in the title of personal trust funds is attributable to those with total wealth holdings of $60,000 or more.

To decide how much to allocate to the top estate holders, we turn back to the income tax data. It was found that 79 per cent of fiduciary income distributable to beneficiaries was clearly allocable to persons with $60,000 estates since it was from parcels of trusteed wealth of at least $60,000 in value. Applying this 79 per cent to the total amount of $56 billion estimated to be in trust yields $44 billion as allo-

TABLE 32
INDIVIDUALS WITH TRUSTS IN ACTIVE INVESTOR SAMPLE, BY INCOME AND WEALTH GROUPS
(per cent)

Item	Number of Cases	Individuals Who Are Beneficial Owners of Trusts	Individuals Who Have Established Living Trusts	Individuals Who Have Established Testamentary Trusts or Plan to Create Trusts	Nonduplicating Total
Income group					
Under $7,500	201	7%	2%	17%	23%
$7,500 to $12,500	182	11	6	29	38
$12,500 to $25,000	160	13	3	34	41
$25,000 to $50,000	121	27	19	36	55
$50,000 to $100,000	46	32	29	42	65
$100,000 and over	26	47	50	29	69
Not ascertained	10				
Wealth group					
Under $25,000	147	3	3	18	18
$25,000 to $50,000	121	8	2	29	36
$50,000 to $100,000	131	11	3	25	32
$100,000 to $250,000	158	20	9	35	49
$250,000 to $500,000	77	27	14	34	52
$500,000 to $1,000,000	41	39	31	37	70
$1,000,000 and over	41	48	40	35	73
Not ascertained	30				

SOURCE: J. K. Butters, L. E. Thompson, and L. L. Bollinger, *Effects of Taxation: Investment by Individuals*, Boston, 1953, Table XV-5, p. 362.

cable to the top group. It assumes that the capital sums yielding non-distributable income have the same size distribution as those yielding distributable income. Further, it assumes that no person will have less than $60,000 of trust property but at the same time a combination of trusteed and full-title property worth $60,000 or more. We do not

TABLE 33
VALUE OF PROPERTY HELD IN TRUST AS PERCENTAGE OF WEALTH HELD BY INDIVIDUALS IN ACTIVE INVESTOR SAMPLE, BY INCOME AND WEALTH GROUPS

Item	Number of Cases	*Value of Trust Property as Percentage of Wealth of* Spending Units with Trust Property	All Spending Units in Sample
Income group			
Under $7,500	193	49%[a]	8%
$7,500 to $12,500	173	40	6
$12,500 to $25,000	156	50	9
$25,000 to $50,000	120	36	11
$50,000 to $100,000	42	37	7
$100,000 and over	24	38	24
Not ascertained	38		
Wealth group			
Under $25,000	146	38	1
$25,000 to $50,000	120	39	3
$50,000 to $100,000	130	32	3
$100,000 to $250,000	156	47	8
$250,000 to $500,000	76	29	9
$500,000 to $1,000,000	40	44	15
$1,000,000 and over	41	47	22
Not ascertained	37		

SOURCE: Butters *et al.*, *Effects of Taxation*, Table XV-6, p. 363.

[a] In computing the relative importance of trust property held by this income group, one atypical case was omitted. This person was the beneficiary of a $4 million trust; all income received by the trust was retained within the trust for later distribution to him and so was not included in his income as reported to us. The inclusion of this trust would have raised the respective percentages for this income group to 85 and 39 per cent.

have the necessary information to estimate with any reasonable degree of accuracy the number of wealth-holders who should be raised to the above $60,000 class as a result of including trust fund wealth, but it is probably quite small—around 50,000.

Thus it is concluded that $44 billion of wealth and 50,000 persons should be added to the prime wealth variant estimates to represent the share of top wealth-holders in personal trust funds.

Annuities and Pensions

An estate tax return should include the present value of an annuity. The value of a pure annuity on one life is, of course, zero at time of death. The value of an annuity on two lives at the time of death of one beneficiary is its discounted benefits over the life expectancy of the surviving beneficiary.

Our basic variant estimate of estate tax wealth includes some amount for annuities and pensions in the "miscellaneous property" category. It includes some further amount to the extent that annuities were included in the "insurance" category. Examination of these two categories suggests that $2 billion is a reasonable estimate of what is included. Hence, that amount is subtracted from the basic variant as the final step in estimating the prime wealth variant aggregates (Table 29).

How much of annuity reserves should be added in moving on to total wealth variant estimates? The annuity reserves of U.S. life insurance companies in 1956 were $16.3 billion. But since some annuities are held by persons with less than $60,000 of gross estate, the amount we should add is considerably less than that. It would seem reasonable to believe that annuity reserves are more concentrated than life insurance reserves, about 14 per cent of which were held by the estate tax wealth-holder group. If we assume that the upper wealth group had 20 per cent of annuity reserves, we should add $5.3 billion to the previous total of the prime wealth variant. As in the case of personal trust funds, it is difficult to know how many persons to add to the estate tax wealth-holder group because the inclusion would raise their gross estate from less to more than $60,000. Again, a quite arbitrary figure must be selected. We put the number at 100,000 persons.

By the same line of reasoning, the estate-multiplier method underestimates the wealth held in the form of equity in pension and retirement funds, both insured and noninsured and both private and governmental. Pension fund reserves of life companies totaled $8.6 billion in 1953. The assets of noninsured private plans were about $10 billion in that year ($11.8 billion in 1954). Assuming that 10 per cent of the total is allocable to our top wealth-holders (since pension rights are somewhat more widely distributed than life insurance rights) leads to the conclusion that $1.9 billion should be added to their aggregate gross estate.

Government pension and retirement funds totaled $47.9 billion in 1952. Assuming that 5 per cent of this total may be allocated to the top wealth-holders means that $2.4 billion should be added to their aggregate gross estate.[27]

[27] No account is taken of the fact that reserves bear quite different relationships to future benefits in the several different types of pension plans in effect.