TAXES

The Mystery Behind a $7B Estate Tax Payment

On Feb. 28, 2023, the U.S. Treasury received a payment of $7 billion in the category of "estate and gift" taxes. It was the highest collection of that kind of tax since at least 2005.

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Tim Fernholz, Quartz (via TNS).

Sometimes it seems like billionaires can dominate our lives—or at least the news. A mystery in U.S. tax data, however, suggests at least one super-wealthy individual flew under the radar until the very end.

The U.S. Treasury's daily reports of government financial transactions turned up a surprising data point on Feb. 28, 2023: The deposit of $7 billion in the category of "estate and gift" taxes. It was the highest collection of that kind of tax since at least 2005. It's possible that more than one enormous tax bill happened to be processed on that day, but that would still be remarkable.

A Treasury spokesperson says this was not a reporting error, and a spokesperson for the Internal Revenue Service says it is unlikely this would be caused by processing a backlog of returns in one day. Privacy rules prevent government officials from discussing the specifics of any tax return.

How do estate and gift taxes work?

The huge tax return was first spotted by John Ricco, the associate director of budget analysis at the Penn Wharton Budget Model, a group at the University of Pennsylvania that tracks the impact of economic policy changes. Ricco has been tracking estate tax deposits because of a strange natural experiment: Though the estate tax was reduced in 2017 during president Donald Trump's tax overhaul, collections have soared in recent years, likely due to excess deaths of the elderly during the pandemic.

But even the high collections in recent years pale in comparison to the current fiscal year. The U.S. government has collected nearly $8 billion more in estate and gift taxes in the fiscal year that began last October than it did in 2022.

The other surprise is that the two possible sources for the payment, gift and estate taxes can be significantly reduced through the kind of strategic planning typically used by wealthy individuals. After the 2017 law change, estates are taxed at 40%, but there are significant exemptions. For example, the first $11.58 million of an estate is exempt from taxation, and estates can benefit from flexible rules for valuing private companies. Tax payments can also be reduced through the creation of trusts and charities to shield income from taxes.

Based on the tax rate, that $7 billion payment implies an estate or gift of some $17.5 billion. However, the Tax Policy Center, a think tank in Washington, D.C, has estimated that estates typically pay a 17% effective tax rate after exemptions and other forms of avoidance. Even if only 50% of the estate was taxable, that's a potential value of $35 billion. Even the lowest estimate would make the estate's owner one of the 100 richest people in the world, according to Bloomberg News.

Where did that money come from?

Gabriel Zucman, an economist at the University of Berkeley whose work has focused on tax policy and the ultra-wealthy, says there are a few plausible hypotheses: "A very rich person who was missed by Forbes, a large gift, a delayed payment by some billionaire who died several years [ago] (perhaps a result of enforcement efforts)." The gift tax can also be triggered by divorces involving spouses without American citizenship, but payments within a year of a divorce are generally excluded.

The deposit could be a result of a different kind of advance planning: Ray Madoff, a tax law professor at Boston College, says that someone with a large estate might make a taxable gift now to avoid future estate taxes on their entire net worth. For example, someone could make a $17.5 billion gift to an heir and pay the 40% gift tax of $7 billion. That would save them money in the long term, because if they died with an estate worth $24.5 billion, it would require paying some $9.8 billion in estate taxes.

The typical filing deadline for the estate tax is nine months after death, though it can be extended an additional six months; an after-the-fact legal tussle with the IRS could presumably add more time.

Forbes, which makes net-worth tracking efforts that are dependent either on public assets or the often-dubious cooperation of the wealthy person in question, doesn't offer up any obvious answers to the question of whose estate made such a large tax payment. The publication's list of billionaires who passed in 2022 doesn't include any Americans with large enough estates. Non-US citizens can be billed for estate taxes if they own US assets in their own names, but it would be unusual for a foreigner to have investments of that size without sophisticated planning.

Forbes' 2021 list does note the death of Sheldon Adelson in Jan. 2021; the casino tycoon's fortune was estimated at $35 billion. That's about the right magnitude, but unless ProPublica is sitting on the answer in its collection of leaked IRS data, we may never know.

Correction: This piece originally reported that unrealized capital gains are exempt from the estate tax; in fact, unrealized capital gains at time of death are covered by the estate tax, but *heirs do not pay income taxes on those gains.*

This story has been updated to include comments from tax law professor Ray Madoff.

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