LIFE INSURANCE: ITS ECONOMIC AND SOCIAL RELATIONS

TAXATION

HARRY J. LOMAN

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EDITED BY

SOLOMON S. HUEBNER

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TAXATION

BY

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PRINTED IN THE UNITED STATES OF AMERICA

EDITOR'S PREFACE

This volume on *Taxation*, by Dr. Harry J. Loman, is one of a series entitled "Life Insurance: Its Economic and Social Relations," which also includes volumes on *The Economics of Life Insurance; The Sociology of Life Insurance; Wills, Trusts and Estates; Education and Philanthropy; Saving, Investment and Credit;* and *The Law of Salesmanship.* The purpose of the series is to provide a specialized life insurance literature, in textbook form, in the interest of (1) making available to many business and professional groups one or more books of large practical usefulness; (2) giving to teachers of the social sciences a special literature identifying life insurance with their subjects of specialization; (3) furnishing an opportunity for further systematic study to those who are pursuing the subject of life insurance in universities and colleges; and (4) offering a similar opportunity to those already engaged in the life insurance field.

Life insurance is intimately related to the subject of taxation from the standpoint of both theory and practice. Buyers of insurance are vitally concerned with the extent to which taxation applies (1) to dividends paid on policies, and (2) to the proceeds of insurance when paid either in a lump sum or in installments. Purchasers of annuities have a similar financial interest in the extent to which their annuity income is affected through existing taxation. Practitioners in the field are constantly called upon to sell insurance for tax purposes, and in order to counsel clients wisely should be acquainted with an analysis of inheritance, estate, and income tax laws. They should also be in position to calculate the amount of a client's taxes when insurance is desired to provide the means of payment. Moreover, from the social and legislative standpoints it is important that there be a proper understanding of the equity or unfairness, as the case may be, of the various types of taxation now imposed upon the life insurance business. The present volume, aiming to treat the numerous tax problems relating to life insurance, should commend itself to those preparing for or already engaged in the life insurance calling, as well as to bankers, trustees, legal advisors, accountants, and other advisory groups.

S. S. HUEBNER.

PREFACE

This volume has been prepared with a view to providing those interested in the life insurance business with an explanation of the economic relations of taxation to life insurance, and the practical problems arising from these relationships. In general, this has involved a tracing of all the connections which life insurance has to the subject of taxation; an analysis of the underlying theory of such taxation; explanations and illustrations of the effect of existing tax legislation and court decisions on life insurance; and the uses of life insurance to solve tax problems along with the information needed to accomplish this.

More specifically: Chapter I indicates the various points of contact between taxation and life insurance.

Chapter II is a discussion of the current tax theories and the extent to which they have or have not been applied to the business of life insurance.

Chapter III is an analysis of the various kinds of taxes which the states have imposed on the conduct of the business of life insurance.

Chapters IV, V, VI, and VII deal with the effect of the Federal Income Tax, the Federal Estate Tax and the State Inheritance Taxes on the proceeds of life insurance policies. For purposes of analysis the problems pertaining to these various taxes have been divided into four groups—(1) life and endowment insurance policies when the proceeds are paid in a single sum; (2) life and endowment insurance policies paid in installments; (3) annuities; (4) dividends —and are contained in Chapters IV to VII respectively.

The application of the taxes to each of these groups is discussed and explained by means of illustrations. The order of discussion is the same in each chapter; *i.e.*, the effect of the Federal Income Tax, then the Federal Estate Tax, and lastly the State Inheritance Taxes.

Chapter VIII is a discussion of the advantages of using life insurance for the purpose of reducing taxes and providing sums for their payment along with an examination of the possibilities in this field for the insurance agent.

Chapter IX contains a general description and explanation of the usual characteristics of inheritance and estate tax laws. It is intended that this chapter should be used in connection with the Appendix.

Chapter X is devoted to the application of the explanations in Chapter IX to the specific provisions of individual laws which are found in the Appendix.

Chapter XI is a discussion of the effect of taxes on a number of important subjects such as group insurance, corporation insurance, insurance for charitable purposes, etc., none of which could be disposed of adequately in the preceding chapters.

The Appendix contains a digest and analysis of the various estate and inheritance tax laws in the United States. This material has been corrected to September 1926 and is based on information furnished by the various state officials in charge of administering such taxes.

It is not expected that such a volume will take the place of an expensive tax service with extensive facilities for gathering and informing one of the changes which take place daily with reference to taxation; nor will a perusal of its pages make one a tax expert. However, the general principles do not change rapidly and it is hoped that the reader may obtain a working knowledge of an important technical phase of the life insurance business.

H. J. L.

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TAXATION

CHAPTER I

RELATION OF LIFE INSURANCE TO TAXATION

Life insurance and taxation have at least four points of contact: (1) taxes levied on the provision for life insurance which comes about by the taxes on the operation of the insurance business and in the failure to allow the insured to deduct the cost of life insurance from his taxable income; (2) the taxes levied on the proceeds of insurance policies; (3) the use of life insurance for the purpose of providing liquid funds to meet death duties; and (4) the use of life insurance as a method of reducing the amount of one's taxable estate.

The various ramifications of these more or less divergent relationships make it desirable to discuss them separately.

Taxes on the Insurance Business

There is scarcely a state which does not require life insurance companies to pay a percentage of their premium receipts into the state coffers along with property taxes, privilege taxes, and in a few states, income taxes. Undoubtedly the state renders service to the institution of life insurance in the form of supervision and regulation for which it should be compensated, but the revenue collected from this source far outstrips the expenditures.

The taxes on the property belonging to insurance companies are the same as those assessed against similar owners, and surely no objection can be made on the grounds of discrimination in this case. The privilege taxes in the form of license fees, examination expenses, etc., are frequently exorbitant, but they nevertheless cannot be classified as discriminatory because many other businesses are treated likewise. Moreover, the sum total of these taxes is comparatively negligible. The excess arises from the tax on premium income which is usually assessed on the gross premium income with no regard whatsoever to profit or loss. Without doubt this is a discriminatory tax without parallel. And to the extent that these levies exceed the cost of supervision and regulation, they afford us one of the best illustrations of unscientific and inequitable taxation that one can find anywhere. Possibly the best reason that can be given for such a tax is ease of collection, and this is the only quality which premium income of life insurance companies possesses as a subject of taxation; but to legislators seeking the most painless process of plucking it is the only quality necessary; hence the almost universal practice of this method of raising revenue. However, it does seem paradoxical that we pass laws exempting donations to charitable institutions from income, estate, and inheritance taxes, and then when the most needed of all charities begins at home, we penalize the process by taxation. Of course, it may be argued that the persons who are being thus penalized are paying in accordance with their ability to pay and therefore essential equity is accomplished. This overlooks the fact that not all persons have recognized their duties in the matter of carrying life insurance, and consequently the tax is not in proportion to ability but rather in proportion to sense of duty and obligation to the family and the community. The improvident who fail to recognize their responsibility allow their dependents to be supported by the state. A part of this cost is being defrayed from the revenue produced by taxes on the insurance of the more provident. What could be more inequitable? And yet that is our present system.

A more detailed analysis of the exact nature and extent of these taxes on the insurance business follows in a subsequent chapter.

Taxes on Insurance Proceeds

The proceeds of insurance policies are taxed in various ways by the Federal income tax, the Federal estate tax, many state inheritance taxes, and a few state income tax laws. There is very little uniformity in the treatment accorded by these several kinds of tax laws and a separate analysis of each is necessary. About the only regulations which a number of these laws possess in common are the more favorable position in which specifically named beneficiaries usually find themselves and the fact that the manner of paying the proceeds makes a difference in the tax. This serves to make general statements inconclusive, and further explanation is reserved for later chapters wherein more logical divisions are made for the purpose of analysis.

Life Insurance to Provide Cash for Death Duties

Since the increase of inheritance taxes has become sufficient to cause extensive depletion of an estate the problem of providing liquid assets to mitigate the severity of the depreciation has become one of great importance to all testators with holdings of any proportions. One of the leading methods of making provision for these taxes adopted by such persons is to obtain life insurance for an amount equivalent to the estimated tax. As a system of providing funds for these taxes it is without an equal, but it lacks perfection because it cannot always be adapted to the kaleidoscopic changes of the tax laws. Another drawback is that comparatively few agents have studied the tax laws with sufficient pains to be able to present a clear-cut case to a likely prospect. Many agents maintain that there are not sufficient available cases to make the effort worth while. However, we all know that the life insurance agent who takes the time to learn the problems of his prospects usually has the largest clientele. It is not always the immediate policy that pays the largest commission, but real service usually leads to more policies. One of the principal purposes of this volume is to make the agent better acquainted with a particular phase of his business, especially the use of insurance to pay death duties. The procedure for approximating the amount of insurance needed for this purpose is explained in considerable detail in a later chapter. However, it must be remembered that these laws are changing continuously, and this book cannot be a conclusive manual but will serve as a guide in directing the activity of the agent.

Life Insurance Used to Reduce Taxable Estate

Under our various tax statutes it is possible to find methods by which accumulations may be safeguarded through the use of insurance to a greater extent than any other way. Not all of these possibilities were provided deliberately or intentionally; frequently they have resulted from mere technicalities and court decisions. Nevertheless, they exist and one is foolish if he does not take advantage of these opportunities. Some persons have classified the finding of these loopholes as tax evasion. This attitude is scarcely correct as long as no dishonesty is involved, because the same opportunity is offered to all of us. The fact that some make profit of the advantage is no good reason for criticising them. In fact it is a service to find these possibilities, and if they are not desirable, the legislatures can correct them.

The savings effected are usually due to some *apparently* trifling matter such as the manner of designating the beneficiary, the status of the beneficiary, the form of policy, the settlement provisions, the date of issue, the size of the estate, the amount of insurance, the person paying the premium, etc. Many of these items are considered as inconsequential details, but it pays any progressive agent to become acquainted with the importance of them.

CHAPTER II

TAX THEORIES AND THEIR RELATION TO LIFE INSURANCE

So far we have merely outlined the points of contact between life insurance and the existing taxes, at the same time indicating that these taxes are not all that is to be desired. The specific effect they have on the various phases of life insurance and specific criticisms of their application are given in later chapters. In this chapter we will confine ourselves to the most important general tax theories as they are related to life insurance.

The Benefit Theory of Taxation

Taxes may be considered as the contributions of private persons to the public purse for the purpose of administering the government in such a way as to benefit the governed. From this statement deductive reasoning leads us to the conclusion that taxes should be apportioned on the basis of the value of the government services to its citizens. However, a little reflection reveals the serious defects of this theory. In the first place, we have no basis for calculating the value of the collective services rendered by a government. If we attempt to evaluate the fundamental functions of government, namely, the protection of life and property, we find that the young, the weak, the aged, and infirm derive the greatest benefit. And how can these classes be made to pay the larger proportions of the taxes?

It may be readily understood that if the levying of taxes is to rest on any one theory the one just mentioned is certainly not suitable.

The Cost of Service Theory of Taxation

The theory that taxes should be adjusted to the cost of the service seems on first thought to be just and equitable. The most complete argument against it is the impossibility of dividing the various services and assessing the proper share of the cost. As previously mentioned the primary service of a government is protection of life and property. Since property is of many and diverse species, it is impossible to determine the proper allocation of the cost of the protection of property. Again we see, after a little reflection, that a single theory fails.

The Ability Theory of Taxation

Another theory is that each should contribute according to his ability. Presumably ability is most accurately reflected in the income received. Hence the popularity of the income tax in recent years. Perhaps there is no one theory which results in greater equity and justice, and there is no one theory that has received more consideration during the last quarter century.

Nevertheless, the difficulties of applying the theory in such a way that it may be administered according to the ideas of its proponents have been found to be so great as to prevent it from approaching the perfection formerly anticipated. Important questions such as how to compel individuals to file an honest report and what rates are the most productive have not been satisfactorily solved. And not the least perplexing of the difficulties encountered is the question whether the tax according to ability should be measured by a fixed proportion or in progressive percentages.

Application of the Several Theories

None of the theories enumerated above is used as the sole basis of taxation by any large nation, although the combination of these theories may be found in connection with the different taxes in many countries.

If it may be said that taxes are levied according to any one theory, it seems that it is one which enables the raising of the greatest amount of revenue with the least amount of protest. For the want of a better title we may call this the "practical politician's theory." When the tax laws resulting from the efforts of the politicians are analyzed they are found usually to contain a more or less judicious mixture of the aforementioned theories.

If we keep in mind that the only important practical requirement of the tax system is that it produce revenue, no further elaboration of the existing taxes affecting insurance is necessary. The average citizen frequently does not concern himself about taxes that do not appear to be oppressive, and as a consequence a revenue-producing system may be far from just and yet be continued for many years.

Taxes on the Business of Life Insurance

The taxes levied on the business of life insurance are to a large degree in this category. During the year 1925 it is estimated the various states collected about $35,000,000 in taxes and fees from life insurance companies. Most of this was in the form of a tax on premiums. The revenue raised in this manner amounts annually to approximately 2 per cent of the gross life insurance premiums paid in the United States.

One-twentieth of the amount now collected would defray the expenses of supervision and regulation of the business. This sum no one would be likely to claim an excessive tax, and it would be possible in this case to apply the "cost of service" theory of taxation. However, the other nineteen-twentieths are levied according to what we earlier styled the "practical politician's theory" and are used for defraying the general expenses of government.

Since these other expenses must be met in some way it may be asked, "Why should we question the application of the revenue-producing theory if it gives results?" The answer is that it is to a large extent unjust taxation. Most life insurance in America has been taken out for the purpose of family protection in order that the dependents of decedents may not become charges of the state. Earlier in this chapter we recognized the protection of the young, the weak, the aged, and the infirm as one of the functions of government for which taxes must be raised. Surely, any method devised by the citizens of a state to prevent an increase in the number of persons dependent on the state should be encouraged and not penalized.

Of course, it has been argued that essential equity is obtained because the remaining nineteen-twentieths are collected according to the "ability theory" of taxation. It would be possible to cite many illustrations where persons have recognized their duties and obligations and consequently devoted a considerable portion of their annual income to purchase insurance for the benefit of dependents. To such (and the author speaks with personal feeling) persons it is indeed provoking to realize that from 2 to 3 per cent of their sacrifice is to be used for the benefit of the neglectful and wasteful.

Since so many millions of policyholders are similarly affected one would think that they would rise in protest against these taxes. Such, however, is not the case for several reasons: in the first place, very few policyholders realize that 2 per cent of their premiums is used to pay taxes; secondly, the tax in so far as many policyholders are concerned is not oppressive; and thirdly, the policyholders lack the necessary leadership to organize and make a concerted drive against these taxes.

Up to the present time it is doubtful if the amount of the tax included in the premium has been the deciding factor in the non-issuance of many policies. Therefore, we may conclude that the present taxes are not large enough to have a destructive effect. Nevertheless, this fact does not make them any the less an unfair burden. Citizens of the United States have been known to revolt at very small taxes when they believed them to be inequitable. All that is needed to correct matters in the present instance is the proper amount of publicity.

Organization of the effort to repeal these laws should be initiated by those intrusted with the stewardship of the business. This means that the officers of the various companies through their coöperative organizations should formulate and put into operation a plan for alleviating the existing conditions.

Taxation on the Provision for Life Insurance

Up to the present time both the state and Federal income tax laws have failed to recognize the importance of encouraging persons to purchase insurance. The amounts expended for premiums for family life insurance cannot be deducted in ascertaining taxable income. Hence a person who is using this method of making provision for his dependents pays a tax on his sacrifice. Since this really amounts to a charitable act, it seems difficult to reconcile the laws with the more or less universal practice of permitting donations to charity, within certain limits, to be deducted from taxable income.

It may be argued that persons of considerable wealth would use insurance as a means of tax evasion if the law permitted insurance premiums to be deducted. This is easily answered by the existing legislation. We have placed a limit on the amount that can be deducted for charity, and we have adopted an exemption scale which is related to a standard of living as well as to the number of dependents. It would be no more difficult to determine the amount to be laid aside to purchase insurance to provide for old age or dependents.

Taxation of the Proceeds of Policies

The question of taxes affecting proceeds of policies is closely tied up with inheritance taxation. By the term inheritance taxation we mean to include all forms of probate duties, estate taxes, death taxes, legacy taxes, succession taxes, inheritance transfer taxes, or taxes by whatever other name they may be designated when the state claims a portion of the estate of a decedent. These taxes must be distinguished from other taxes in that they rest on an entirely different legal theory from property taxes (Knowlton *vs.* Moore, 178 U. S. 41). They are taxes on the right to succession to property. The right to inherit or take by will and the right to devise and bequeath property are not guaranteed by the state or Federal constitutions.

The theory is that a person who has acquired earthly possessions cannot take them with him into the next world and therefore they should revert to the state. However, from time immemorial nations have granted their citizens the right to succeed to property by inheritance. The right then is one bestowed by virtue of state statutes. Therefore, the sovereign power which has created the right of succession may impose upon it whatever restriction it so desires.

At the present writing Alabama, Florida, and Nevada are the only states not exercising this privilege although the Federal Government has joined the other states in making death an expensive proposition.

There is, however, no uniformity among the several states as to the extent of the tax. In some cases the exemptions are liberal, and the rates are low; in others there are no exemptions, and the rates are high. Some states use the proportional system, that is, the same rate of tax is applied regardless of the size of the estate on the theory that the tax should leave the several beneficiaries of a given class in the same relative position in which it found them. This is in harmony with what we previously described as the benefit theory of taxation. The assumption is made that the size of the estate is in direct proportion to the value of the protection provided by the state. Other states and the Federal Government use the progressive or accelerated system, that is, as the size of the estate increases the rate of tax is also increased on the theory that the larger the estate the better able it is to pay a high tax.

The situation in so far as these taxes are related to life insurance is quite different from the taxes on the insurance business, that is, it cannot be said that they have been aimed at life insurance. In the first place, inheritance taxes antedated life insurance by many centuries. History informs us that Egypt had an inheritance tax as early as the seventh century B. C. and the rate was about 10 per cent. In the days of Augustus a tax of 5 per cent on all legacies above a certain value was collected to support veterans of the Roman army. England adopted an inheritance tax in 1780 and has continued one to the present time. Pennsylvania was the first state in the United States to pass such a law and this it did as early as 1826.

However, it was not until the World War that the rates grew to alarming proportions. Nevertheless, the fact that insurance proceeds are affected by these laws is only incidental to their main purpose. The best evidence we have that this legislation has not been directed at insurance is the fact that most of the states accord preferential treatment to life insurance. Thus it is quite usual to exempt the proceeds of insurance policies when paid to specifically named beneficiaries. This, in effect, is recognition of insurance for the purpose of family protection, although there is nothing to indicate that this was intentional. In several states life insurance proceeds are entirely exempt, while a few others are similar to the Federal estate tax in making provision for exemption of insurance within a stipulated amount. The latter method recognizes the importance of insurance for dependents but at the same time does not encourage the use of insurance as a means of tax evasion. It is not within the scope of this book to criticize inheritance taxes as such. We are primarily interested in the treatment received by insurance, and since the tendency in this respect is, on the whole, favorable, no comment will be made except to suggest more uniformity in a liberal attitude toward insurance proceeds.

Under certain circumstances policy proceeds may be subject to an entirely different type of tax—the income tax. The Federal income tax and several state income taxes are levied on the proceeds of policies paid during the life of the insured when those proceeds exceed the cost of the insurance. The theory underlying this tax is that the excess over the cost corresponds to a return on an investment and since dividends and interest on other investments are taxable the same applies in this instance. These taxes are important with respect to endowment policies and annuities wherein the insured frequently has more returned to him than has been paid to the company. The same arguments should be used here that were previously advanced for the deduction of a life insurance premium from taxable income. This does not mean that a person should be allowed unlimited sway in this field, because it would then become a means of tax evasion. It does mean, however, that some standard should be adopted and only the amounts in excess of it should be taxed, and as long as one is merely providing for his old age in order that he will not be dependent on the state, he should not be penalized by taxation.

Life Insurance to Pay Taxes

The cash to pay inheritance taxes and income taxes accrued to the time of death, along with other costs of settling an estate, are most efficiently provided by means of life insurance. Thus we observe insurance not in the position of a victim of taxation but as the most scientific and economic method of accumulating the sum needed for tax purposes. Discussion of any theoretical relationships under this heading would be meaningless. The fact of the matter is, no other method has been found wherein it is possible to provide the necessary cash to pay these taxes at some indefinite and more or less unexpected time with so small a periodic expense or so little disturbance to one's financial arrangements. No one believes that inheritance tax laws were passed for the purpose of providing the insurance companies with business; hence there can be no underlying tax theory governing the relationship mentioned in this section.

Life Insurance to Reduce Taxable Estate.

Favorable treatment of life insurance proceeds is the general rule in the field of inheritance taxation. In some states complete exemption is provided in the inheritance tax laws, but usually it is a matter of interpretation of the legal relationship between the insurer and the beneficiary. The view is taken that the life insurance contract has matured upon the death of the insured and created a contractual obligation on the part of the insurer to pay the named beneficiary. In other words, the insurer owes nothing to the deceased or his estate when a beneficiary has been designated specifically, and therefore the proceeds do not pass through the estate and are not taxable. In other states and in the Federal estate tax law the latter principle is ignored and limitations are placed on insurance exemptions. Except from a legal standpoint there is no good reason for exempting all insurance proceeds and an amount that is sufficient to maintain a decent standard of living for the dependents is the maximum that should be exempted. When more than this is allowed insurance becomes a harbor for wealthy tax evaders. This is not desirable for society as a whole, and while it may be the means of writing some additional policies it eventually proves a boomerang to the institution of life insurance. However, it is so important in small estates that the insured has as small a tax as possible that each insurance agent should possess the information which will enable the greatest conservation of his client's assets.

CHAPTER III

TAXES ON THE BUSINESS OF LIFE INSURANCE

Originally life insurance companies were made to pay the same taxes as other corporations, but with the advent of special legislation special taxes were levied. Recognition of the necessity for different laws for life insurance had its disadvantages because it then became a marked business for revenue-raising purposes. It was soon observed that the life insurance companies had enormous incomes and huge reserves. In financial resources they were without equals. What then could be more logical than to tax an institution that apparently was wonderfully profitable. Legislators even to the present time have had little or no knowledge of the fiduciary relationship existing between the insurance company and the policyholder. Encouraged by fruitful experiments and the lack of protests they have become more bold. This is evidenced by the upward trend of these taxes not only absolutely but in relation to the growth of the business and the state expenses attributable to its supervision.

Investigation of Insurance Department of United States Chamber of Commerce

Several years ago the Insurance Department of the United States Chamber of Commerce decided the matter was of such importance as to merit a special investigation. They have compiled much valuable data on the subject and ably stated the situation in their departmental bulletins. Besides, they have been keeping the statistical data up to date and it is through the courtesy of the Department that the author is able to reproduce much of the material presented in this chapter.

According to their most recent compilation of figures the state taxes collected from all insurance companies for the year 1925 amounted to nearly $73,000,000. This is the total for all forms of insurance, it being impossible to obtain a segregation from most of the states. However, we are safe in assuming that approximately one half of the total was derived from life insurance.

SPECIAL STATE INSURANCE LICENSES, TAXES, AND FEES COLLECTED IN 1925

(Taken from Insurance Bulletin No. 26, published by the Insurance Department of the United States Chamber of Commerce)

States	Total So Far As Reported by State Insurance Department, State Treasurer, or Other Official	Expenses of Insurance Department	Ratio Spent for Service to Policyholders	Ratio Used for Other State Purposes
			Per cent	*Per cent*
Alabama	$ 770,920	$ 26,687	3.46	96.54
Arizona	258,488	4,700	1.82	98.18
Arkansas	563,857	17,500	3.10	96.90
California	4,588,877	66,566	1.45	98.55
Colorado	612,687	40,884	6.36	93.64
Connecticut	5,176,462	54,336	1.05	98.95
Delaware	148,175	5,700	3.85	96.15
District of Columbia	299,754	19,914	6.64	93.36
Florida	* 617,573	5,576	.90	99.10
Georgia	769,917	12,553	1.63	98.37
Idaho	212,162	12,427	5.86	94.14
Illinois	5,821,204	188,929	3.25	96.75
Indiana	1,657,837	67,673	4.08	95.92
Iowa	1,403,707	110,609	7.88	92.12
Kansas	1,031,605	48,952	4.75	95.25
Kentucky	943,934	40,793	4.32	95.68

* Capital stock tax not included.

Special State Insurance Licenses, Taxes, and Fees Collected in 1925—*Continued*

States	Total So Far As Reported by State Insurance Department, State Treasurer, or Other Official	Expenses of Insurance Department	Ratio Spent for Service to Policyholders	Ratio Used for Other State Purposes
			Per cent	*Per cent*
Louisiana	$ 35,000	**......	....	....
Maine	449,324	$ 12,066	2.69	97.31
Maryland	898,956	46,998	5.23	94.77
Massachusetts	2,960,445	122,583	4.14	95.86
Michigan	2,579,951	89,796	3.48	96.52
Minnesota	1,614,827	61,914	3.83	96.17
Mississippi	609,187	8,500	1.40	98.60
Missouri	2,336,837	85,553	3.66	96.34
Montana	299,037	11,335	3.79	96.21
Nebraska	491,210	29,996	6.11	93.89
Nevada	29,444	*** 1,800	6.11	93.89
New Hampshire	318,108	9,880	3.11	96.89
New Jersey	3,453,538	199,345	5.77	94.23
New Mexico	108,143	5,466	5.05	94.95
New York	7,427,551	629,691	8.48	91.52
North Carolina	1,434,465	31,861	2.22	97.78
North Dakota	280,308	15,135	5.40	94.60
Ohio	4,668,937	78,250	1.68	98.32
Oklahoma	943,663	33,628	3.56	96.44
Oregon	665,819	34,131	5.13	94.87
Pennsylvania	5,823,641	110,949	1.91	98.09
Rhode Island	538,029	15,613	2.90	97.10
South Carolina	405,471	18,468	4.55	95.45
South Dakota	407,328	15,313	3.76	96.24
Tennessee	1,321,440	29,080	2.20	97.80
Texas	2,041,003	34,701	1.70	98.30
Utah	201,005	7,529	3.75	96.25
Vermont	287,241	7,385	2.57	97.43
Virginia	1,352,092	55,243	4.09	95.91
Washington	1,079,800	63,776	5.91	94.09
West Virginia	760,908	15,297	2.01	97.99
Wisconsin	1,985,530	46,236	2.33	97.67
Wyoming	124,324	***10,000	8.04	91.96
Totals—1925	$72,839,721	$2,661,317	3.65	96.35
Totals—1924	67,731,570	2,513,467	3.71	96.29
Totals—1923	59,741,828	2,314,565	3.87	96.13
Totals—1922	53,015,799	2,323,889	4.37	95.63

** Expenses not segregated.
*** Estimated by Insurance Commissioner.

Note.—While the tabulation is complete in so far as insurance department expenses are concerned, except for Louisiana, it is important to note that in the case of some states not all the taxes, licenses and fees are included. As regards state levies, this is because part of them are paid to state treasurers and other officials whose books may be kept in such manner as to render it impossible to segregate the insurance data. As for the amounts collected by counties and municipalities in those states permitting local jurisdictions to tax insurance companies and their agents, it was found no central state agency had compiled the information. Among the states where local taxes or fees were levied but the amounts were unavailable are Alabama, Florida, Georgia, Kansas, Kentucky, Louisiana, Maryland, Mississippi, Missouri, Nebraska, Nevada, Ohio, South Carolina, West Virginia and Wyoming.

Nature of These Taxes

The figure given above includes only the special taxes levied on the business of insurance. Other taxes levied in common with other forms of business, such as property taxes, profits taxes, incorporation fees, capital stock tax, and stock registration taxes are not included. The taxes of the different states are not the same in character or in amount, but nearly all of them have the following special levies on the insurance business: a premium tax, a company license tax, an agent's license fee, a charge for filing the annual statement, and a fee for company examination.

The Premium Tax

The greatest revenue-producing tax is that levied in the form of a percentage on premium income. Usually the law specifies gross premiums as the basis for computing the tax and then proceeds to define what is meant by this term. Considerable variation is found. The most common definition is: gross premiums received less premiums and cancellations returned to policyholders. Some states allow for the deduction of reinsurance premiums, and a few permit dividends to be subtracted.

The crudity of the tax is surely most evident where no allowance is made for the returns of dividends to policyholders, or no deduction made for premiums paid for reinsurance. Inasmuch as some other company receives the reinsurance premium, it also must pay a tax, the result being double taxation on the same protection.

It is against this premium tax that the strongest criticism should be directed. It has been correctly compared to a tax on the gross turnover of a business or the deposits of a bank. Yet we know that no such tax would be tolerated for a moment. Undoubtedly in this country we have followed the wrong procedure in taxing insurance. If any tax must be placed on the business it should at least be on a profits basis and not gross revenue. This applies not only to life insurance but to all our other forms of insurance which have been penalized on account of a fundamental error. It should be added that Great Britain, a leader in the insurance business, taxes on the basis of net profits.

Not only is this tax inequitable in so far as other kinds of business are concerned, but it also discriminates between policyholders in several ways:

1. Between policyholders of different ages;
2. Between different policies at the same age;
3. Between industrial and regular policies;
4. Between policyholders in different states.

The first discrimination can be easily demonstrated by the use of the rates of an old line company. Thus the annual level premium at age 20 on an ordinary life policy for $1,000 is found to be $17.40, while at age 50 it is $46.20. Since the tax is a flat percentage of the premium, it can be seen readily that the policyholder aged 50 has to pay a larger amount of tax.

The inequity arising between different policies may be shown in a similar manner. A 20-payment life policy for $1,000 at age 20 costs $26.20 annually, and the rate at age 50 for a like policy is $52.95. Comparison of these rates with those for ordinary life policies at the same ages again shows that a flat percentage tax causes discrimination.

In the case of industrial policyholders the premium rate is higher per $100 of insurance than on regular policies. This is due very largely to the heavier expense loading. A premium tax is then levied which increases the burden and throws the industrial policyholders' rate still farther out of line with the premium on the regular business. Furthermore, the tax in this case falls on the persons who are least able to bear it, because it is the poorer classes who purchase industrial insurance. Assuming the rate of $17.40 per $1,000 of insurance given above and a typical industrial insurance rate, the amount of the tax on the industrial policy will be one-third greater than on the regular policy for a given amount of protection.

Discrimination against policyholders in different states arises from the variations in the tax rates used by the several states.

Most large life insurance companies write insurance in a number of states, and the several states collect a tax on the premium income arising from business done within their borders. These rates vary from 35/100 of 1 per cent in New Jersey to 3 per cent in Indiana. Inasmuch as it is customary for most life insurance companies to use the same set of rates all over the country, the policyholders of a state with a low rate of taxation are being made to help pay the taxes to a state with a higher rate.

Recommendations of Insurance Advisory Committee of United States Chamber of Commerce

The Insurance Advisory Committee of the United States Chamber of Commerce has recommended with reference to these taxes that: first, there should be a material reduction in the amount of premium taxes collected; and secondly, a uniform method of taxation should be adopted throughout all the states; and thirdly, reinsurance, cash and applied dividends to policyholders, matured losses, endowments, and cash surrender values on canceled policies should be deducted from gross premiums before the rate of taxation is applied to premium income. These suggestions were made even though the Committee does not believe in the equity or justice of premium taxation. Nevertheless, it does not see how it will be possible to effect a complete change for some time.

License Taxes

In most states each company is required to pay an annual license tax as a prerequisite to doing business. A privilege tax of this nature as long as it is not exorbitant can scarcely be objected to, especially since it serves to give official notice to the state that the company intends to continue business and also acts as a deterrent to the operation of bogus companies. However, in a few states where the fee amounts to several hundred dollars, the rate seems excessive. Besides, it must be remembered that a similar fee is collected by each of the states which a company enters, thus making the sum total of this kind of tax quite large.

Just as the companies are required to obtain licenses so must the agents and brokers acting for these companies. As a rule, these fees are nominal and yet serve to keep the agents within the scope of state supervision. This advantage more than offsets whatever objections might be raised against the tax.

Tax for Filing Statements

Ordinarily a fee is charged for the publication of a company's certificate of authority and annual statement. Some states require the company to take care of the publication, while in other cases it is done by the state and the company pays for it. While it is true that comparatively few persons examine these statements and fewer are able to understand them, it is nevertheless a fact that such compulsory publicity serves as a protection to policyholders. Therefor, we may conclude that as long as the publication requirements do not become ridiculous nor the costs large the benefits to be gained justify the tax.

Retaliatory and Reciprocal Taxes

Although our forty-eight states are bound together in one great union we find traces of petty rivalry in the statutes of the individual states. A case in point is the more or less general practice of one state's levying a tax on a corporation of another state operating within its borders when the corporation's home state levies a tax, on foreign companies. This is retaliatory legislation and is quite common in the field of insurance taxes. It has its counterpart in those laws which exempt from taxation or reduce the taxes of a foreign corporation when another state grants similar privileges to the companies incorporated in the other state.

Miscellaneous Taxes

As a general thing the taxes on the insurance business are paid to the state. There are, however, a few exceptions to this where local jurisdictions are permitted to levy taxes. This is particularly true in the southern states.

Other fees, such as a sum paid to the state auditor for acting as attorney for a service of process, a fee for acceptance of the state constitution, and a flat charge for the benefit of a school fund, are among the other taxes imposed on the insurance business.

CHAPTER IV

TAXATION OF PROCEEDS OF POLICIES PAID IN A SINGLE SUM

The proceeds of life insurance policies may be subject to Federal income tax, Federal estate tax, state inheritance taxes, and state income taxes. However, not all of these taxes will be levied in any one case. Life and endowment policy proceeds may be paid in one single sum because of the death of the insured, the maturity of the endowment period, or the surrender of the policy. The following analysis will make it clear that the cause of such payment frequently makes a difference in the application of the tax.

Effect of the Federal Income Tax Law of 1926

The Federal income tax is a tax on net income, the procedure for ascertaining this being prescribed by the Federal Revenue Act. Briefly, net income is arrived at by making certain deductions from gross income. Gross and net income are defined at great length, and the problem which confronts us is one of interpreting the effect of these definitions on insurance proceeds.

Proceeds Paid on Account of the Death of the Insured

When the payment is made in a single sum by reason of the death of the insured, it is not necessary for either an individual, partnership, or corporate beneficiary to report the amount as gross income. Obviously, there can be no tax in such a case (Revenue Act of 1926, Sec. 213 b-1). An earlier Federal income tax law provided for a tax if the beneficiary was a partnership or corporation.

Proceeds Paid during Life of the Insured

1. *Proceeds Paid to the Insured by Reason of the Maturity of an Endowment.*—The amounts received on account of the maturity of an endowment must be reported as gross income if they exceed the amounts that have been paid to the insurer. This seems like a very simple proposition, but it has given rise to a great many misunderstandings which may be explained best by means of illustrations. Thus if a 10-year nonparticipating endowment insurance policy was issued in 1916 to A at age 30 for an annual level premium of $84, a total premium of $840 has been paid to the company by the end of the endowment period. However, the sum paid to A at age 40 is $1,000, or $160 in excess of the amount paid to the insurer. One hundred and sixty dollars is the amount which must be reported for income tax purposes.

Now let us suppose a 10-year participating endowment policy was issued to B at age of 30 for an annual level premium of $96. The premium refunds or "dividends" received by B on this policy amount to $200. This latter sum is the total of all dividends paid to B at intervals over a period of 10 years, and United States Treasury Regulations with reference to such dividends provide for their exclusion from gross income. However, these regulations relate only to the dividend applied against the current premium each taxable year during the continuance of the policy. When a policy is cashed in these regulations are superseded by the provisions of Section 213 b-2 of the Revenue Act of 1926 which says that if the amounts received under life, endowment, or annuity contracts when added to the amounts received before the taxable year exceed the aggregate premiums paid, the excess is included in gross income. The act is very specific in saying that it does not matter whether the entire amount is paid during the taxable year or not. Thus it would seem that the difference between the face value and *net cost* is the amount subject to tax, or to follow the wording of the act, we will assume the amount received during the taxable year has a face of \$1,000 + \$40 dividends for the current year + \$160 as dividends received prior to the taxable year, or a total of \$1,200. The premium payments amounted to \$10 × \$96, or \$960. \$1,200 —\$960, or \$240, is the amount which should be reported as gross income. This, it will be observed, eliminates any tax advantage which a participating policy might otherwise possess over one that is non-participating.

It should be mentioned that the foregoing method of ascertaining the amount to be reported as gross income has one exception. Whenever a policy has had any value accrued before March 1, 1913, the value as of that date may be deducted. If a policy at that time had a surrender value it is construed as property acquired before the passage of any legal Federal income tax law and is not subject to tax. This means that it is necessary to find the value that has accrued since that date. Let us suppose that the endowment policies to A and B previously mentioned were issued in 1906 for 20-year periods with premiums of \$42 and \$48 respectively. Let us further assume that 8 annual premiums had been paid and that each policy had a cash surrender value on March 1, 1913, of \$300. We next deduct this sum from the face of the policy, or \$1,000 — \$300 = \$700, which is the amount of value that has accumulated during the period we have had an income tax law. We must now determine what sums have given rise to the \$700 item, and herein is the first difference between the nonparticipating and the participating policy. After February 28, 1913, there were 12 more premiums to be paid, or in the case of the nonparticipating policy, 12 × \$42, or \$504. The difference between \$700 and \$504, or \$196, is taxable. There were the same number of premiums to be paid on the participating policy, or 12 × \$48, or \$576. \$700 — \$576 = \$124; but there have been dividends amounting to \$110, and therefore the total amount received from the company is \$700 + \$110, or \$810. \$810 — \$576 = \$234, which is the amount to be reported as gross income.

The use of this method is optional with the insured, but since it usually benefits him he is foolish not to use it. The other method which he may use is the one described in the 10-year endowment illustrations, wherein he would take all amounts received under the contract during its 20-year period and subtract all amounts paid to ascertain the amount to be reported as income. The Treasury Department permits the use of whichever method gives the taxpayer the greater benefit.

2. *Proceeds Paid to the Insured by Reason of Surrender, Sale, or Exchange of Life or Endowment Policy.*—If a policy is disposed of before its maturity the problem is one of ascertaining the amount of gain that has been derived. If the policy was acquired after February 28, 1913, the actual cost of the property subtracted from the amount received for it whether it be surrendered to the company for cash, exchanged for another policy, or sold, equals the gain within the meaning of the act. When disposition is made for other than a money consideration then the fair market value of the property received must be included. When policies are exchanged and a difference exists in their cash surrender values there may be a gain or a loss. If there be a gain it *is* income. If there is a loss it *is not deductible* from gross income by a taxpayer who is carrying the insurance for family or personal reasons, or when the taxpayer may be a beneficiary under the policy either directly or indirectly.

Cancellation of a policy during its early years frequently results in a loss, but such a loss has been regarded as a cost of insurance and is not deductible. In all cases mentioned above when gain is being ascertained, it is necessary to allow for dividends paid by the insurer, in the same manner as in the matured endowments previously explained.

For policies issued prior to March 1, 1913, all of the foregoing rules are applicable excepting that the cash surrender value as of that date may be deducted from the gross proceeds of the policy. This is because such amounts are property acquired before the effectiveness of any Federal income tax law and is consistent with the procedure followed in the case of matured endowments.

3. *Paid to Beneficiary Other than Insured.*—When such beneficiary is an individual, partnership, or corporation subject to income tax the difference between the premiums paid and the proceeds received must be reported as gross income. Thus the income tax status of the donor is not the determining factor but instead the status of the donee beneficiary. If the donee is a charitable corporation, none of the amount received is taxable. If the donor is an individual with an enormous income and the donee with an otherwise very small income, it is part of the gross income of the donee and not reported at all as income by the donor. However, the amount that is to be reported by the donee is not the gross proceeds of the policy but the difference between the actual value received and the net premium cost to the donor. This is determined in the same manner as if the donor had himself been the beneficiary. In fact, the method of ascertaining the amount to be reported by the donee for either a life or endowment policy is in strict accord with that outlined previously for proceeds received by the insured.

It makes no difference whether the proceeds are obtained by maturity of the policy or other disposition, the problem resolves itself into the difference between the value received and the actual cost. It is also immaterial whether the beneficiary has been named with or without the right to change. The income tax department is interested for tax purposes in the recipient of the benefit.

It is true that this method makes it possible for a donee to receive an indefinite sum which is not taxed. However, this is viewed as a gift which is not subject to income tax. This being the case, it may be asked why any part of it should be reported as income. The answer is that only that part of the proceeds contributed directly by the donor is considered a gift; the other part is viewed as a gain on the investment made by the donor of the insurance. This latter part is then logically considered as taxable income.

Effect of the Federal Estate Tax of 1926

The Federal estate tax is an excise tax upon the transfer of property from decedents to others including all transfers made in contemplation of death or intended to take effect in possession or enjoyment at or after death. Obviously this has some effect on insurance proceeds. Just as the income tax is a levy on net income so with respect to the estate tax the levy is on the net estate. This means that the definitions of gross and net estates must be interpreted with reference to insurance. The act provides that the value of the decedent's gross estate shall be determined by including the value at the time of his death of all property, real or personal, tangible or intangible, wherever situated, to the extent of the decedent's interests in such property as stated in the act. Among these is one relating to insurance, and it is worded to the following effect:

Gross income includes the amount receivable by the executor as insurance under policies taken out by the decedent upon his own life; and to the extent of the excess over $40,000 of the amount receivable by all other beneficiaries as insurance under policies taken out by the decedent upon his own life. The regulations include death benefits paid by fraternal societies and all other forms of life insurance.

From the foregoing we may draw several conclusions.

1. The designation of the beneficiary is very important. Insurance, regardless of amount, taken out by the decedent on his own life for the benefit of his estate, must be reported as part of the gross estate. If the decedent has paid a portion of the premium directly or indirectly the amount of the proceeds to be reported in the gross estate is the same proportion of the total as the decedent's share of the premiums bear to the total premiums paid. However, if a beneficiary is designated so that the proceeds are not receivable by the administrator or executor of the insured's estate, then only the amount of insurance in excess of $40,000 need be reported in the gross estate. This means *all* in excess of $40,000 and not $40,000 to each named beneficiary.

2. The person "taking out" the insurance affects its taxability. If the insurance has been taken out by any other person or corporation possessing an insurable interest and premiums have been paid by such other person, the proceeds are not considered as a part of the gross estate. Thus where a wife insures the life of her husband and *pays the premium out of her own personal*

estate the Federal estate tax is not applicable. Likewise if the decedent has been insured under the terms of a group policy issued to his employer who has paid the premiums, the proceeds of this policy are not taxable. In general it may be said that whenever the relation of the decedent to the insurance policy is that of the "insured life only" there is no Federal estate tax, but wherever he pays the premium directly or indirectly the policy is considered as taken out by him. Thus if the insurance has been taken out by the decedent for the purpose of paying inheritance taxes or meeting other expenses, it is part of the gross estate, no matter how small the policy. The test applied is whether the sum is receivable by the executor in his official capacity.

So far the discussion has centered around the cases where insurance proceeds should or should not be reported as part of the gross estate. It does not follow that because they are reported in the gross estate that they are taxable. As previously mentioned the tax is on the net estate, and in determining what constitutes net estate the act permits the deduction of funeral expenses; administration expenses; claims against the estate; the value of property acquired within the preceding five years through inheritance or gift, providing further that the amount has been subject to estate or gift tax; bequests for religious, charitable, scientific, literary, or educational purposes; and a flat exemption of $100,000. There are several different possibilities with reference to the beneficiary which make a difference in the tax and these may be explained to better advantage by means of illustrations.

In Group I the decedent designated his estate as beneficiary for $25,000 in Case 1, $100,000 in Case 2, and $350,000 in Case 3.

GROUP I

	Case 1	Case 2	Case 3
Real estate	$150,000	$150,000	none
Securities	100,000	100,000	none
Insurance payable to estate	25,000	100,000	$350,000
Gross estate	$275,000	$350,000	$350,000
Less deductions for funeral expenses, administration, claims against estate, etc.	115,000	115,000	115,000
	$160,000	$235,000	$235,000
Less general exemption	100,000	100,000	100,000
Net taxable estate	$ 60,000	$135,000	$135,000

Thus it may be seen that the entire insurance proceeds regardless of amount are included in the gross estate when they are designated as receivable by the executor.

The graduated tax imposed by the law is then applied to this amount. The final tax is arrived at by deducting the inheritance tax paid to any state with respect to property included in the gross estate but not exceeding 80 per cent of the amount imposed by the Federal estate tax law.

Let us now change the illustration by assuming the insurance is payable to designated beneficiaries. Observe Group II on page 37.

GROUP II

	Case 1		Case 2		Case 3	
Real estate	$150,000		$150,000			none
Securities	100,000		100,000			none
		$250,000		$250,000		
Insurance payable to:			Insurance exemption prorated		Insurance exemption prorated	
Beneficiary A	10,000		$50,000 — 20,000 =	30,000	$100,000 — 13,333.33 =	$86,666.67
Beneficiary B	10,000		25,000 — 10,000 =	15,000	100,000 — 13,333.33 =	86,666.67
Beneficiary C	5,000		25,000 — 10,000 =	15,000	100,000 — 13,333.34 =	86,666.66
	(less than $40,000, not reportable)					
Gross estate		$250,000		$310,000		$260,000
Less deduction: expenses, etc.		115,000		115,000		115,000
		$135,000		$195,000		$145,000
Less general exemption		100,000		100,000		100,000
Net taxable estate		$ 35,000		$ 95,000		$ 45,000

GROUP III

	Case 1		Case 2		Case 3	
Real estate	$150,000		$150,000			none
Securities	100,000		100,000			none
		$250,000		$250,000		
Insurance payable to:			Insurance exemption prorated		Insurance exemption prorated	
Estate		50,000		50,000		$350,000
Beneficiary A	10,000		$50,000 — 20,000 =	30,000	$50,000 — 20,000 =	30,000
Beneficiary B	10,000		25,000 — 10,000 =	15,000	25,000 — 10,000 =	15,000
Beneficiary C	5,000		25,000 — 10,000 =	15,000	25,000 — 10,000 =	15,000
	(less than $10,000, not reportable)					
Gross estate		$300,000		$360,000		$410,000
Less deduction: expenses, etc.		115,000		115,000		115,000
		$185,000		$245,000		$295,000
Less general exemption		100,000		100,000		100,000
Net taxable estate		$ 85,000		$145,000		$195,000

A third group frequently exists where part of the insurance is payable to the estate and part payable to designated beneficiaries. Group III on page 38 is an illustration.

Several important conclusions may be drawn from the foregoing.

1. The full amount of insurance receivable by the administrator or executor must be reported in the gross estate, although the $100,000 general exemption may be applied against it.

2. The $40,000 specific exemption applies only to insurance for designated beneficiaries.

3. The exemption of $40,000 relates to the sum total of insurance for all designated beneficiaries and is prorated over the amounts receivable by each in the proportion that such amount bears to the total of the insurance to designated beneficiaries. Thus in Case 3, Group III, beneficiaries A, B, and C for $50,000, $25,000, and $25,000 respectively are taxed on 6/10 of their amounts or $30,000, $15,000, and $15,000. The net taxable estate in this case amounted to $195,000. The taxable insurance is $60,000. Therefore the proceeds payable to beneficiaries A, B, and C give rise to taxes amounting to 30/195, 15/195 and 15/195 of the total Federal estate tax.

Apportionment of Tax

The collection of the tax from the beneficiary depends on the provisions made by the decedent for the payment of taxes. If the will provides for the payment of all taxes from the residuary estate or if specific funds are earmarked for such purpose, then the tax will not be taken out of the amount indicated for the beneficiary. However, if the decedent has made no specific provision for such taxes then the executor is authorized to compel the beneficiaries to bear their proportion. This places the executor in a rather unusual position: that of being held responsible for the payment of taxes with respect to property which has never come into his possession. However, if the other assets of the estate are insufficient to satisfy the tax caused by a very large insurance estate, it would seem that the executor would have performed his legal duties when he instituted proper suit against the beneficiaries. If the outcome of the suit was unfavorable there is no good reason for holding the executor. This is always a possibility even though the act says there is a lien against such proceeds received by a beneficiary, because it excepts property sold to a bona fide purchaser for a full and adequate consideration. Clearly the situation is one that calls for due consideration and shows the advisability of making specific provision for taxes.

Legality of Taxing Insurance to Specifically Named Beneficiaries

In the case of Lewellyn *vs.* Frick, 268 U. S. 238, the United States Supreme Court was called upon to decide the validity of such a tax, but unfortunately they did not hand down a general decision which covers all cases. Henry C. Frick died testate on December 2, 1919, his will providing that all inheritance taxes be paid out of the capital of his residuary estate. At the time of his death there were outstanding eleven policies aggregating $474,629.52. Four of these were payable to his wife and seven to his daughter. The provisions of Title IV of the Revenue Act of 1918, effective February 25, 1919, were applicable to this estate.

According to the graduated schedule in this law the amount of tax attributable to the insurance was calculated by the collector as $108,657.38. The estate took exception to the collector's interpretation of the law and the United States District Court for the Western District of Pennsylvania on June 5, 1924, decided that the policies did not pass by will, descent, or distribution, and that no transfer of them was made in contemplation of death within the meaning of the act and therefore the tax should not be imposed. The estate tax is an excise based on the power to transmit or the transmission from the dead to the living. The right of the beneficiaries did not spring from the death of the testator but under the contracts of insurance, the date of death being merely the time when the insurers were obligated to pay; therefore the tax is a tax on property which is a direct tax and should be levied by apportionment in accordance with the constitution. When the case was appealed to the United States Supreme Court, they affirmed the decision of the District Court but limited its application to policies issued prior to February 24, 1919, the effective date of the act under which the Frick estate was taxed.

Additional litigation will be necessary to determine the meaning of subsequent legislation but undoubtedly this case will be used as a precedent.

It is interesting to note that several state inheritance tax laws have contained provisions regarding specifically named beneficiaries similar to those of the Federal law, and of the cases decided Wisconsin is the only one that has acquiesced to its constitutionality.

Comment on These Court Interpretations

The estate tax is a tax on property passing from a decedent's estate by will, descent, or distribution, or transfers in contemplation of death. Excepting when a transfer is in contemplation of death, within the meaning of that phrase, as explained elsewhere, it would seem that the legality of a tax on insurance proceeds to a specifically named beneficiary is certainly limited. Wherever the insured has designated the beneficiary without the right of change the property really belongs to the beneficiary and the Federal estate tax should not apply. (The same can be said of the state inheritance taxes.)

However, the legal reasoning that a life insurance contract is not a transfer within the meaning of inheritance tax laws because the insured did not enjoy the possession of the property during his lifetime is incorrect. Whenever the insured has reserved the right to change the beneficiary, he has at least possessed potential enjoyment of an amount equivalent to the cash surrender value. In such cases it seems no more than just that this amount should be included in the taxable estate. It is quite true that the adjustment which this would necessitate might be a bit troublesome at times. Nevertheless logic and equity should not be overwhelmed by convenience.

Effect of State Inheritance Taxes

In general the proceeds of a life insurance policy if payable to a named beneficiary are not subject to tax. Arkansas, Montana, Mississippi, New York, and Tennessee place limitations upon the exemptions allowed insurance, while Wisconsin subjects all life insurance proceeds to taxation excepting those of war risk insurance. The legality of any of these tax laws is questionable as explained in connection with the decision in Lewellyn *vs.* Frick. Whenever the estate is named or the proceeds go to other than a specifically named beneficiary more than two-thirds of all the states impose a tax. The general rule is that if the proceeds are not receivable by the administrator in his official capacity there is no tax. A few states do not tax life insurance proceeds regardless of the method of naming the beneficiaries. Thus it can be seen there is absolutely no uniformity in the laws, and one is fortunate or unfortunate according to the state in which he resides.

CHAPTER V

TAXATION OF LIFE AND ENDOWMENT POLICIES PAID IN INSTALLMENTS

The development of the income option is one of the outstanding features of modern life insurance. More and more persons are coming to the realization that since the chief purpose of life insurance is to replace lost earning power the substitute should conform to the loss as nearly as possible. Besides, it has the advantages of a self-administered estate accompanied with a much greater degree of certainty. Consequently the demand has been such that nearly all policies issued at the present time contain settlement options which if not elected by the insured during his lifetime may be exercised by the beneficiary when the policy matures. Since the various tax laws are not always applied in the same manner to lump sum payments as to installments, the two methods are discussed in separate chapters.

Effect of the Federal Income Tax

On Endowment Policies Paid during Life of Insured

The Revenue Act of 1926 provides that whenever the amounts received exceed the aggregate consideration paid, the excess shall be reported in gross income.

Let us assume that X purchased a 20-year endowment policy of $1,000 at age 30 for an average yearly payment (dividend deducted) of $38. The total premium is then $760. If the proceeds are payable in 10 equal annual installments on a conservative interest basis he will have received at least $760 in the first seven installments. Each of the last three installments must accordingly be reported in the statement of his taxable income.

The attitude taken toward this case is the installments are return of principal and income. To the extent that the return is greater than the principal invested (without any allowance whatsoever for loss of interest), the amount is considered as a return on capital and hence is taxable.

It should be mentioned that the return is reportable and taxable in those years when it is actually received and is similar to the taxation of life annuities. If the insured has received a number of installments and then commutes the balance, the excess actually received is the sum to be reported in the year it is received. It is unnecessary in the case of such commutation to consider what would have been paid if the policy had not been commuted.

If the beneficiary is other than the insured, the amount to be reported by the beneficiary for income tax purposes is the same as that shown above and the insured reports nothing. However, it must be remembered that the tax brackets applicable to the income of the insured are not necessarily the same as those of the beneficiary.

On Life and Endowment Policies Paid after Death of Insured

According to the 1926 act amounts received under a life insurance contract by reason of the death of the insured whether in single sum or installments are not included in gross income. However, if such amounts are held by an insurer under an agreement to pay interest, such as a 5 per cent guaranty, then these interest payments shall be included in the gross income of the person receiving them.

Effect of the Federal Estate Tax

In order to ascertain the effect of the Federal estate tax it is first necessary to get all future payments translated to a present value. Then we may apply the $40,000 insurance exemption for specific beneficiaries and the $100,000 general exemption allowed the estate.

Inasmuch as installments are paid under several different plans and according to numerous actuarial tables and interest rates the Revenue Bureau has seen fit to standardize the evaluation as much as possible. For this purpose they have adopted the Combined Actuaries' Table and 4 per cent interest for all calculations that involve probability calculations and an assumed rate of 4 per cent for those calculations that do not involve probabilities of life and death. In conjunction with the department's regulations they have issued several tables on the foregoing basis and designated them Table A and Table B.

TABLE A

SHOWING THE PRESENT WORTH AT 4 PER CENT OF AN ANNUITY OR A LIFE INTEREST, AND OF A REVERSIONARY INTEREST

(Based on Actuaries' or Combined Experience Table)

1 Age	2 Annuity, or present worth of $1 due at the end of each year during the life of a person of specified age	3 Reversion, or present worth of $1 due at the end of the year of death of a person of specified age	1 Age	2 Annuity, or present worth of $1 due at the end of each year during the life of a person of specified age	3 Reversion, or present worth of $1 due at the end of the year of death of a person of specified age
0	$14.72829	$0.39507	50	$12.47032	$0.48191
1	17.30771	.29586	51	12.17919	.49311
2	18.69578	.24247	52	11.88408	.50446
3	19.15901	.22465	53	11.58531	.51595
4	19.41226	.21491	54	11.28325	.52757
5	19.55301	.20950	55	10.97789	.53931
6	19.61731	.20703	56	10.66982	.55116
7	19.62502	.20673	57	10.35931	.56310
8	19.61097	.20727	58	10.04630	.57514
9	19.53413	.21022	59	9.73131	.58726
10	19.45359	.21332	60	9.41474	.59943
11	19.36943	.21656	61	9.09765	.61163
12	19.28184	.21993	62	8.78052	.62383
13	19.19065	.22344	63	8.46412	.63600
14	19.09590	.22708	64	8.14888	.64812
15	18.99764	.23086	65	7.83552	.66017
16	18.89569	.23478	66	7.52476	.67212
17	18.79010	.23884	67	7.21699	.68397
18	18.68070	.24305	68	6.91298	.69565
19	18.56751	.24740	69	6.61301	.70719
20	18.45038	.25191	70	6.31716	.71857
21	18.32932	.25656	71	6.02612	.72976
22	18.20416	.26138	72	5.74003	.74077
23	18.07471	.26636	73	5.45928	.75157
24	17.94097	.27150	74	5.18402	.76215
25	17.80274	.27682	75	4.91463	.77251
26	17.65984	.28231	76	4.65125	.78264

TABLE A—*Continued*

1 Age	2 Annuity, or present worth of $1 due at the end of each year during the life of a person of specified age	3 Reversion, or present worth of $1 due at the end of the year of death of a person of specified age	1 Age	2 Annuity, or present worth of $1 due at the end of each year during the life of a person of specified age	3 Reversion, or present worth of $1 due at the end of the year of death of a person of specified age
27	$17.51224	$0.28799	77	$4.39383	$0.79254
28	17.35968	.29386	78	4.14286	.80220
29	17.20225	.29991	79	3.89858	.81159
30	17.03961	.30617	80	3.66071	.82074
31	16.87176	.31262	81	3.42900	.82965
32	16.69846	.31929	82	3.20258	.83836
33	16.51964	.32617	83	2.98024	.84691
34	16.33503	.33327	84	2.76106	.85534
35	16.14437	.34060	85	2.54366	.86371
36	15.94755	.34817	86	2.32795	.87200
37	15.74427	.35599	87	2.11384	.88024
38	15.53421	.36407	88	1.90115	.88842
39	15.31722	.37241	89	1.69107	.89650
40	15.09295	.38104	90	1.48540	.90441
41	14.86102	.38996	91	1.28432	.91214
42	14.62122	.39918	92	1.09024	.91961
43	14.37356	.40871	93	.90647	.92667
44	14.11860	.41852	94	.73687	.93320
45	13.85713	.42857	95	.58435	.93906
46	13.58958	.43886	96	.46182	.94378
47	13.31698	.44935	97	.36698	.94742
48	13.03942	.46002	98	.24038	.95229
49	12.75716	0.47088	99	0.00000	0.96154

Let us now turn to the application of these tables to several illustrations: First let us assume a simple case where a decedent has designated his wife as beneficiary of a policy which pays $100,000 in 10 equal annual installments. There is no probability involved in this case because the age of the beneficiary is immaterial

TABLE B

SHOWING THE PRESENT WORTH AT 4 PER CENT OF AN ANNUITY FOR A TERM CERTAIN, AND OF A REVERSIONARY INTEREST POSTPONED FOR A TERM CERTAIN

1 Number of years	*2* Annuity: present worth of an annuity of $1 payable at the end of each year for a certain number of years	*3* Reversion: present worth of $1 payable at end of a certain number of years	*1* Number of years	*2* Annuity: present worth of an annuity of $1 payable at the end of each year for a certain number of years	*3* Reversion: present worth of $1 payable at end of a certain number of years
1	$0.96154	$0.961538	16	$11.65229	$0.533908
2	1.88609	.924556	17	12.16567	.513373
3	2.77509	.888996	18	12.65929	.493628
4	3.62989	.854804	19	13.13394	.474642
5	4.45182	.821927	20	13.59032	.456387
6	5.24214	.790314	21	14.02916	.438834
7	6.00205	.759918	22	14.45111	.421955
8	6.73274	.730690	23	14.85684	.405726
9	7.43533	.702587	24	15.24696	.390121
10	8.11089	.675564	25	15.62208	.375117
11	8.76047	.649581	26	15.98277	.360689
12	9.38507	.624597	27	16.32958	.346816
13	9.98565	.600574	28	16.66306	.333477
14	10.56312	.577475	29	16.98371	.320651
15	11.11839	0.555265	30	17.29203	0.308319

and the payments will continue until $100,000 has been paid irrespective of her survival. However, it is not $100,000 which is reported in the gross taxable estate of the decedent but the present value of these payments. The first payment is made immediately and is worth $10,000, but the remaining payments of $10,000 each are spread over the subsequent 9 years.

By referring to the second column of Table B, which is nothing more than a 4 per cent compound discount table, we find that the present value of an annual payment of $1 certain for a period of 9 years at 4 per cent interest amounts to $7.43533. Hence, if the amount payable each year is $10,000, the present value of those 9 payments is 10,000 × $7.43533 or $74,353.30. To this we must add the $10,000 paid immediately, or a total of $84,353.30. If this is the only insurance left by the decedent, we now deduct the $40,000 insurance exemption, leaving $44,353.30 to be included in the gross taxable estate, which, of course, is taxable only to the extent that it exceeds $100,000 net.

If the annual payments are varied in amount instead of being constant, our procedure differs but a trifle. First tabulate the various amounts that are promised and then apply the 4 per cent compound discount table according to the length of time involved. Thus a policy whose proceeds start at $10,000 and increase by $10,000 each year for the succeeding four would be calculated as follows:

				Present Value of $1	
$10,000	due	immediately	×	$1.000000 =	$ 10,000.00
20,000	"	in 1 year	×	.961538 =	19,230.76
30,000	"	in 2 years	×	.924556 =	27,736.68
40,000	"	in 3 years	×	.888996 =	35,559.84
50,000	"	in 4 years	×	0.854804 =	42,740.20
				Value of insurance estate =	$135,267.48

Now let us suppose that the policy called for 20 certain annual payments of $10,000 each and a similar amount each year thereafter as long as the beneficiary lives. In this case, the age of the beneficiary at the time of the death of the insured must be known, because payments after the twentieth are contingent upon the survival of the beneficiary. Thus let us assume the age of the beneficiary is 40 when the insured dies. The 20 certain payments are worth $10,000 \times$ \$13.13394 or \$131,339.40 for the 19 payments certain to be made at the end of each year following the death of the insured, plus \$10,000 due immediately, or a total of \$141,339.40. To this we must add the value of a deferred life annuity as of age 40, payments to begin at age 60. According to the Actuaries' Combined Experience Table and 4 per cent interest we find this to be \$3.382555 for a deferred annuity of \$1. Since our policy specifies \$10,000 per year the present value of the deferred annuity feature is \$33,825.55. Adding this amount to the certain payments, we have a total present value of \$165,164.95 — \$40,000 exemption, or \$125,164.95 to be reported in the gross taxable estate.

Of course, a policy may be payable to the estate in a given number of certain installments in which case the method of valuation is the same, but the \$40,000 exemption of insurance to specifically named beneficiaries is not applicable.

A third type of case occurs frequently when the policy provides for a life income to the beneficiary. The first payment is due immediately upon the death of the insured, but all the rest are contingent upon the survival of the beneficiary. Again we must know the age of the beneficiary which we will assume as 40. Reverting to our former figures of an annual payment of \$10,000, we have \$10,000 due immediately to which we must add the present value of a life annuity at age 40. By reference to column 2 of Table A we find the present value of \$1 due at the end of each year during the life of a person of age 40 to be \$15.09295. \$10,000 $\times$ \$15.09295 = \$150,929.50, to which must be added \$10,000 paid at once; or \$160,929.50 is the amount to be considered in the same manner as all other insurance paid to a named beneficiary.

Other and more complicated cases sometimes arise, but usually they are in connection with collateral contracts such as trust agreements. Whatever they may be it is always necessary to separate their promises into their component parts before an accurate tax calculation can be made. Usually this division consists of those payments that are certain and those that are contingent upon the survival of the beneficiary.

Effect of State Inheritance Taxes

Only a few states place any tax on the proceeds of life insurance policies paid to named beneficiaries although many of them tax proceeds payable to the estate. If insurance is taxable at all, installment proceeds are no exception; but the basis for valuing the amounts varies considerably. Thus New York uses the American Experience Table and 5 per cent, Illinois uses the Carlisle Table and 5 per cent, and Pennsylvania uses a special 5 per cent table. All of them are for the purpose of translating the installments to a present value. The more important of these tables are given in their entirety in a later chapter.

Effect of State Income Taxes

It is customary for state income tax laws to exclude policy proceeds if paid because of the death of the insured. However, with reference to endowments maturing during the lifetime of the insured the general rule is the same as that of the Federal law, namely, that all amounts received in excess of the aggregate premiums paid is to be reported for income tax purposes.

CHAPTER VI

TAXATION OF ANNUITIES

In so far as this chapter is concerned the word annuity has reference to the sum which an insurer pays to the insured either annually, semiannually, quarterly, or monthly throughout the entire lifetime of the insured or during life for a limited period. In any event, the death of the insured terminates the contract and it is not to be confused with ordinary installment proceeds of a life policy. The premium on this type of policy may be paid to the insurer in one single sum or in installments over a period of years. As a general thing when the policy is purchased with a single premium, it is an immediate annuity, that is, the insurer commences the annuity payments within one year's time. If the policy is purchased in the same manner as a regular life insurance policy, that is, premium payments to the insurer extending over a period of years before the company begins to make its annuity payments, it is known as a deferred annuity. Inasmuch as the annuity payments continue only during the lifetime of the insured, it is evident the premium calculation on these policies is based on the probability of survival with due allowance for interest earnings at some assumed rate. This means that many persons will pay large sums to the insurer and never receive a cent in return (in the absence of a return premium feature for which an extra charge is made), while many will receive considerably more from the insurer than they pay in the form of premium.

If the reader is not sufficiently acquainted with premium computations to obtain a mental picture of the situation just depicted, he is referred to any standard life insurance text for further details in order that he may be better able to understand the present system of taxation.

Effect of Federal Income Tax

The Federal Revenue Act of 1926, Section 213 b-2, makes it necessary for one to report in his gross income all amounts received under an annuity contract exceeding the aggregate consideration paid for the contract. The act is very explicit and says that all amounts received under the contract during the taxable year are to be added to the amounts received during preceding years in order to determine the amounts to be reported. Thus let us assume that X purchased an immediate annuity at age 65 for $10,000, the contract promising to pay $1,000 per year as long as X continues to live beginning at age 66. During the first 10 years following its issuance X is not responsible for any tax and does not need to report it in his gross income. The eleventh year he must report the entire amount that he receives during that year as part of his gross income, namely $1,000. Furthermore, he must continue to report a similar sum each year as long as he lives and receives the annuity of $1,000, providing, of course, the Federal income tax law remains meanwhile unchanged.

Let us now assume that X obtained a deferred annuity at age 30, the payments of $1,000 per year to begin at age 66 and continue throughout his lifetime. The premium let us assume to be $125 per year. Between the date of issuance and the commencement of the annuity 36 payments of $125 each have been made to the insurer, or a total of $4,375. During the first 4 years of the annuity payments there will be no income tax, because the aggregate of all received does not yet exceed the consideration paid. However, the fifth payment of $1,000 exceeds the cost by $625 and this must be reported in the gross income. Each year thereafter as long as the annuitant continues to live and receive payments he must according to the 1926 law report the full amount that he receives. It should be observed in this illustration that beginning at age 66 the promise of the insurance company does not differ from that of the preceding illustration. Nevertheless, the tax begins in this case with the fifth payment, whereas in the former it did not commence until the eleventh. The difference is caused by the aggregate amount received exceeding the consideration paid, no allowance being made for loss of interest. Of course, not all of this difference is accounted for by interest accumulations but is caused largely by the forfeitures of those who die before attaining the age when their annuity receipts commence or equal the premiums paid. This latter fact apparently has been overlooked by some prominent critics of our tax law. They argue that a life annuity is in reality a return of principal on the installment plan and cannot be considered as income in any true sense. This is not entirely correct because it does not impose a tax on that amount which is the return of *principal* but on the excess above the principal. In so far as interest earnings are the cause of a return exceeding the consideration paid the effect of the tax does not differ from any other earning in the form of interest on capital. But to the extent that the forfeitures of the unfortunates create an excess, the contract is analogous to life insurance which is specifically exempted by the act when paid by reason of the death of the insured. This, even though the insured has paid but one premium and the proceeds may be thirty or forty times the aggregate premium paid to the company. Hence the difference cannot be said to rest on a scientific basis but more likely on the practical difficulty of separation.

It should be mentioned that the premiums on annuities are regarded as personal, living, or family expenses and therefore are not deductible excepting when the insured has unqualifiedly designated the government or some religious, charitable, scientific, literary, or educational organization or purpose as the recipient of the annuity. In such a case, if the premium when combined with other such contributions does not exceed 15 per cent of the taxpayer's net income it may be deducted.

If a gift annuity is payable to an individual he is the one who is obliged to report it, if it is taxable. According to the ruling of the Treasury Department the recipient is placed in the same position regarding the amount reportable as gross income as if he had been the purchaser; that is, he must report the excess received over the consideration paid. Such receipts may alter the tax status of the beneficiary, but the taxable income of the donor is not affected nor is the beneficiary in any way concerned with the rate of tax which the donor pays. If there were several beneficiaries under one annuity contract, they would be compelled to prorate the excess and each would be subject to tax according to his own particular situation. Thus A who enjoys an income of $50,000 per year has purchased an annuity on his own life which pays $1,500 a year divided equally to X, Y, and Z. When the receipts exceed the premium paid, X, Y, and Z will each report $500 per year taxable income. Assume X's other income is $5,000, Y's $4,000, and Z's $2,000. They will report gross income of $5,500, $4,500 and $2,500 respectively and will be taxed accordingly. The fact that A is subject to a much higher rate of tax because of his large income does not affect them, nor is the annuity income of $1,500 added to his $50,000.

The Federal Estate Tax

Strictly speaking the types of annuities discussed in this chapter are not subject to Federal estate tax because payments cease at death. It may be that a sum is owed up to the time of death and is paid subsequent thereto, but this is merely an account receivable due the decedent and will be included in his taxable estate the same as all other similar outstanding receivables. However, there is a tax on premium refunds and this leads many to think that annuities are subject to Federal estate tax. In an attempt to make annuities more popular many companies have been offering to return all of the premiums paid to them on deferred annuities if the insured dies before the annuity payments begin or in some cases guarantee the return of as much as has been paid to the insurer. The return of premium is nothing more or less than a life insurance feature used in conjunction with the annuity, and therefore the provisions of the law with reference to life insurance will apply: namely, that all insurance in excess of $40,000 to specifically named beneficiaries must be reported as part of the gross estate and if there is no specifically named beneficiary then all of it must be reported. Usually annuity contracts have a specifically named beneficiary, the annuitant himself, and when he dies a premium refund goes to his estate and all of it is reportable. If the annuitant would name a specific beneficiary for the premium refund feature it might be the means of saving some taxes.

State Inheritance Taxes

The majority of the states that do not exempt insurance proceeds treat annuities in the same way as the Federal estate tax law. That is, the premium refund is the only thing that is subject to tax and it does not become a part of the taxable estate unless there is no specifically named beneficiary, causing it to revert to the residuary estate, or it exceeds the exemption allowed insurance.

State Income Taxes

Although the phraseology of the several state income tax laws does not coincide with the Federal law the general effect is the same. As a rule the amount which is considered as the return of the premium or the consideration paid is not to be included as income. However, all annuity receipts in excess of the capital outlay are generally taxable.

CHAPTER VII

TAXATION OF DIVIDENDS

The taxation of so-called life insurance dividends received by individuals cannot be said to rest on a very sound basis. In fact, any such tax fails to recognize the true nature of these dividends. To a large degree this is traceable to the inaccurate use of the word dividend. It is indeed unfortunate that life insurance companies did not adopt a different terminology for all of the technical phases of their business and particularly with reference to the refund of premiums. Such action will be necessary before the public, in the larger sense, will understand the coöperative nature of life insurance. Dividends on life insurance are nothing more or less than the return of the excess premium. The fact that the actual cost of operating the insurance company is less than the redundant deposit required in advance is no good reason for penalizing a conservative method of assuring continued solvency. The inequality of such a tax is more easily comprehended when we realize that it can apply only to participating policies. This means that in a nonparticipating policy wherein the insured has no chance to share in the reduction of the cost there can be no return of an overcharge to be taxed.

Of course in the premium on nonparticipating policies the companies have merely discounted the future probable cost allowing for a much smaller margin, the theory being that if the cost is greater than anticipated the burden will be borne by the stockholders and if less the stockholders will be rewarded for the risk they have taken. Hence a personal income tax on dividends which has not permitted insurance premiums to be deducted from gross income and thus discriminates against a participating policy possesses several fallacies: it fails to recognize the coöperative and mutual nature of life insurance; our present state solvency standards are such that the probability of loss by stockholders is much less than the probability of gain; and the limited liability of the stockholders would compel any large loss to fall on the policyholders.

It may be argued that the stockholder has to pay tax on the dividends he receives from this source and therefore a policyholder should be treated in the same way. This is fallacious because the stockholder is making profit and gain out of the operation of the business and acquired the stock for that purpose. The policyholder does not usually buy life insurance with the idea of making profit unless we consider "dying to win" as such, and most of us shun death as a profitable venture.

It is also argued that a large portion of the sums available for dividends arise out of interest returns and security transactions. Investment profits of insurance companies are usually subject to separate taxation and therefore a tax on premium refunds is multiple taxation.

The other profits are derived from savings in mortality, gains from forfeitures, and reduction of administrative expenses. All such profits are incidental to the conduct of a business that is fundamentally co-operative, and taxing them when they are refunded is unjust. If we follow this to its logical conclusion, each time a refund is made to us when we have been over-charged for an article we have purchased, a tax should be levied. The difference is one of degree only.

Effect of Federal Income Tax

According to the latest regulations of the Treasury Department there is no tax on the dividends on a life insurance policy until the total amount received under the policy exceeds the amount paid to the company. In principle this is similar to the taxation of the proceeds of endowments and annuities. Practically then, we may view dividends as being exempt from Federal income taxation because it is not likely that they will ever exceed the premiums paid.

It should be mentioned that prior to the 1926 regulations dividends on life insurance policies were exempt only when they could be credited against the current premium. This resulted in the absurdity of making dividends on full-paid policies subject to surtax on the theory that they were corporate dividends. The new rulings apparently rectify this injustice.

Use of Dividend Immaterial

It is customary for dividend-paying policies to permit the insured several options as to the use of the dividend. In calculating the amount received under the policy, the actual cash value of the dividends must be included even though they were actually applied to the purchase of additional insurance.

Interest on Installments

When the proceeds of a policy are paid in installments, a sum in excess of the stipulated amount is frequently received. In such cases, the event insured against has happened, and the insurance company is merely a trustee of the funds which are being paid. These funds are invested in the meanwhile, and more is earned than was anticipated. The beneficiary then receives an extra return or dividend which is considered taxable.

It might be mentioned in this connection that previous to the 1926 law the Treasury Department had ruled that there was no tax when the beneficiary under a life policy had no option as to the method of settling the policy. However, if he could select the method of settlement and chose one which gave rise to extra interest payments, then he was taxed; the theory being that where there was no option all of the payments were proceeds and as such were excluded from taxable income because they were "paid by reason of the death of the insured."

Effect of Dividends on Sale or Exchange

Whenever it is necessary to determine the gain on a policy sold or exchanged an allowance for dividends must be made; that is, the gain is the excess of the amount received (or its fair market value equivalent) over the cost. When determining the all dividends received must be deducted from the gross premium.

Effect of Federal Estate Tax

Dividends paid to the insured on either full-paid or not-full-paid policies need be considered in this connection only when the insured dies and an accrued dividend not paid previous to his death is now payable. It would appear that in both cases the amount should be included in the gross estate since it helps to increase the assets of the estate.

With reference to the extra interest payments made in connection with installment policies there seems to be no reason for including such amount in the gross taxable estate. This is explained by the inability of the Revenue Bureau to place a value on future payments which are not guaranteed.

Effect of State Inheritance Taxes

As a general rule, whenever payments by an insurance company are payable to, and increase the size of the estate they are included in the gross taxable amount, thus following to a large extent the procedure of the Federal law. However, it must be remembered that most states do not include in the taxable estate the proceeds of life insurance when payable to a specified beneficiary.

Effect of State Income Taxes

There has been some divergence in the laws of the several states in this respect. Thus the New York regulations were similar to the Federal income tax rul ings prior to 1926, it being specifically provided that dividends which may be credited against the current premium are not subject to tax but dividends on paid-up policies are in the nature of corporate dividends and are to be included in gross income. The Virginia income tax law provides for the exclusion from taxable income of "the amount received by the insured as a return of premium . . . either during the term or at the maturity of the term mentioned in the contract, or at the surrender of the contract." This law recognizes the true nature of the dividend.

The general rule with reference to installment beneficiaries is no tax on extra payments. This is traceable to the fact that most state income tax laws exclude the proceeds of life insurance from taxable income.

CHAPTER VIII

SELLING INSURANCE FOR TAX PURPOSES

The third point of contact between life insurance and taxation relates to one of the many important uses of life insurance, namely that of providing the means with which to meet death duties. The importance of this field of opportunity has grown rapidly in recent years as evidenced by the tendency of the tax collections:

State and Federal Death Duties Collected, 1916-1925

	State Inheritance Taxes	Federal Estate Taxes
1916	$30,748,000	
1917	40,038,000	$ 6,000,000
1918	41,432,000	47,000,000
1919	47,889,000	82,000,000
1920	61,647,000	103,000,000
1921	65,703,000	154,000,000
1922	70,503,000	139,000,000
1923	75,193,000	126,000,000
1924	82,682,000	102,000,000
1925	....	110,000,000

The extent to which individual estates are affected is shown by the results of a study published in the *Chicago Journal of Commerce* on July 28, 1925. An examination was made of 490 estates probated in recent years and varying in amount from $100,000 to

$10,000,000. The rate of taxation ranged from 7.6 per cent to 44.7 per cent of the gross estate.

DEPLETION OF ESTATES BY DEATH DUTIES

Limits	Number of Cases	Lowest Tax, in Per Cent	Highest Tax, in Per Cent	Average Tax, in Per Cent
$ 100,000–$ 250,000 ..	105	7.6	20.6	11.38
250,000 – 500,000 ..	132	8.3	44.7	13.31
500,000 – 1,000,000 ..	146	9.1	31.1	14.76
1,000,000 – 5,000,000 ..	95	9.5	34.7	16.86
5,000,000 – 10,000,000 ..	12	11.2	30.7	20.14

Need for a Method of Providing for Taxes

It is not likely that the Federal taxes will become larger, because the prior rights of the states in this field, as previously indicated, are beginning to be recognized. And the states surely are taking advantage of the fact as is shown conclusively by the uninterrupted upward trend of this source of revenue. For the sake of conservatism we may assume that there will be no further increases, but even so the amount is already sufficiently large to be of grave concern and deserves the attention of persons who think in terms of their gross estates as the legacies they will leave behind.

Although death and taxes are two of the most certain things we must face on this earth we are seldom prepared to meet either. The fact that the two coincide as to time frequently places those left behind in very troublesome situations which can often be greatly alleviated by means of life insurance.

The use of life insurance to keep the estate intact and prevent shrinkage caused by taxes seems to be a delusion in the form of taking money out of one pocket and putting it in another. However, the benefit to be derived from this particular method of accumulating a fund arises out of being able to obtain the ready cash at the precise moment it is needed and thus preventing undue losses caused by enforced sale of illiquid assets at inopportune times.

There are several reasons for this urgent need of cash. First, the administrator or executor is held personally responsible for the payment of all the taxes due from the estate of a decedent. Secondly, the states usually allow a liberal rebate, such as 5 per cent if the tax is paid promptly. Thirdly, a heavy penalty is frequently imposed for failure to pay within a stipulated period, ranging as high as 24 per cent a year in the state of Texas.[1] Fourth, administration expenses and government taxes are payable in cash, not real estate or securities.

Other Methods of Providing the Needed Cash Compared with Insurance for the Purpose

It might be urged that the cash could be raised by hypothecating the property of the decedent. Experience has shown this to be impracticable to any great extent for any considerable period of time. Responsibility of the executor usually leads him to exercise his rights in such a way that he knows he will not suffer a personal loss, and one of the foremost rights given

[1] The amounts of these penalties and discounts are given in connection with the analysis of the tax law of each individual state.

him is the privilege of disposing of any of the property of the decedent in order to pay taxes. Consequently, securities and real estate are frequently disposed of during periods of inactivity and low prices when a short delay might have resulted in much better prices. Imagine, for instance, the sale of securities in 1921 when the average price of a list of industrial stocks was $63.90, and in 1926 when the average price of this same group was $166.64. No one can tell in which period of the cycle of prices he is going to die, and large losses are frequently being incurred because of lack of sufficient ready cash.

Another argument may be advanced that if cash is necessary at the time of death to prevent undue impairment of the estate it would seem that sufficient cash should be kept aside for such a contingency. This is so impractical as to merit but little consideration. It is a well-known fact that most business men try to keep their cash working full time in their ventures, largely because that is where it will be most remunerative. Withdrawing it from such enterprises just before death is something that could be calculated accurately only by a would-be suicide. Moreover, the most conclusive answer is the condition in which we find the various estates at the time of the death of many of our leading citizens, namely that of possessing a relatively small amount of liquid assets to meet taxes and other immediate debts.

This has been demonstrated by such estates as that of Frank Woolworth, in which case the taxes amounted to $7,850,000 and the executors asked permission to sell the Woolworth residence to help pay the taxes.

Also a mortgage was placed on the Woolworth building for the first time. The exceedingly small amount of cash on hand necessitated this procedure. Theodore Roosevelt left an estate appraised at $956,912. The taxes amounted to $86,988. The cash on hand was $3,463. The estate of the late John R. Hegeman, President of the Metropolitan Life Insurance Company, was valued at $3,295,307. The taxes were $487,649 and the available cash was $28,529. The foregoing illustrations are typical. These men have not seen fit to keep large sums of cash idle awaiting their death. They would be foolish if they did, because, no doubt, their money was being put to good use elsewhere. This, however, serves to emphasize the necessity of some system for providing the cash in a way that will not be harmful to the estate. Insurance seems to provide the cheapest and most certain method of accomplishing this purpose. By reference to the table of rates of a typical life insurance company we find that the net annual cost of providing a given sum at the several ages is as follows:

Age		
20	0.804	per cent of the amount insured
25	.815	" " " " "
30	.861	" " " " "
35	.895	" " " " "
40	1.007	" " " " "
45	1.229	" " " " "
50	1.614	" " " " "
55	2.237	" " " " "
60	3.212	" " " " "

The above rates are for one-year renewable term insurance which is the kind of insurance that can be purchased for the lowest annual outlay. However, very few companies will issue such insurance beyond age 60, and therefore it necessitates a conversion at that time into some permanent form of protection. This means the lowest annual cost thereafter can be obtained in an ordinary life policy which will involve an outlay of nearly 6 per cent per annum until the insured dies or reaches age 96. As a matter of fact, it is desirable in most instances to purchase a permanent type of protection in the very beginning and thus avoid conversion into a higher-premium-paying policy at a later date. The ordinary life policy is very well fitted to most cases, because it has the lowest cost on an annual level premium basis. The rates for this policy (in the same company as was used for the one year renewable term policy) are as follows:

Age							
20	1.348	per	cent	of	the	amount	insured
25	1.510	"	"	"	"	"	"
30	1.719	"	"	"	"	"	"
35	1.991	"	"	"	"	"	"
40	2.367	"	"	"	"	"	"
45	2.890	"	"	"	"	"	"
50	3.643	"	"	"	"	"	"
55	4.632	"	"	"	"	"	"
60	5.915	"	"	"	"	"	"
65	8.050	"	"	"	"	"	"
70	11.410	"	"	"	"	"	"

Of course, limited payment or endowment insurance would supply the cash when needed; but they involve higher annual premium payments.

Whenever any form other than one-year-term insurance is used, it should be remembered that a large part of the premium is going into the savings or investment feature of the policy and life insurance is being used to *accumulate* a fund to pay the death duties as well as to provide them in case of premature death. In the one-year-term policy the entire premium is being spent to provide a fund to pay taxes in the event of premature death. Consequently, when one considers the use of life insurance for the purpose of paying taxes he should segregate the cost of pure protection from the savings fund. Ordinarily it is sufficiently accurate to use the one-year-term premium as the cost of such protection and assume that whatever difference is being paid is accumulating in a savings fund.

Now let us suppose that a person, age 45, with an estate of $1,000,000 subject to a tax of approximately $150,000, takes out life insurance to the extent of $150,000; it will cost him 1.2 per cent of that sum to keep his estate intact at $1,000,000 and be sure his life insurance would satisfy the taxes if he died that year. However, the cost is increased each year if he does not die, and at age 55 it would cost him 2.2 per cent of $150,000, and 3.2 per cent at age 60. Each of these figures represents the cost of protection only. If he had selected the ordinary life policy at age 45 it would have cost him 2.9 per cent of $150,000 each year until he died. Or if he delayed until age 60, at which time he might have difficulty obtaining one-year renewable term insurance, it would cost him 5.9 per cent annually thereafter for ordinary life insurance. Even so there seems to be no other method of comparable cheapness and certainty. In fact, a person who has managed to accumulate a million dollars in all probability knows how to make it produce considerably more than 6 per cent; thus is demonstrated the foolishness of trying to keep a sum of $150,000 on hand in the form of cash in anticipation of the event of death.

The Future of This Field of Opportunity

So much publicity has been given to the subject of tax reduction in recent months that one is apt to conclude that the field for selling insurance to meet taxes is likely to dwindle away. Upon analysis, it is found that the reductions important to life insurance are actually limited to the Federal estate tax, and this, it should be explained, is part of a general program of taxation recommended by the National Tax Commission. It has been suggested that within the next five or six years the Federal Government shall retire completely from this field leaving it to the exclusive exploitation of the states. Apparently the Federal Government officials are in sympathy with this movement and consider the Federal estate tax a war-time measure only. Those who doubt whether the states will take advantage of this opportunity already have had their question answered. One of the most important reductions provided in the 1926 Federal estate tax was a credit of an amount of state inheritance taxes up to 80 per cent of the Federal estate tax. Several states immediately took advantage of this; for instance, Massachusetts passed an emergency tax measure providing for an estate tax upon estates of $2,000,000 and upwards equal to 80 per cent of the Federal estate tax, thus nullifying the effect of the Federal Government's reduction. Virginia has passed an amendment which provides that no state inheritance tax can be less than the full credit allowed under the Federal law, the effect being to increase the inheritance tax rates in that state. A revision of the New Jersey law effective July 1, 1926, provides for a graduated scale of tax rate which will produce more revenue than the amount of the reduction under the Federal law. Rhode Island and Georgia also have amended their tax laws since the 1926 revision of the Federal estate tax with the intention of getting the benefit of the reduction. The State of Florida attacked the legality of the 1926 Federal estate tax law because the 80 per cent credit clause has taken away the advantage of her constitutional prohibition of an inheritance tax in that state. The author does not know of any state that has reduced taxes since the passage of the 1926 Federal estate tax law. In other words, when, as, and if the Federal Government vacates this field we will find, in all probability, not a lower total tax assessed against the estates of decedents but one that is higher than at present.

Besides, the potential field of insurance for tax purposes has not been realized in the past. If one-half of all inheritance taxes were paid by means of life insurance, the proceeds paid for this purpose would be equivalent to 10 per cent of the total of all insurance maturing annually. And if we add the administrative costs of settling an estate, which is the usual custom in such insurance, the amount will be equivalent to nearly 40 per cent of the life insurance maturing within a year's time.

The Agent's Need for Tax Information

It is not desirable for most agents to devote a great part of their time to the study of inheritance taxes. The number of likely prospects that one finds is apt to be very small unless he becomes a specialist in this field, and we are not in great need of many such specialists. However, the agent who is really attempting to understand life insurance and fit policies to the needs of clients instead of merely peddling insurance should have a general understanding of these taxes. He will find it profitable in approaching new prospects as well as reselling old clients. With reference to old clients an agent really owes an explanation of how life insurance may be used to advantage in providing the cash with which to pay taxes. It may be that the policyholder carries considerable insurance but that the manner in which the beneficiaries have been designated may make it useless in solving tax problems. It is the duty of the agent to explain this, and if he has previously sold the insurance for other specific purposes, he will in all likelihood be able to obtain a new policy for this particular purpose and thus render a service which is mutually profitable.

In so far as new prospects are concerned an agent cannot sell a policy for the purpose of providing taxation funds unless he has first spent a great deal of time and effort in paving the way. The intimate details of the financial affairs of a prospective purchaser of insurance are usually very difficult to obtain. Hence a prospect must be cultivated before he is sold. When this is not possible it may be advisable to approach him on the basis of explaining and solving some of his tax problems. This may bring forth the desired information upon which to base a policy. At the same time it has the advantage of acquainting the agent with the affairs of his prospect so that he may be able to point out the need of insurance for other purposes and thus secure an additional policy.

When problems are encountered that cannot be answered by the agent the case should not be considered lost. If all the facts are assembled the agent should be able to get the permission of the prospect to take a little time to check over the details, consult references, and give thought to its solution. Whenever one finds it necessary to consult accountants, attorneys, physicians, and other diagnosticians, it is quite usual to permit them time to think over the case and investigate the technical details of their problem before giving an answer. The same thing applies to a tax problem which sometimes cannot be answered accurately after conferences and consultations of lawyers and accountants combined. And it is scarcely reasonable to expect a life insurance agent to be a superman. Aid in complicated cases may sometimes be obtained from the home office of the life insurance company which the agent represents. There is, however, no well defined policy among most of the companies at the present time for the handling of tax problems. The general rule seems to be to place the burden on the branch office or the general agency in charge of the district. Since their time is usually taken up with administrative problems, the answers to such questions ultimately fall on the individual agent. Therefore, he must equip himself accordingly. With this in mind, the various state laws and the Federal estate tax are analyzed in a subsequent chapter. By the aid of this information it will be possible for an agent to ascertain the amount of tax for which one may be required to provide in any specific case.

Advantages of Insurance as a Method of Meeting Taxes

In presenting the subject of insurance for tax purposes the agent may find it advisable to spend considerable time explaining the advantages of this particular method of making provision for taxes. These are given in great detail in various parts of the book, usually in connection with the specific problem under consideration. However, for the sake of convenience, the various advantages will be summarized briefly at this point:

1. It furnishes the cash to pay the taxes at the precise time when it is needed.

2. The method is of absolute certainty. There is never any doubt of the ability of the insurance company to meet its obligation.

3. Cash is the only thing acceptable to the government in payment of taxes, and if this means is used to provide it, there will be no need of sacrificing other property.

4. Prompt payment of inheritance taxes is rewarded by most states in the form of a liberal discount, while delay is sometimes severely penalized.

5. The annual cost is very low, being 2 per cent of the principal sum if the policy is issued at age 35,

3 per cent at age 45, and not exceeding 6 per cent until age 60. Usually this has a decided advantage over any other method since it leaves the funds of the insured available for other profit-producing purposes.

6. The determination of the amount of insurance needed makes the insured realize more precisely the extent of his estate. Thus he is enabled to revise his will so that it harmonizes with his assets.

Advantages to the Underwriter

Like any other good proposition, selling insurance for tax purposes is mutually profitable. The advantages to the underwriter are:

1. He becomes better acquainted with the technical details of his business.

2. It can be used as a method of approaching new prospects.

3. Old clients may be sold additional insurance for this purpose.

4. Solving tax problems involves so much detailed financial data regarding the client's affairs that the underwriter can usually indicate the need of insurance for other purposes and thus increase his sale.

5. One who can handle difficult problems has his business expanded through the recommendation of those whom he has served.

6. When the underwriter places a policy for this purpose he has the satisfaction of knowing that he has not merely sold a policy but has fitted it to a very definite need of the client.

Estate Settlement Insurance

The rising importance of inheritance taxes has at least temporarily diverted attention from the other costs of settling an estate. When a policy is being sold for inheritance tax purposes it should be increased so as to include accrued and unpaid income taxes, funeral expenses, costs of administration, and other debts and liens against one's estate that will become due upon his death. The amount to be added varies considerably for estates of different values but it would be conservative to allow 10 per cent for such expenses.

All the arguments for using insurance to provide for taxes apply to these other expenses because the event that makes all these bills come due is the one that matures the insurance contract and supplies the funds just when they are needed. Therefore the total amount of insurance needed for the purpose of settling estates of $100,000 and upwards will vary from 20 to 30 per cent of the estate. These figures are based on the table on page 68. Naturally there will be exceptions to these representative figures but most of the exceptions will be an increase of the 30 per cent figure.

Naming the Beneficiary of a Policy for Tax Purposes

The question is frequently raised that since the insurance has been taken out to pay taxes or other costs of settling the estate, how can the insured be sure that it will be used for that purpose? Most insurance companies suggest a clause which designates a trustee for the purpose of paying taxes imposed upon the estate, any remainder to be paid to some designated person or the estate. In many cases, this clause is not satisfactory because the Federal Government and some states tax insurance proceeds when they are paid to the executor or administrator, but exempt them from taxation when paid to an individual beneficiary in his own right. Therefore, the underwriter must ascertain which method is the most desirable in each particular case. If there is only one legatee of importance, it is better usually to name him as the specific beneficiary of the insurance, because he will find it to his own best interests to pay the taxes with the proceeds. However, where there are several legatees it is better frequently to state the purpose of the insurance and make the estate the beneficiary even if a tax must be paid on the insurance, although there are some states, as noted later, which exempt insurance proceeds used to pay taxes.

CHAPTER IX

ANALYSIS OF INHERITANCE AND ESTATE TAX LAWS

Up to the present day, uniform state inheritance tax legislation has been impossible. Of course, there is great similarity in some of the more fundamental characteristics of the various laws and these will be discussed shortly. Although such an explanation is a great aid to understanding inheritance tax laws it is insufficient for the person who wishes to make an estimate of the succession taxes which will be levied against a given estate, especially inasmuch as it is seldom that an estate of any size is confined entirely within the boundaries of one state. In fact even comparatively small estates are taxed in five or six or more jurisdictions, usually because of stock ownership in corporations located elsewhere than in the domicile of the decedent. Therefore, it has been considered necessary to describe the law of each state individually. This being a very lengthy task it has been placed in an appendix which can be more easily understood and put to better use after reading this chapter.

The Legal Theory of Taxes on Inheritances

The legal theory underlying these laws as well as the several systems of tax rates has already been touched upon.[1] They are, as previously explained, taxes upon

[1] See pp. 12-15.

transfers of the property of a decedent either by will or according to the laws of intestacy. The Federal estate tax is an excise on the right to *transmit* property while most of the state inheritance taxes are on the right to receive property. Strictly construed, they are not taxes on the property itself. This explains why Liberty bonds and other so-called tax-exempt securities give rise to inheritance tax levies.

Property to Which Inheritance Taxes Apply

Generally speaking, there is no kind of property to which they do not apply. Real and personal property of resident decedents is invariably taxed. If the real property is located outside the decedent's state, it is beyond the jurisdiction of said state and the inheritance tax law (if any) of the state where the property is located will apply. Many state tax laws impose a tax on a resident decedent's tangible personalty even when located outside the state, but this is illegal since the decision of the United States Supreme Court in 1925 in the case of Frick *vs.* Pennsylvania.

Persons to Whom the Tax Applies

The only distinction that is made between persons is the place of residence. This is a question of fact that must be determined by the circumstances of each individual case.

Exemptions

Most states exempt transfers to be used for charitable, religious, educational, or public purposes if they stay within the state, although some states do not impose such a restriction. Other exemptions frequently found in the tax laws are the so-called widow's allowance or exemption and limited amounts to certain beneficiaries.

Determining the Value of the Individual Items Included in the Taxable Estate

All real and personal property is inventoried and appraised. Usually these appraisals are based on the values existing at the time of death. Thus a savings bank account will be listed at the amount the depositor would have received if he had closed the account on the day of his death. The market quotation on the day of death is used in valuing stocks. The same applies to bonds except that all accrued interest will be added. Rents accrued, mortgages, notes receivable, accounts receivable, and all other accruals are valued as of the day of death. Local experts are usually called upon to appraise real estate. Tangible personalty, such as works of art and the like, also need expert appraising. The addition of the value of each of these items furnishes us with the value of the gross estate.

Determining the Amounts of the Deductions

Most laws tax the net estate; hence it is necessary to make deductions. These consist of expenses of administering at least the principal account of the estate, funeral expenses for a reasonable amount, unpaid household and personal expenses, outstanding notes and other liabilities, and frequently a widow's allowance or exemption which may be included in the allowable deductions. In some states the Federal estate tax is deductible and in a number of states the taxes of other states are deductible.[2]

After all such deductions are made the beneficiaries of the estate are divided into their respective groups and the inheritance tax rates are applied.

Contemplation of Death

Evasion by transferring property prior to death threw a wrench into the machinery of inheritance taxes for some time, but more recent laws and revisions have put a stop to these gifts by taxing transfers made in contemplation of death.

Just what constitutes "contemplation of death" is a fact that must be determined in each case. The consensus of opinion is that it is something more than the common knowledge of all men that sooner or later they must die. It must be shown there was in the mind of the donor some apprehension of approaching death, and this apprehension must arise from existing bodily or mental condition or from the fear of impending peril. If the physical condition of the donor is such that would suggest to the average person that death may be near he is presumed to be contemplating

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[2] The Federal estate tax is deductible in Arkansas, California, Connecticut, Delaware, Georgia, Illinois, Indiana, Iowa, Maine, Maryland, Massachusetts, Minnesota, Missouri, Montana, Nebraska, New Hampshire, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, South Carolina, Tennessee, Vermont, and Virginia. The taxes of other states are deductible in California, Connecticut, Delaware, Georgia, Indiana, Kentucky, Massachusetts, Mississippi, Nebraska, New Hampshire, New Mexico, North Carolina, Oklahoma, Rhode Island, Vermont, and Virginia.

death. Advanced age, if not accompanied by existing infirmity, does not necessarily constitute contemplation of death. Recently a large estate has waged a battle with the Federal Government on this point. It has also been held by some courts that even if death was contemplated, the transfer, in order to be subject to tax, had to be impelled by the fear of the approaching event.

Another knotty problem arising in connection with contemplation of death is to interpret what is meant by the transfer of a "material part" of the estate. A given amount might be a very small part of one estate and a very large part of another. This has been overcome by those laws which specify that the transfer of *any part* of the estate by deed, grant, bargain, sale, or gift without adequate and valuable consideration in money or money's worth when made in contemplation of death is taxable.

Then, too, a great many laws presume [3] that all transfers within a stipulated period preceding death are transfers in contemplation of death, the burden being on the estate to prove to the contrary. This presumption rests on a dubious legal foundation. In fact, it is very difficult to reconcile transfers in contemplation of death with the legal theory of a tax on inheritances.

Dower and Curtesy

Dower and curtesy are still recognized in a number of states, and inheritance tax laws usually exempt

[3] On March 1, 1926, the U. S. Supreme Court in the case of Schlesinger *vs.* Wisconsin refused to sustain such a presumption.

dower, or that portion of the real property of a deceased husband to which the wife is entitled by law. Curtesy, or the estate to which the husband of a deceased wife is entitled, is not always so favorably treated in the tax laws.

Joint Interests

Joint ownership and joint tenancies are treated differently by the various states. The general tendency is to tax to the extent of the contribution of the decedent. This is sometimes difficult to ascertain and a fraction, such as one-half, may be used.

Power of Appointment

Where one person vests another with the power of appointment to dispose of an estate, it is customary to regard the creator of the power of appointment as the real grantor. Hence the tax is computed according to the rates and exemptions effective at the time of the grantor's death and with reference to the relationship of the recipients of the grantor.

Trust Agreements

The taxing of trusts depends to some extent on whether they are revocable or irrevocable. When the founder of a trust reserves any right to amend, alter, or revoke a trust, the beneficiary does not usually get a clear title until the death of the founder. Naturally, the property is then passing by reason of the death of the grantor and will be subject to inheritance tax. If the trust is irrevocable, it is not ordinarily taxed excepting when it comes within the scope of what we previously explained as a transfer in "contemplation of death."

Annuities, Life, Remainder, and Reversionary Interests

Where a decedent possessed rights in any annuities, life, remainder, or reversionary interests, it is customary to value them on some basis prescribed by the law. If no life contingency is involved, then they are valued on some stipulated percentage basis. If a life contingency is involved, they are valued on the basis of some specified mortality table with an assumed rate of interest. Thus the Federal estate tax law provides that the Actuaries' or Combined Experience Table and 4 per cent interest shall be used for this purpose. So many states [4] use the American Experience Table and 5 per cent or the Actuaries' 5 per cent Table that they are reproduced below. The Actuaries' 4 per cent Table, which is used most widely next to the American Experience Table, is given in an earlier chapter.

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[4] American Experience and 5 per cent interest is used in Arizona, Colorado, Indiana, Kansas, Michigan, Minnesota, Mississippi, Montana, New Jersey, New York, Ohio, Oklahoma, Rhode Island, South Dakota, and Wisconsin.

Actuaries' or Combined Experience and 4 per cent interest is used in Connecticut, Iowa, Maine, New Hampshire, Oregon, South Carolina, Texas, and Washington.

Actuaries' or Combined Experience and 5 per cent interest is used in Arkansas, California, Idaho, Missouri, and Wyoming.

The Carlisle 6 per cent table is used in Georgia, Nebraska, Tennessee, and Texas.

Delaware, Maryland, North Carolina, and Pennsylvania each use special tables.

Illinois uses Carlisle, 5 per cent; Kentucky, Dr. Wigglesworth's, 5 per cent; Vermont, American Experience, 3½ per cent; and West Virginia, Northampton, 4 per cent.

AMERICAN EXPERIENCE TABLE

PRESENT VALUE OF AN ANNUITY OF ONE DOLLAR PER YEAR, FOR SINGLE LIFE, 5 PER CENT

Age	Present Value	Age	Present Value	Age	Present Value
10	$16.505	39	$13.881	67	$ 6.8607
11	16.461	40	13.716	68	6.5642
12	16.415	41	13.544	69	6.2705
13	16.366	42	13.365	70	5.9801
14	16.316	43	13.179	71	5.6942
15	16.263	44	12.985	72	5.4129
16	16.207	45	12.783	73	5.1359
17	16.149	46	12.574	74	4.8628
18	16.088	47	12.357	75	4.5926
19	16.024	48	12.133	76	4.3248
20	15.957	49	11.901	77	4.0586
21	15.886	50	11.662	78	3.7939
22	15.813	51	11.416	79	3.5311
23	15.736	52	11.164	80	3.2702
24	15.655	53	10.905	81	3.0135
25	15.570	54	10.640	82	2.7606
26	15.482	55	10.370	83	2.5105
27	15.389	56	10.095	84	2.2607
28	15.292	57	9.8145	85	2.0098
29	15.191	58	9.5299	86	1.7606
30	15.084	59	9.2413	87	1.5175
31	14.973	60	8.9493	88	1.2861
32	14.857	61	8.6545	89	1.0670
33	14.735	62	8.3574	90	.85453
34	14.608	63	8.0588	91	.64497
35	14.475	64	7.7590	92	.44851
36	14.336	65	7.4588	93	.28761
37	14.191	66	7.1592	94	.13605
38	14.039	..	.....	..	.....

ACTUARIES' COMBINED EXPERIENCE TABLE

Present Value of an Annuity of One Dollar per Year, for Single Life, 5 Per Cent

Age	Present Value	Age	Present Value	Age	Present Value
10	$16.566	40	$13.433	70	$5.983
11	16.502	41	13.252	71	5.718
12	16.445	42	13.064	72	5.457
13	16.386	43	12.868	73	5.200
14	16.324	44	12.666	74	4.947
15	16.259	45	12.456	75	4.699
16	16.192	46	12.241	76	4.455
17	16.121	47	12.020	77	4.216
18	16.048	48	11.794	78	3.982
19	15.971	49	11.563	79	3.754
20	15.891	50	11.326	80	3.531
21	15.808	51	11.085	81	3.313
22	15.722	52	10.840	82	3.099
23	15.632	53	10.590	83	2.889
24	15.539	54	10.336	84	2.681
25	15.442	55	10.077	85	2.474
26	15.341	56	9.816	86	2.268
27	15.236	57	9.550	87	2.063
28	15.127	58	9.282	88	1.858
29	15.014	59	9.010	89	1.655
30	14.896	60	8.735	90	1.456
31	14.774	61	8.459	91	1.261
32	14.647	62	8.182	92	1.072
33	14.515	63	7.903	93	.892
34	14.378	64	7.625	94	.726
35	14.235	65	7.347	95	.576
36	14.087	66	7.070	96	.456
37	13.933	67	6.795	97	.363
38	13.773	68	6.521	98	0.238
39	13.606	69	6.251	..	....

Analysis of the Various Laws

The foregoing pages summarize briefly the general principles of inheritance and estate tax laws. As already indicated, detailed analysis of the various laws will be found in the Appendix. The general plan of analysis is in the following order:

1. The property subject to tax
2. The exemptions
3. Taxation and nonresident decedents
4. Discount and interest
5. Classification of beneficiaries and the rates of tax applicable to their inheritances
6. Taxation of life insurance proceeds
7. Effect of income tax (if any) on life insurance

The Federal estate tax law is discussed first, and thereafter the various states follow in alphabetical order.

CHAPTER X

CALCULATION OF THE AMOUNT OF THE TAX

Although the calculations which follow may be used by any person interested in taxes, they have been prepared primarily for the purpose of indicating the amount of insurance required to provide the necessary funds for paying them.

Determination of the Amount of Insurance Needed

In order to determine the amount of insurance that will be required, it is necessary to ascertain the nature of the estate and various taxes to which it will be subjected. This varies with the domicile of the decedent, and the situs of his property. An accurate calculation of the cost of settling an estate prior to the death of the testator is well-nigh impossible. Alterations in the tax laws, unforeseen expenses, and changes in the status of the estate occur between the time of calculation and death. Consequently, a careful approximation of the amount needed is usually the best that can be done. Even this is no easy task, because it involves a knowledge of the various tax laws, the cost of settling decedents' estates, and intricate details concerning the property composing the estate as well as concerning those persons who are to receive its proceeds.

The most advisable procedure is to itemize every piece of property, real and personal, tangible and intangible, and place individual valuations on each. This having been done, it is ordinarily possible to find some items, such as life insurance, that may be excluded from the taxable estate. Then deductions for outstanding liabilities and administration expenses should be made.

The net result should next be analyzed with reference to the taxes affecting it.

Need for Detailed Analysis

The importance of a detailed analysis reveals itself more clearly when the calculation of state taxes is attempted. Real property is subject to tax in the state where it is located. Tangible personal property is now treated likewise but only since a court decision of June 1, 1925,[1] which declared the state of decedent's residence could not tax tangible personalty located in another state. Intangible personalty, especially stocks and bonds, is the victim of many conflicting and unjust levies. The state of incorporation, the state where the securities may be deposited, the state of domicile, and any other state that gets an opportunity may exact a tax before good title to securities may be passed. This means that all these facts must be in the possession of a person estimating the extent of the tax. At the same time, it demonstrates the futility of limiting one's knowledge to the inheritance tax law of the state in which he is located, because all sizable estates include scattered property. Furthermore, the only satisfactory method of remaining fully conversant with the

[1] Frick *vs.* Pennsylvania, 268 U. S. 473.

rapidly changing laws of forty-five states is by means of a tax service that has extensive facilities for accumulating and digesting the information for the benefit of its clients.

Calculation of Pennsylvania Inheritance Tax

Let us first calculate the tax on a comparatively simple estate of a Pennsylvania decedent. The will of the decedent designated only two beneficiaries: a wife and a son. The property of the decedent was inventoried as follows:

Gross estate		
Cash	$100,000	
Securities in Pennsylvania corporations	200,000	
Real estate (in Pennsylvania)	150,000	
Gross taxable estate		$450,000
Less deductions		
Debts due and unpaid at time of death	$100,000	
Funeral expenses and administration expenses	50,000	150,000
Net taxable estate		$300,000

Insurance on the life of decedent was payable as follows: $120,000 to the wife and $40,000 to the son. However, insurance payable to a specified beneficiary is not taxable in Pennsylvania, and therefore the tax is to be calculated on the $300,000 only.

The Pennsylvania tax is a flat rate of 2 per cent on property passing to direct heirs and 10 per cent to collateral heirs. The wife and son are direct heirs, and therefore the tax due the State of Pennsylvania is $300,000 × .02 or $6,000 (The Federal estate tax is not deductible in Pennsylvania).

Calculation of the Federal Estate Tax in the Case of the Pennsylvania Decedent

The estate of the Pennsylvania decedent is valued for tax purposes as follows:

Gross estate		
Cash	$100,000	
Real estate (in Pennsylvania)	200,000	
Securities in Pennsylvania corporations	200,000	
Insurance payable to:		
Wife $120,000 less $30,000 exemption	90,000	
Son $40,000 less $10,000 exemption	30,000	
Gross taxable estate		$620,000
Less deductions		
Funeral expenses	$ 1,000	
Administration expenses	49,000	
Claims against estate (unpaid debts)..	100,000	150,000
Net taxable estate		$470,000

Net Taxable Estate		Amount of Bracket Subject to Tax	Rate of Tax in Per Cent	Amount of Tax in Each Bracket	Total Tax
Exceeding	Not Exceeding				
....	$ 50,000	$ 50,000	1	$ 500	$ 500
$ 50,000	100,000	50,000	2	1,000	1,500
100,000	200,000	100,000	3	3,000	4,500
200,000	400,000	200,000	4	8,000	12,500
400,000	600,000	70,000	5	3,500	15,500

This amount of $15,500 is subject to a credit of any inheritance tax paid to any state or territory up to 80 per cent, and since the tax so paid is $6,000, it is less than 80 per cent of $15,500 so the full $6,000 is allowed, leaving $9,500 as the amount due the Federal Government.

Calculation of Illinois Inheritance Tax

Let us now assume a more complicated case where the decedent is a resident of Illinois and possesses property in Illinois and also in California. The decedent's will provides $60,000 for a public charity located within the State of Illinois and directs that the residuary estate be divided equally between a son and a daughter.

The inventory shows real estate in Illinois and California and securities of Illinois and California corporations. There is also $100,000 of life insurance payable to the estate, $50,000 to the son, and $50,000 to the daughter.

A valuation of the estate for tax purposes in Illinois shows the following:

Gross estate		
Real estate (in Illinois)	$300,000	
Stock (in Illinois corporation)	100,000	
Stock (in California corporation)	200,000	
Insurance payable to estate	100,000	
Gross taxable estate in Illinois		$700,000
Less deductions		
Mortgage on Illinois real estate	$ 50,000	
Debts unpaid at time of death	25,000	
Funeral expenses	1,000	
Administration expenses	54,000	
Public charity in Illinois	60,000	
Federal estate tax (deductible in Illinois)	2,800	
Tax on stock of California corporation	4,000	196,800
Net taxable estate		$503,200

The Illinois tax rates are applied according to the status of the beneficiaries. In this case, there are only two beneficiaries, a son and a daughter, and they share equally, or $251,600 for each. A deductible exemption of $10,000 is allowed to each, leaving the net taxable amount $241,600, to which the progressive tax is to be applied as follows:

2 per cent of	$ 50,000	or	$1,000	
4 per cent of	$100,000	or	$4,000	
6 per cent of	$ 91,600	or	$5,496	
	$241,600		$10,496	tax for each beneficiary

or a total of $21,232 due the State of Illinois.

A part of this estate is subject to the California inheritance tax, that is, the real estate located in California and the stock of California corporations. In the case of a nonresident of California, the stock of domestic corporations is taxed at the flat rate of 2 per cent without exemption or deduction. Since the stock in this category was valued at $200,000, the tax on it amounts to $4,000.

Real estate of a nonresident of California is subject to local deductions and exemptions, and the tax in this case is found as follows:

Value of real estate		$100,000
Less local deductions:		
Mortgage	$30,000	
Ancillary administration	10,000	40,000
		$60,000

which is divided equally between the son and daughter. The California rates of tax and exemptions are now applied. Since the son and daughter are not minors, they are each entitled to a deductible exemption of

$10,000. This leaves $20,000 as the taxable amount for each, which is subject to the first bracket which stops at $25,000. The rate for this is 1 per cent or $200 for each beneficiary. When this is added to the amount of tax due on the stock, the total amount of tax due the State of California is $4,400, but the tax on the real estate is not deductible from the Illinois estate.

Calculation of the Federal Estate Tax on the Estate of the Illinois Decedent

The valuation of this estate for Federal tax purposes is as follows:

Gross estate			
Real estate in Illinois		$300,000	
Real estate in California		100,000	
Stock:			
Illinois corporations	$100,000		
California corporations	200,000		
		300,000	
Insurance payable to estate		100,000	
Insurance payable to:			
Son $50,000 less $20,000 exemption			
Daughter 50,000 less 20,000 exemption			
$40,000		60,000	
Gross taxable estate			$860,000
Less deductions			
Funeral expenses		$ 1,000	
Administration expense:			
Illinois		54,000	
California (ancillary administration)		10,000	
Claims against estate (unpaid debts).		25,000	
Mortgages:			
Illinois property		50,000	
California property		30,000	
Public charity in Illinois		60,000	
Specific exemption		100,000	330,000
Net taxable estate			$530,000

The various rates of tax for the different brackets is then calculated as follows:

Net Taxable Estate		Amount of Bracket Subject to Tax	Rate of Tax, in Per Cent	Amount of Tax in Each Bracket	Total
Exceeding	Not Exceeding				
......	$ 50,000	$ 50,000	1	$ 500	$ 500
$ 50,000	100,000	50,000	2	1,000	1,500
100,000	200,000	100,000	3	3,000	4,500
200,000	400,000	200,000	4	8,000	12,500
400,000	600,000	30,000	5	1,500	14,000

This amount of $14,000 is subject to a deduction of inheritance taxes paid to any state or territory with a maximum credit of 80 per cent. Since the taxes paid to Illinois and California exceed 80 per cent of $14,000, the full credit is allowed and only 20 per cent of $14,000, or $2,800, is due the Federal Government.

Calculation of Tax on Estate of a New York Decedent

New York subjects its resident decedents to an estate tax as well as an inheritance tax and therefore offers an excellent illustration of the extreme complications which may arise in connection with death duties.

Let us assume that a resident decedent leaves $200,000 life insurance payable to a son and the balance of his property is to be divided equally between a son and a daughter.

The property referred to is located and valued as follows:

Insurance payable to estate	$ 250,000
Real estate located in New York	1,000,000
Real estate located in Virginia	200,000
Stock in New York corporations	150,000
Stock in Pennsylvania corporations	150,000
Stock in Delaware corporations	500,000
Stock in a California corporation	250,000
Stock in a corporation located in Indiana and Ohio	300,000

The following debts and claims are made against the estate:

Mortgage on New York real estate	$250,000
Mortgage on Virginia real estate	50,000
Ancillary administration expenses in Virginia	10,000
Funeral expenses and administration expenses	150,000
Other debts unpaid at time of death	150,000

Before calculating the tax due the State of New York it will be necessary to ascertain the amounts due the other states.

The Virginia Tax on Property of New York Decedent

The gross value of the real estate in Virginia is $200,000. From this we must deduct the amount of the mortgage, $50,000, and the cost of ancillary administration in the State of Virginia, $10,000. This leaves a net taxable estate of $140,000 which is divided equally between a son and a daughter, or $70,000 to each.

The Virginia law allows a $10,000 deductible exemption to each child and thereafter taxes the amount received at various rates according to bracketed amounts.

In this case, the first $50,000 less the $10,000 exemption or $40,000 is taxed at the rate of 1 per cent or

$400, and the next $20,000 at the rate of 2 per cent or $400, or a total of $800 tax for each of the two beneficiaries. This makes the total tax due the State of Virginia $1,600.

The Pennsylvania Tax on Property of New York Decedent

The Pennsylvania property consists of stock in Pennsylvania corporations. Pennsylvania has a reciprocal law with reference to personal property and since New York exempts the personal property of Pennsylvania residents, the law is operative in this case and there is no tax due the State of Pennsylvania.

The Delaware Tax on Property of New York Decedent

This consists of stock in Delaware corporations and there is no tax. Observe the exemption is for an entirely different reason than that for Pennsylvania. Delaware specifically exempts the stock of domestic corporations from inheritance tax in that state.

The Indiana Tax on Property of New York Decedent

This relates to stock of a corporation located in Indiana and Ohio. The law of Indiana provides that in such a case only such proportion of the value of the stock is taxable as the corporate property in Indiana bears to the entire corporate property wherever located. If we assume this proportion to be one-third, then the value of the taxable property in this case is $100,000. This is equally divided between son and daughter and taxed at the same rates as residents.

Each child is allowed a \$2,000 deductible exemption, leaving \$48,000 which will be taxed as follows:

\$23,000 at 1 per cent or \$230
\$25,000 at 2 per cent or \$500

making \$730 tax against each beneficiary, or a total of \$1,460 due the State of Indiana.

The Ohio Tax on Property of New York Decedent

The only property of the New York decedent which is subject to the inheritance tax laws of Ohio is the stock of the corporation located in Indiana and Ohio. The Ohio law is similar to that of Indiana in so far as only such proportion of the value of the stock is taxable as the corporate property in the state bears to the entire corporate property wherever located. Two-thirds of the property of the corporation in which the decedent owned stock is located in Ohio, and therefore the amount subject to tax is \$200,000. This amount is divided equally, or \$100,000 each to a son and a daughter.

The rates which apply to residents also apply to nonresidents. However, the exemptions to nonresidents are apportioned according to the ratio which each beneficiary's interest in Ohio property bears to his share in the entire estate. Since the Ohio property is one-fourteenth of each beneficiary's entire share the exemption is one-fourteenth of \$3,500 (the full exemption allowed to a child) or \$250. This leaves each beneficiary with \$99,750 which is taxed as follows:

\$25,000 at 1 per cent or \$ 250
\$74,750 at 2 per cent or \$1,495 or \$1,745 for each beneficiary.

Therefore, the total tax due the State of Ohio is $1,745 × 2, or $3,490.

The California Tax on Property of New York Decedent

The stock of the California corporation is personal property of a nonresident which is taxed at a flat rate of 2 per cent without any allowance for exemptions or deductions. The value of the stock is $250,000, making $5,000 tax due California.

The New York Inheritance Tax

The property taxable according to the New York inheritance tax law would be as follows:

Gross estate		
Insurance payable to estate	$ 250,000	
Real estate in New York	1,000,000	
Stock in New York corporations ...	150,000	
Stock in Pennsylvania corporations.	150,000	
Stock in Delaware corporations ...	500,000	
Stock in a California corporation...	250,000	
Stock in an Ohio and Indiana corporation	300,000	
		$2,600,000
Less deductions		
Mortgage on New York real estate	$ 250,000	
Funeral expenses and administration expenses	150,000	
Other debts	150,000	
Taxes paid to other states for transfer of stock:		
California	5,000	
Indiana	1,460	
Ohio	3,490	
		559,950
Net taxable estate		$2,040,050

Since this sum is divided equally, the son and daughter are taxed on $1,020,025 each.

After deducting the exemption of $5,000 this leaves $1,015,025 which is taxed as follows:

$ 25,000 at 1 per cent or $ 250
$ 75,000 at 2 per cent or $ 1,500
$100,000 at 3 per cent or $ 3,000
$815,025 at 4 per cent or $32,601, or $37,351 for each beneficiary

making a total tax of $74,702 under the New York inheritance tax law.

The New York Estate Tax

The regulations affecting the estate tax are based on those of the Federal estate tax; hence our calculation will be different from that for the inheritance tax.

The estate is valued as follows:

Gross estate			
Insurance payable to son	$200,000		
Less exemption	40,000	$ 160,000	
Insurance payable to estate		250,000	
Real estate in New York		1,000,000	
Stock in New York corporations ..		150,000	
Stock in Pennsylvania corporations		150,000	
Stock in Delaware corporations ...		500,000	
Stock in a California corporation..		250,000	
Stock in an Ohio and Indiana corporation		300,000	
			$2,760,000
Less deductions			
Mortgage on New York real estate.		$ 250,000	
Funeral expenses and administration expenses		150,000	
Other debts		150,000	
Specific exemption		100,000	
			650,000
Net taxable estate			$2,110,000

The amount of $2,110,000 is taxed at four-fifths of the rates for the Federal estate tax, which works out as follows:

$ 50,000	at 4/5 of 1 per cent	or $	400
$ 50,000	at 1 3/5 per cent	or $	800
$100,000	at 2 2/5 per cent	or $	2,400
$200,000	at 3 1/5 per cent	or $	6,400
$200,000	at 4 per cent	or $	8,000
$200,000	at 4 4/5 per cent	or $	9,600
$200,000	at 5 3/5 per cent	or $	11,200
$500,000	at 6 2/5 per cent	or $	32,000
$500,000	at 7 1/5 per cent	or $	36,000
$110,000	at 8 per cent	or $	8,800
		$	115,600

A credit is allowed against this for the amount of the succession taxes paid to any states or territories. If we add the amount of such taxes paid to Virginia, California, Ohio, Indiana, and New York the total is $86,252.

$115,600 — $86,252 = $29,348, or the amount of the New York estate tax.

The Federal Estate Tax on the Estate of the New York Decedent

The valuation of the estate for Federal tax purposes differs a trifle from the procedure followed in the New York estate tax, because real property outside of the State of New York will be included in the gross estate under the Federal law. The net value of such real estate which was located in Virginia amounted to $140,000. Therefore if we increase by this amount the net taxable estate under the New York estate tax law, the total net estate subject to the Federal tax is $2,250,000.

The Federal rates are then applied as follows:

$ 50,000	at	1 per cent or	$ 500
$ 50,000	at	2 per cent or	$ 1,000
$100,000	at	3 per cent or	$ 3,000
$200,000	at	4 per cent or	$ 8,000
$200,000	at	5 per cent or	$ 10,000
$200,000	at	6 per cent or	$ 12,000
$200,000	at	7 per cent or	$ 14,000
$500,000	at	8 per cent or	$ 40,000
$500,000	at	9 per cent or	$ 45,000
$250,000	at	10 per cent or	$ 25,000
			$158,500

The maximum allowable credit of 80 per cent amounts to $126,800. However, the sum total of the taxes paid the several states is $115,600 and since this amount is less than $126,800, it may be deducted in full, or $158,500 — $115,600 leaving $42,900 to be paid to the Federal Government as a Federal estate tax.

Summary

The total amount of the death duties on each of these estates may now be summarized in order to show the amount of insurance needed for tax purposes in each case.

1. In the case of the Pennsylvania decedent the:

Amount due the State of Pennsylvania	$ 6,000
Amount due the Federal Government	9,500
Total tax	$ 15,500

2. The estate of the Illinois resident resulted in the following:

Amount due the State of Illinois	$ 21,232
Amount due the State of California	4,400
Amount due the Federal Government	2,800
Total tax	$ 28,432

3. The estate of the New York decedent is taxed as follows:

New York inheritance tax	$ 74,702
New York estate tax	29,348
California	5,000
Indiana	1,460
Ohio	3,490
Virginia	1,600
Federal Government	42,900
Total tax	$158.500

CHAPTER XI

SPECIAL TAX PROBLEMS RELATED TO LIFE INSURANCE

There are a number of miscellaneous important tax problems that we have explained as incidentals to some general principle or procedure, but in order to make it unnecessary to search through great details to find them it has been thought advisable to summarize some of these more frequently discussed questions in one chapter.

Taxation of Life Insurance Trusts

The popularity of life insurance trusts has grown with remarkable rapidity in recent years. At least a part of this growth is traceable to the favorable position in which these agreements were placed with reference to taxation.

Prior to the Revenue Act of 1924, the Federal income tax laws permitted a grantor to transfer property to a trustee and the income of this property when used to pay life insurance premiums was not reported in the taxable income of the grantor. Instead the income was reported by the trustee who treated the trust agreement as individual. This was a decided advantage to the grantor when his normal and surtax rates were in the higher brackets. However, the 1924 law changed this by making the income from a trust fund taxable to the founder unless the trust was irrevocable.

Since most trusts are drawn with a revocable clause on account of the legal disadvantages of the other forms, the advantage of a life insurance trust, in so far as Federal income taxes are concerned, has been largely removed.

The 1924 and 1926 laws provide that where any part of the income of a trust is applied to the payment of premiums upon policies of insurance on the life of the grantor such part of the income of the trust shall be included in computing the net income of the grantor except the amount spent for

policies of insurance irrevocably payable to (*a*) The United States, any State, Territory, or any political subdivision thereof, or the District of Columbia, for exclusively public purposes; (*b*) any corporation, or trust, or community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual; (*c*) the special fund for vocational rehabilitation authorized by Section 7 of the Vocational Rehabilitation Act; (*d*) posts or organizations of war veterans, or auxiliary units, or societies of any such posts or organizations if such posts, organizations, units, or societies are organized in the United States or any of its possessions, and if no part of their net earnings inures to the benefit of any private shareholder or individual; or (*e*) a fraternal society, order, or association, operating under the lodge system, but only if such contributions or gifts are to be used exclusively for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals; to an amount which in all the above cases combined does not exceed 15 per cent of the taxpayer's net income as computed without the benefit of this paragraph, except that if in the taxable year and in each case of the ten preceding taxable years the amount in all the above cases combined exceeds 90 per cent of the taxpayer's net income for each such year, as computed without the benefit of this paragraph, then to the full amount of such contributions and gifts deduction shall be allowed only as to contributions or gifts made within the taxable year. In case of a nonresident alien individual this deduction shall be allowed only as to contributions or gifts made to domestic corporations, or to community chests, funds or foundations, created in the United States, or to such vocational rehabilitation fund. Such contributions or gifts shall be allowable as deductions only if verified under rules and regulations prescribed by the Commissioner, with the approval of the Secretary.

The Federal estate tax does not permit a trust of this nature any more advantages than it does in the case of a regular insurance policy. The exemption for life insurance is $40,000 if payable to specifically named beneficiaries and it does not matter whether it is through a life insurance trust or direct from an insurance company, the exemption cannot be increased except when the insurance is to, or for the use of

the United States, any State, Territory, or any political subdivision thereof, or the District of Columbia, for exclusively public purposes, or to or for the use of any corporation organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, including the encouragement of art, and the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private stockholder or individual, or to a trustee or trustees, or a fraternal society, order, or association operating under the lodge system, but only if such contributions or gifts are to be used by such trustee or trustees or by such fraternal society, order, or association, exclusively for the prevention of cruelty to children or animals, the amount of the deduction under this paragraph for any transfer shall not exceed the value of the transferred property required to be included in the gross estate.

State inheritance taxes usually do not apply to the proceeds of life insurance paid to specifically named beneficiaries and consequently there is as a rule no inheritance tax advantage in a life insurance trust. However an exception to this should be noted. Insurance payable to a trustee for the purpose of paying inheritance taxes is usually included in the taxable property of the decedent. In California, Delaware, Massachusetts, North Dakota, Oregon, Texas, and Washington, insurance payable to trustees and to be used to pay inheritance taxes is not taxable. There are some other states which are doubtful on this point and some of them would undoubtedly fall in the above mentioned group.

Corporation or Business Life Insurance

The proceeds of insurance policies paid to a corporation or partnership by reason of the death of the insured are not subject to Federal income tax, that is, the same provision of the law that relates to individuals covers this case. Likewise the Federal estate tax is interpreted the same as for individuals, and insurance proceeds paid to corporations or partnerships will be made to pay their share of the tax. Of course, payments to charitable and other organizations mentioned in the preceding section are exempt from taxation.

However, there is considerable advantage with respect to the state inheritance tax laws because they seldom include insurance proceeds in the taxable estate of the decedent if the proceeds are payable to a specific beneficiary. In this connection, it should be remembered that most states require the proceeds paid to the corporation to be included in the assets of the corporation when the stock of the decedent is appraised for inheritance tax purposes. Idaho, Louisiana, and Vermont are the only definite exceptions to this rule, and the first two include the surrender value of the policy at the time of the death of the decedent. Vermont does not include either value. Approximately ten states have no definite rule or are doubtful. The remaining states have ruled that the amount paid at the time of death is the amount to be added to the assets of the corporation. As a general thing these are nothing more than the rulings of the tax officials. However, in New York the Court of Appeals has decided that this is no different than when a decedent leaves a policy payable to his estate. In such cases the proceeds are taxable as property of which the decedent was seized and possessed at the time of his death. Since the policy is the property of the corporation and its value becomes fixed at the moment of death, this amount immediately becomes part of the corporation's assets and must be included in any valuation of the stock at that time.

It would seem that a very logical argument exists in favor of the surrender value. The moment of death is the turning point. *Immediately before* death the surrender value is all that the corporation could claim as an asset. *Immediately after* death it can claim the face of the policy. However, the existing procedure is consistent with the general rule of valuing decedents property, that is, all increases in the estate even if the *event* of death is the *cause* of the increase are considered as property of which the decedent was "seized and possessed" at the time of his death.

The Federal income tax law does not permit a taxpayer (the corporation) to deduct from gross income the premiums on this type of insurance because the taxpayer is a beneficiary under the policy.

Group Insurance

When a taxpayer obtains group insurance on the lives of his employees and receives no benefit other than the increased efficiency from such a beneficent act, the Federal income tax law permits him to deduct the amount of the premiums as an ordinary and necessary expense of the operation of his business.

According to a ruling of the Revenue Bureau, the Federal estate tax does not apply to the proceeds of insurance when the premium has not been paid directly or indirectly by the insured. Presumably group insurance proceeds come within the scope of this decision.

Taxes Affecting Premiums

There are several problems concerning premium taxation, other than the taxes levied on the premium income of an insurance company, which deserve consideration.

The first of these problems is the *deduction of insurance premiums* from taxable income. The general rule of the Federal law is that with reference to individuals this is the same as any other family expense and therefore not deductible. However, where a policy is taken out for business purposes and can be considered an ordinary and necessary expense of the business, it may be deducted from gross income if the taxpayer is in no sense a beneficiary under the policy (excepting as he may derive benefit from the increased efficiency of the insured). As previously indicated, it has been specifically decided that group insurance falls within this regulation and such premiums may be deducted from taxable income. Likewise, a partner may deduct the cost of insurance in favor of other partners if the insurance is necessary to the venture and providing that he does not derive any benefit from the proceeds.

When a premium must be paid by a creditor in order to keep alive a life insurance policy assigned to secure a debt, it is not deductible as a business expense under the Federal income tax law but may be considered as an additional advance to the debtor. An earlier ruling of the Treasury Department on this point had permitted such advances to be deducted as ordinary and necessary business expense. If a loan has been made on the policy and the creditor pays the interest he may deduct the amount of the interest.

A second problem is, when shall *premiums* paid on insurance be treated as *taxable income?* The Bureau has ruled that when a corporation pays the premium on an *individual policy* on the life of one of its officers or employees who is permitted to designate the beneficiary the premium is equivalent to additional compensation and therefore should be included in gross income. Premiums on group life insurance are not governed by this regulation.

Educational, Religious, and Charitable Bequests

The advantages of life insurance as a method of obtaining funds for endowing and maintaining charitable institutions are often overlooked by the managers of fund campaigns. This is unfortunate, since not only does the recipient organization gain considerably by this method, but it is one which is frequently best adapted to the problems of the donor, especially when it is properly explained to him. In some cases the lack of enterprise among life underwriters has been responsible for this neglect, but more often it is traceable to the deaf ear which managers and directors of these funds turn to insurance proposals. They frequently do this because the persons to whom they are responsible demand cash results in a short time, and since it is believed that life insurance will yield money at some indefinite future time it is eliminated.

However, it is seldom that a worthy cause is of such a fleeting nature as to be here to-day and gone tomorrow. Hence it is highly important that persons interested in obtaining endowments should investigate and consider the legal certainties and tax-saving advantages of life insurance as compared with testamentary bequests. In particular, it should be remembered that wills do not always contain the bequests which were promised or anticipated, and if they do they may become involved in litigation due to insolvency, improper execution, or contest by members of the family. In the case of life insurance the beneficiary is designated and the proceeds are not receivable by the administrator or executor of the estate but are paid by the life insurance company direct to the person named in the policy. This precludes any possibility of the affairs of the deceased complicating the payment.

The tax benefits to be derived from the use of life insurance vary with the laws of the state of the decedent's domicile. It may be seen from an analysis of the various state inheritance tax laws given in the Appendix that most states permit some form of exemption to educational, religious, and charitable bequests. The usual restrictions are one or more of the following: (1) the beneficiary must be a domestic organization and/or (2) the funds must be used within the state and/or (3) the beneficiary must be one that is exempt by law from other taxes. Undoubtedly many good and worthy causes are excluded because of one or more of these technicalities. In addition, several states do not provide any exemptions for such institutions. It will be remembered from our previous discussions, however, that most states do not tax the proceeds of life insurance policies when paid to a specifically named beneficiary in his own right. Consequently, insurance is ideally adapted to avoid inheritance taxation. This is especially true in a state like Pennsylvania where all charitable bequests made by the terms of a will are subject to a flat tax of 10 per cent, with no deductible exemptions, although when the proceeds of a life policy are payable to such an institution or organization none of it is taxable.

Although the effect of Federal taxation on this method of providing funds is not so important as it is with respect to state taxes, it nevertheless should be mentioned. The Federal income tax law allows deductions up to 15 per cent of the taxpayer's net income in the case of gifts or contributions to educational, religious, or charitable institutions. Premiums on life insurance payable to such institutions fall within this 15 per cent deduction, providing the right to change the beneficiary *has not been* reserved. (In the case of state inheritance taxes the reservation of the right to change the beneficiary is immaterial. The exemption from taxation is usually dependent on whether the proceeds are payable to a specifically named beneficiary in his own right.) Obviously from the standpoint of saving taxes, there is no more advantage in paying life insurance premiums than in paying an equivalent sum in cash each year to the charity. However, the insurance is at no disadvantage from a tax viewpoint in so far as donor or donee is concerned and possesses other advantages to the donee: namely, there will be a moral obligation on the part of the donor to keep up the payments, the eventual contribution will most likely be larger than the donor would give in the form of cash, the donee may receive annual dividends on the policy, and there is always the possibility of obtaining a large sum at an early date due to the death of the insured.

The Federal estate tax law exempts bequests to educational, religious, and charitable institutions; hence the insurance exemption offers no additional tax-saving advantage in so far as this law is concerned.

Proceeds of Life Insurance Policies Paid under Disability Clause

When the proceeds of a policy are paid under a disability provision they are not reported under the Federal income tax law as part of gross income. The Revenue Bureau has ruled that the payments in such an event are the same as the proceeds of a health policy, and the act specifically excepts the amounts received through accident or health insurance from gross income.

Single Premium Insurance

As explained in another volume of this series, the rapidly increasing use of single premium insurance as an investment, accounts very largely for its present popularity. When used for such purpose the item of taxation must be considered. First, the tax on premium income is apt to involve a burden of from 1 to 3 per cent; secondly, there may be an annual personal property tax on the cash value; and thirdly, there may be a state income tax on the dividends. Prior to the 1926 regulations the dividends on such policies were subject to surtax under the Federal income tax because they were the same as dividends on full-paid policies. Under the new regulations, however, the dividends on full-paid policies are not taxable until the proceeds of the policy exceed its net cost.

APPENDIX

DIGEST AND ANALYSIS OF THE FEDERAL ESTATE TAX LAW AND THE VARIOUS STATE INHERITANCE TAX LAWS

APPENDIX

FEDERAL ESTATE TAX

Property Subject to Tax

The Federal law is neither an inheritance nor property tax but is levied on the transfer of the entire net estate. The gross taxable estate includes all real property located in the United States and all tangible and intangible personal property wherever situated and belonging to the decedent at the time of his death. More specifically it includes:

1. Transfers resulting from decedent's death;
2. Transfers made by decedent in his lifetime when made in contemplation of, or intended to take effect in possession or enjoyment at or after, his death, excepting, however, bona fide sales for an adequate and full consideration in money or money's worth;
3. Transfers by the decedent in his lifetime where the enjoyment was subject at his death to any change through the exercise of a power, either by him alone or in conjunction with any person, to alter, amend, or revoke; or where any such power was relinquished by the decedent in contemplation of his death;
4. Dower, curtesy, or statutory estate in lieu thereof, of the surviving spouse;
5. Property held by the decedent and another person or persons where the survivor or survivors take by right of survivorship;
6. Insurance *receivable by the executor* under policies *taken out by the decedent* upon his life, and insurance *so taken out* and receivable by all other beneficiaries to the extent that the aggregate amount thereof exceeds $40,000.

Where a decedent within two years of his death and subsequent to the enactment of the Revenue Act of 1926 has made a transfer by trust or otherwise in excess of $5,000, such excess shall be deemed to have been made in contemplation of death unless made with an adequate and full consideration in money or money's worth.

The net taxable estate is determined by *deducting:*

1. Funeral expenses;
2. Administration expenses;
3. Claims against the estate;
4. Property taxes and Federal income taxes (upon income received during the decedent's lifetime);
5. Unpaid mortgages (on property included in the gross estate);
6. Losses from casualty or theft incurred during settlement of the estate to the extent they are uncompensated by insurance;
7. The amount paid for the support of dependents during the settlement of the estate (this allowance must be authorized by the laws of the jurisdiction in which the estate is being administered);
8. Any part of the decedent's estate:

(*a*) If it formed "a part of the gross estate situated in the United States of any person who died within five years prior to the death of the decedent."

(*b*) If it was "transferred to the decedent by gift within five years prior to his death, where such property can be identified as having been received by the decedent from such donor by gift or from such prior decedent by gift, bequest, devise, or inheritance, or which can be identified as having been acquired in exchange for property so received. This deduction shall be allowed only where a gift tax imposed under the Revenue Act of 1924, or an estate tax imposed under this or any prior Act of Congress was paid by or on behalf of the donor or the estate of such prior decedent as the case may be, and only in the amount of the value placed by the Commissioner on such property in determining the value of the gift or the gross estate of such prior decedent, and only to the extent that the value of such property is included in the decedent's gross estate."

9. The amount of all bequests, legacies, devises, or transfers,

to or for the use of the United States, any state, territory, any political subdivision thereof, or the District of Columbia, for exclusively public purposes; or to, or for the use of, any corporation organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, including the encouragement of art and the prevention of cruelty to children or animals;

10. A specific exemption of $100,000.

Nonresident Decedents

Nonresidents must include in the gross taxable estate real estate within the United States, certificates of stock, bonds, bills, notes, and mortgages, physically in the United States at date of death, moneys due on open accounts by domestic debtors, and stock of a corporation or association created or organized in the United States. It does not include: (1) the amount receivable as insurance upon the life of a nonresident decedent, nor (2) moneys on deposit in any bank if the decedent was not engaged in business in the United States.

Deductions are allowed with respect to the first nine items mentioned above as being included in the gross estate of a resident decedent. The first seven are allowed in the proportion that the value of such part bears to the value of the entire gross estate wherever situated, subject to a maximum of 10 per cent of the value of the estate situated within the United States. Eight and nine are allowed only with reference to property in the United States and legacies, etc., to be used in the United States.

The specific exemption of $100,000 allowed to resident decedents does not apply to nonresidents.

Discount and Interest

The tax is on the *net estate* regardless of the relationship decedent and must be paid at that time unless an extension is granted. No discount is allowed for earlier payment. If the tax is not paid when due, interest is charged at the rate of 1 per cent per month until paid. If an extension is granted, interest is charged at the rate of 6 per cent per annum from the expiration of six months after the due date to the end of the period of extension.

Rates of Tax

The tax is on the *net estate* regardless of the relationship of the beneficiaries; hence no classification is necessary.

The tax is progressive and applies to the various amounts as follows:

1%	of	amount	not exceeding	$50,000				
2%	of	amount	exceeding	$ 50,000	and	not	exceeding	$ 100,000
3%	"	"	"	$ 100,000	"	"	"	$ 200,000
4%	"	"	"	$ 200,000	"	"	"	$ 400,000
5%	"	"	"	$ 400,000	"	"	"	$ 600,000
6%	"	"	"	$ 600,000	"	"	"	$ 800,000
7%	"	"	"	$ 800,000	"	"	"	$ 1,000,000
8%	"	"	"	$ 1,000,000	"	"	"	$ 1,500,000
9%	"	"	"	$ 1,500,000	"	"	"	$ 2,000,000
10%	"	"	"	$ 2,000,000	"	"	"	$ 2,500,000
11%	"	"	"	$ 2,500,000	"	"	"	$ 3,000,000
12%	"	"	"	$ 2,500,000	"	"	"	$ 3,500,000
13%	"	"	"	$ 3,500,000	"	"	"	$ 4,000,000
14%	"	"	"	$ 4,000,000	"	"	"	$ 5,000,000
15%	"	"	"	$ 5,000,000	"	"	"	$ 6,000,000
16%	"	"	"	$ 6,000,000	"	"	"	$ 7,000,000
17%	"	"	"	$ 7,000,000	"	"	"	$ 8,000,000
18%	"	"	"	$ 8,000,000	"	"	"	$ 9,000,000
19%	"	"	"	$ 9,000,000	"	"	"	$10,000,000
20%	"	"	"	$10,000,000				

After the tax has been calculated according to the above schedule of rates, a credit is allowed for the amount of any estate, inheritance legacy, or succession taxes paid to any state, territory or to the District of Columbia not to exceed 80 per cent of the Federal estate tax.

Taxation of Life Insurance Proceeds

This particular subject has already been discussed in detail, but it will be briefly summarized at this point. The law provides that *all* insurance *payable to the estate* of the insured and *all in excess of $40,000* payable to specific beneficiaries is to be included in the gross taxable estate of the decedent. This does not mean $40,000 to each beneficiary but to all beneficiaries combined. When there is more than one specific insurance beneficiary the $40,000 exemption is to be prorated among the beneficiaries in the proportion that each one's interest in the insurance bears to the total of all insurance payable to specific beneficiaries.

Although the insurance payable to the estate and the excess of $40,000 to specific beneficiaries must be reported in the gross taxable estate it does not follow that a tax will be imposed. It is the net taxable estate to which the rates are applied, and the deductions allowed including the $100,000 specific exemption may leave no taxable estate.

ALABAMA

The State of Alabama has not had an inheritance tax for many years and is not likely to have another until the state constitution is revised. At the present time, there is a constitutional restriction which prohibits any inheritance tax on direct heirs and limits the rate to 2½ per cent on all others. The taxes which would be yielded from the application of such a rate would not pay the cost of administration.

ARIZONA

Property Subject to Tax

The inheritance tax law of Arizona provides for a tax:

1. Upon any transfer of property, real, personal, or

mixed, or any interest, or equity therein, or income therefrom in trust or otherwise, when the transfer is by will or by the intestate laws of the state from any person dying possessed of the property while a resident of the state.

2. When the transfer is by deed, grant, bargain, sale, or gift, made in contemplation of the death of the grantor, vendor, or donor, or intended to take effect in possession or enjoyment at or after such death. Every such transfer made within six years prior to the death of the grantor, vendor, or donor, of a material part of his estate, or in the nature of a final disposition or distribution thereof, and without an adequate valuable consideration, shall be construed to have been made in contemplation of death.

3. Whenever any person or corporation shall exercise a power of appointment derived from any disposition of property or whenever any person or corporation possessing such a power of appointment so derived shall omit or fail to exercise the same within the time provided therefor.

4. Whenever any property, real or personal, is held in the joint names of two or more persons, or as tenants by the entirety, or is deposited in banks or other institutions or depositaries in the joint names of two or more persons and payable to either, or the survivor, upon the death of one of such persons the right of the surviving tenant by the entirety, joint tenant or joint tenants, person or persons, to the immediate ownership or possession and enjoyment of such property shall be taxable to the extent of one half or other proper fraction.

There is no tax on the transfer of any tangible personal property of a resident decedent when such property is located without the state and when the transfer of such property is subject to an inheritance or transfer tax in the state where located and which tax has actually been paid, provided such property is not without the state temporarily nor for the sole purpose of deposit or safe-keeping, and provided the laws of the state where such property is located allow a like exemption in relation to such property left by a resident of that state and located in Arizona.

Exemptions

A tax is not imposed on transfer to county, town, or municipal corporations within the state, for strictly county, town, or municipal purposes; and corporations of the state organized under its law; or voluntary associations, organized solely for religious, charitable, or educational purposes, which shall use the property so transferred exclusively for the purposes of their organization, within the state.

Deductible exemptions are provided for the several classes of beneficiaries.

It is also provided that whenever a tax is due from any resident or nonresident upon the transfer of any property or estate which is partly within and partly without the state the exemptions shall be prorated in the proportion which the Arizona property bears to the entire estate of the decedent. It should be mentioned that a like apportionment is made of debts and expenses of administration.

Nonresident Decedents

Property of a nonresident decedent is subject to tax when a transfer, by will or intestate law, is of property within the state or within its jurisdiction and the decedent was a nonresident of the state at the time of his death. Stocks and bonds of domestic corporations are taxable wherever located.

Discount and Interest

If the tax is paid within one year a discount of 5 per cent is allowed. If the tax is not paid within 18 months, interest is charged at the rate of 10 per cent per annum from the time the tax accrued, unless the nonpayment is caused by unavoidable delay or a bond is given, in which event the rate is 6 per cent.

Rates of Tax

The following rates of tax are on the clear market value of the property or beneficial interests passing to the several classes of beneficiaries. The exemptions are deducted from the first $25,000 subject to tax.

Class 1.—Husband, wife, lineal issue, lineal ancestor of the decedent, or any child adopted as such in conformity with the laws of the state, or any child to whom such decedent for not less than 10 years prior to such transfer stood in the mutually acknowledged relation of a parent:

1%	of amounts not in excess of $25,000
2%	of amount in excess of $ 25,000 and not exceeding $ 50,000
3%	" " " " " $ 50,000 " " " $100,000
4%	" " " " " $100,000 " " " $500,000
5%	" " " " " $500,000

The widow is allowed a deductible exemption of $10,000. Others in this class are permitted a $2,000 exemption for each beneficiary.

Class 2.—Brother or sister, or a descendant of a brother or sister of the decedent, a wife or widow of a son, or the husband of a daughter:

2%	of amounts not in excess of $25,000
4%	of amount in excess of $ 25,000 and not exceeding $ 50,000
6%	" " " " " $ 50,000 " " " $100,000
8%	" " " " " $100,000 " " " $500,000
10%	" " " " " $500,000

An exemption of $500 is allowed each beneficiary.

CLASS 3.—Brother or sister of the father or mother, or a descendant of a brother or sister of the father or mother:

3%	of amounts not in excess of $25,000										
6%	of	amount	in	excess	of	$ 25,000	and	not	exceeding	$ 50,000
9%	"	"	"	"	"	$ 50,000	"	"	"	$100,000
12%	"	"	"	"	"	$100,000	"	"	"	$500,000
15%	"	"	"	"	"	$500,000				

An exemption of $250 is permitted each beneficiary.

CLASS 4.—Brother or sister of the grandfather or grandmother, or a descendant of the brother or sister of the grandfather or grandmother:

4%	of amounts not in excess of $25,000									
8%	of	amount	in	excess	of	$ 25,000	and	not	exceeding	$ 50,000
12%	"	"	"	"	"	$ 50,000	"	"	"	$100,000
16%	"	"	"	"	"	$100,000	"	"	"	$500,000
20%	"	"	"	"	"	$500,000				

An exemption of $150 is allowed each beneficiary.

CLASS 5.—All others except Class 6:

5%	of amounts not in excess of $25,000									
10%	of	amount	in	excess	of	$ 25,000	and	not	exceeding	$ 50,000
15%	"	"	"	"	"	$ 50,000	"	"	"	$100,000
20%	"	"	"	"	"	$100,000	"	"	"	$500,000
25%	"	"	"	"	"	$500,000				

An exemption of $100 is allowed each beneficiary.

Taxation of Life Insurance Proceeds

If the proceeds are payable to the estate, they are taxable. If payable to a specifically named beneficiary or a trustee for a specifically named beneficiary, they are not taxable.

ARKANSAS

Property Subject to Tax

A tax is imposed upon the transfer of any tangible property within the state and of intangible property or any interest therein or income therefrom, in trust or otherwise:

1. When the transfer is by will or by the intestate laws of the state of any intangible property or of tangible property within the state.
2. Every transfer by deed, grant, bargain, sale, or gift made within three years prior to the death of the grantor, vendor, or donor of the value of $500 or in excess thereof, at the time of such transfer in the nature of final disposition or distribution of the estate and without adequate valuable considerations, shall be construed to have been made in contemplation of death.
3. Whenever any property is held in the joint name of two or more persons, or as tenants by the entirety, or as deposits in banks or other institutions or depositaries in joint names of two or more persons, and payable to either or to the survivor upon the death of one of such persons, the right of surviving tenant by the entirety, person, or persons to the immediate ownership and possession and enjoyment of such property shall be deemed a taxable transfer.
4. Whenever any person or corporation shall exercise a power of appointment derived from any disposition of property.
5. When the proceeds of life insurance inure to others than direct descendants or ascendants or widow.

Exemption

There is no tax on property transferred in good faith to societies, corporations, and institutions now or hereafter exempted by law from taxes; or to any public corporation; or to any society, corporation, institution, or association of persons engaged in, or devoted to, any charitable, benevolent, educational, public, or other like work (pecuniary profit not being its object or purpose); or to any person, society, corporation, institution, or association of persons in trust for, or to be devoted to, any charitable, benevolent, educational, or public purpose; by reason whereof any such person or corporation shall become beneficially entitled in possession or expectancy to any such property or to the income thereof. Deductible exemptions of specific amounts are allowed certain beneficiaries.

Nonresident Decedents

The provisions of the Arkansas inheritance tax law apply to the transfer of the following property which passes by will or intestate law of any other state or country:

1. Real estate and tangible property, including money on deposit in this state.

2. Intangible personal property, including bonds, securities, shares of stock, and choses in action kept in the state for investment, safe-keeping, or otherwise.

3. The transfer of shares of stock of all corporations organized and existing under the laws of the state, certificates of which shares of stock shall be within or without the state.

4. The transfer of shares of capital stock of all corporations organized and existing under the laws of any other state or country, regularly admitted to transact business in this state, to the extent of the value of such shares of stock represented by property actually in the state.

Exemptions are prorated in the proportion that the property in Arkansas or its jurisdiction bears to the total in all states or countries.

Discount and Interest

The taxes are due and payable at the death of the decedent and if the same are paid within 6 months no interest is charged. If not paid until after 6 months, interest at the rate of 6 per cent per annum is charged and collected; and if said taxes are not paid within 12 months a penalty of 10 per cent per annum in addition to the interest is charged.

Rates of Tax

The several classes of beneficiaries are taxed according to the following schedule:

Class 1.—Father, mother, husband, wife, child, wife or widow of a son, or the husband of a daughter, or any child or children adopted as such in conformity with the laws of the state of the decedent, grantor, donor, or vendor, or to any child to whom any such decedent, grantor, donor, or vendor for not less than 10 years prior to such transfer stood in the mutually acknowledged relation of a parent:

1%	of the first $5,000 in excess of the exemption		
2%	of amount in excess of	$ 5,000	and not exceeding $ 10,000
3%	" " " " "	$ 10,000	" " " $ 25,000
4%	" " " " "	$ 25,000	" " " $ 50,000
5%	" " " " "	$ 50,000	" " " $ 75,000
6%	" " " " "	$ 75,000	" " " $ 100,000
7%	" " " " "	$ 100,000	" " " $ 200,000
8%	" " " " "	$ 200,000	" " " $ 500,000
9%	" " " " "	$ 500,000	" " " $1,000,000
10%	" " " " "	$1,000,000	

Deductible exemptions are allowed as follows: widow or minor child $3,000; all others in this class $1,000 each.

Class 2.—Brother or sister, including brother or sister of half blood:

2%	of the first $5,000 in excess of the exemption			
4%	of amount in excess of	$ 5,000	and not exceeding	$ 10,000
6%	" " " " "	$ 10,000	" " "	$ 25,000
8%	" " " " "	$ 25,000	" " "	$ 50,000
10%	" " " " "	$ 50,000	" " "	$ 75,000
12%	" " " " "	$ 75,000	" " "	$ 100,000
14%	" " " " "	$ 100,000	" " "	$ 200,000
16%	" " " " "	$ 200,000	" " "	$ 500,000
18%	" " " " "	$ 500,000	" " "	$1,000,000
20%	" " " " "	$1,000,000		

A deductible exemption of $1,000 each is allowed.

Class 3.—All others except those entirely exempt:

4%	of the first $5,000 in excess of the exemption			
8%	of amount in excess of	$ 5,000	and not exceeding	$ 10,000
12%	" " " " "	$ 10,000	" " "	$ 25,000
16%	" " " " "	$ 25,000	" " "	$ 50,000
20%	" " " " "	$ 50,000	" " "	$ 75,000
24%	" " " " "	$ 75,000	" " "	$ 100,000
28%	" " " " "	$ 100,000	" " "	$ 200,000
32%	" " " " "	$ 200,000	" " "	$ 500,000
36%	" " " " "	$ 500,000	" " "	$1,000,000
40%	" " " " "	$1,000,000		

A deductible exemption of $500 is allowed each beneficiary.

Taxation of Life Insurance Proceeds

The law states specifically that when the proceeds of any life insurance policies or contracts upon the death of the insured, by the terms thereof, by operation of law, or by the will of the insured, inure to the benefit of any person or persons other than the direct descendants or ascendants, or the widow of the insured, in the nature of a gift, bequest, or devise, not based upon the valuable consideration passing from said beneficiaries to the insured, they are taxable. Naming a specific beneficiary does not prevent the proceeds from being taxable.

CALIFORNIA

Property Subject to Tax

A tax is levied on the transfer of any property, real, personal, or mixed, or of any interest therein or income therefrom in trust or otherwise, to persons, institutions, or corporations not hereafter exempted:

1. When the transfer is by will or by the intestate or homestead laws of the state, from any person dying seized or possessed of the property while a resident of the state, or by any order of court setting apart property pursuant to Article I, Chapter V, Title XI, Part III of the Code of Civil Procedure.

2. When the transfer is of property by deed, grant, bargain, sale, assignment, or gift, made without valuable and adequate consideration (*i.e.,* a consideration equal in money or in money's worth to the full value of the property transferred):

a. In contemplation of the death of the grantor, vendor, assignor, or donor, or,

b. Intended to take effect in possession or enjoyment at or after such death.

When such person, institution, or corporation becomes beneficially entitled in possession or expectancy to any property or the income therefrom, by any such transfer, whether made before or after the passage of this act.

3. By survivorship in the case of joint ownership or tenancy.

4. By the exercise of a power of appointment or the failure to exercise such power.

The law of community property exists in California, *i.e.,* marriage is viewed as a partnership arrangement and all property acquired subsequent to marriage is owned jointly, and upon the death of either the other has sole title to all such property. The inheritance tax law provides that one half of the community property which goes to the surviving wife shall not be considered to pass to her as heir to her husband but to go, pass, or be transferred to her for valuable and adequate consideration and is not subject to the provisions of the inheritance tax law.

Exemptions

The following exemptions from the tax are allowed:

1. All property transferred to societies, corporations, and institutions now or hereafter exempted by law from taxation, or to any public corporation, or to any society, corporation, institution, or association of persons engaged in or devoted to any charitable, benevolent, educational, public, or other like work; provided, however, that such society, corporation, institution or association be organized or existing under the laws of the state or that the property transferred be limited for use within the state.

2. Deductible exemptions of specific amounts are allowed certain beneficiaries.

3. All property transferred by a decedent to any person in Class 1 providing the same was transferred to him within five years preceding his death by another decedent described in Class 1 and a tax paid thereon.

Nonresident Decedent

A nonresident must pay a tax on the transfer of all real property within the state and on stock of domestic corporations. Bonds are not taxed. Realty is subject to the same rates of tax and exemptions as for a resident. Stock is taxed at a flat rate of 2 per cent and no deductions or exemptions are permitted.

Discount and Interest

If the tax is paid within 6 months of the death of decedent a discount of 5 per cent is allowed. If the tax is not paid within 18 months a penalty of 10 per cent per annum is imposed from the date of accrual, excepting in case of unavoidable delay when the rate is 7 per cent.

Rates of Tax

The several classes of beneficiaries are taxed as follows:

Class 1.—Husband, wife, lineal ancestor, lineal issue of the decedent, or any child adopted as such in conformity with the laws of this state, or any child to whom such decedent for not less than 10 years prior to such transfer stood in the mutually acknowledged relation of a parent (provided, however, such relationship began at or before the child's fifteenth birthday, and was continuous for said 10 years thereafter), or any lineal issue of such adopted or mutually acknowledged child:

1%	of all in excess of the exemption up to	$ 25,000			
2%	" " " " "	$ 25,000	and	up to	$ 50,000
4%	" " " " "	$ 50,000	"	" "	$100,000
7%	" " " " "	$100,000	"	" "	$200,000
10%	" " " " "	$200,000	"	" "	$500,000
12%	" " " " "	$500,000			

Exemption for wife or minor child is $24,000. All others in this class $10,000 for each beneficiary.

Class 2.—Brother or sister, or a descendant of a brother or sister of a decedent, a wife or widow of a son, or the husband of a daughter of the decedent:

3%	of all in excess of the exemption and up to	$25,000			
6%	" " " " "	$ 25,000	and	up to	$ 50,000
9%	" " " " "	$ 50,000	"	" "	$100,000
12%	" " " " "	$100,000	"	" "	$200,000
15%	" " " " "	$200,000	"	" "	$500,000
18%	" " " " "	$500,000			

Exemption is $2,000 for each beneficiary.

Class 3.—Aunt, uncle, or the descendant of either:

4%	of all in	excess	of the	exemption	and up to $25,000			
8%	" "	"	"	"	$ 25,000	and up	to	$ 50,000
10%	" "	"	"	"	$ 50,000	"	" "	$100,000
15%	" "	"	"	"	$100,000	"	" "	$200,000
20%	" "	"	"	"	$200,000			

Exemption is $1,000 for each beneficiary.

Class 4.—All others except those mentioned previously as exempt by law:

5%	of all in	excess	of the	exemption	and up to $25,000			
10%	" "	"	"	"	$ 25,000	and up	to	$ 50,000
15%	" "	"	"	"	$ 50,000	"	" "	$100,000
20%	" "	"	"	"	$100,000			

Exemption is $500 for each beneficiary.

Taxation of Life Insurance Proceeds

Insurance which is payable to a specifically named beneficiary is not taxed. In fact, insurance is taxed only if the proceeds pass through the estate. Hence insurance can be taken for the purpose of paying inheritance taxes if a trustee or some other person or corporation is specifically named as beneficiary, and there will be no tax.

COLORADO

Property Subject to Tax

A tax is imposed upon the transfer of any property, real, personal, or mixed, or of any interest therein or income therefrom, in trust or otherwise, in the following cases:

1. When the transfer is by will or by intestate laws of the state.

2. When the transfer is by deed, grant, bargain, sale, assignment, gift, or contract, in contemplation of the death of

the grantor, vendor, assignor, or donor, or intended to take effect in possession or enjoyment at or after such death; provided, that any such gift, or any such deed, grant, bargain, sale, assignment, or contract without valuable and adequate consideration made within one year prior to the death of the decedent shall be deemed and held to have been made in contemplation of the death of the decedent. The words "contemplation of death" shall be taken to include that expectancy of death which actuates the mind of a person on the execution of his will, and in nowise shall said words be limited and restricted to that expectancy of death which actuates the mind of a person making a gift *causa mortis*.

3. Whenever any person, institution, or corporation shall exercise a power of appointment derived from any disposition of property, or shall omit or fail to exercise such power.

4. Whenever any property, real or personal, is held in the joint names of two or more persons, or as tenants by the entirety, or is deposited in banks or other institutions or depositaries in the joint names of two or more persons, and payable to either or the survivor, upon the death of one of such persons the right of the surviving tenant by the entirety, joint tenant or tenants, person or persons, to the immediate ownership or possession and enjoyment of such property shall be deemed a taxable transfer.

5. Where any property shall be transferred subject to any charge, estate, or interest, determinable by the death of any person, or at any period ascertainable only by reference to death, the increase occurring to any person or corporation upon the extinction or determination of such charge, estate, or interest, shall be deemed a transfer of taxable property.

Exemptions

All transfers of property to the State of Colorado; or to any county, city, town, or any other municipality; or for the use of public libraries; for religious or charitable purposes exclusively; or for schools and colleges not for profit; provided, however, that the same be situated within the state, or the property be limited for use within the state, are entirely exempt.

Deductible exemptions of specific amounts are also permitted to Class 1 beneficiaries, and there is no tax on transfers of less than $500.

Nonresident Decedents

A nonresident is taxed on all transfers by will or intestate law of property within the state. This includes stocks and registered bonds of domestic corporations regardless of their physical location.

Discount and Interest

The tax is due and payable at the death of the decedent. If the tax is paid within 6 months after the death, a discount of 5 per cent is allowed; and if not paid within one year after the death, interest at the rate of 10 per cent per annum from the date of death is added.

Rates of Tax

The rates of tax on the different amounts passing to the several beneficiaries are as follows:

CLASS 1.—Father, mother, husband, wife, child, adopted child, or any lineal descendant of same:

2%	of amount up to $50,000			
3%	of amount exceeding	$ 50,000	and not exceeding	$100,000
4%	" " "	$100,000	" " "	$150,000
5%	" " "	$150,000	" " "	$250,000
6%	" " "	$250,000	" " "	$500,000
7%	" " "	$500,000		

A deductible exemption of $20,000 is allowed the widow and $10,000 to all others in this class.

Class 2.—Wife or widow of son, husband or widower of daughter, grandparent, brother, sister, mutually acknowledged child:

3% of amount up to $10,000								
4%	of amount	exceeding	$ 10,000	and	not	exceeding	$ 25,000
5%	"	"	"	$ 25,000	"	"	"	$ 50,000
6%	"	"	"	$ 50,000	"	"	"	$100,000
7%	"	"	"	$100,000	"	"	"	$250,000
8%	"	"	"	$250,000	"	"	"	$500,000
10%	"	"	"	$500,000				

A deductible exemption of $2,000 is allowed each beneficiary in this class.

Class 3.—Uncle, aunt, nephew, or niece, or any lineal descendant of same:

4% of amount up to $5,000								
5%	of	amount	exceeding	$ 5,000	and	not	exceeding	$ 10,000
6%	"	"	"	$ 10,000	"	"	"	$ 25,000
8%	"	"	"	$ 25,000	"	"	"	$100,000
10%	"	"	"	$100,000	"	"	"	$250,000
12%	"	"	"	$250,000	"	"	"	$500,000
14%	"	"	"	$500,000				

If the amount is less than $500 there is no tax; otherwise entire amount is taxable.

Class 4.—All others not entirely exempt:

7% of amount up to $5,000								
8%	of	amount	exceeding	$ 5,000	and	not	exceeding	$ 10,000
9%	"	"	"	$ 10,000	"	"	"	$ 25,000
10%	"	"	"	$ 25,000	"	"	"	$100,000
12%	"	"	"	$100,000	"	"	"	$250,000
14%	"	"	"	$250,000	"	"	"	$500,000
16%	"	"	"	$500,000				

If the amount is less than $500 there is no tax; otherwise entire amount is taxable.

Taxation of Life Insurance Proceeds

A policy of insurance upon the life of a decedent, held by him at the time of his death, payable to his executors, administrators, and assigns, or to his personal representatives is property owned by him at his death and is taxable. However, if payable to a specific beneficiary in his own right there is no tax.

CONNECTICUT

Property Subject to Tax

The tax is levied on all property and any interest therein passing by will or inheritance under the laws of the state: all gifts of such property by deed, grant, or other conveyance, made in contemplation of the death of the grantor or donor, or intended to take effect in possession or enjoyment at or after the death of such grantor or donor; the exercise of a power of appointment or the failure to exercise it; property held in the joint names of two or more persons or by tenants by the entirety, or deposited in banks or other institutions or depositories in the joint names of two or more persons and payable to either or to the survivor.

All transfers of real or personal property by gift, deed, grant, or other conveyance between parties related by blood or marriage, either by a direct conveyance through a third party, made and completed within one year next prior to the date of death of the grantor or donor, shall be construed prima facie to have been made in contemplation of death.

Exemptions

There is no tax on property passing to, or in trust for, the benefit of any corporation or institution located in the state which receives state aid, or for the use of a municipal corporation for public purposes within the state; and all gifts of paintings, pictures, books, engravings, bronzes, curios, bric-a-brac, arms and armor, and collections of articles of public interest, passing to any corporation or institution located in the state for preservation and free exhibition; any gift to any association or corporation in trust for the perpetual care of cemetery plots to an amount not exceeding $300; and property given, devised, or bequeathed exclusively for religious, educational, or missionary purposes to, or in trust for, any religious, educational, or missionary corporation wherever situated.

Deductible exemptions are allowed to the various classes of beneficiaries as shown below. It should be noted that these exemptions are not to each individual beneficiary but to the class as a whole.

Nonresident Decedents

Real estate passing from a nonresident decedent by will or inheritance under the laws of the state is subject to the same treatment as that of a resident. But all tangible personal property, including moneys on deposit within the state, and all stocks or registered obligations of any national bank located in the state or of any corporation organized or existing under the laws of the state, is subject to a transfer tax of 2 per cent of its fair market value.

Reciprocal Provision

If the state of domicile of a nonresident decedent imposes no succession, inheritance, transfer, or similar tax upon tangible personal property or the stock or registered obligations of any national bank or corporation located in such state or organized or existing under the laws of such state held at their decease by residents of Connecticut, there is no tax on similar property belonging to nonresidents of Connecticut. This does not include real estate.

Discount and Interest

There is no discount for prompt payment provided in the act. The tax is due in 14 months and if not paid then interest accrues at the rate of 9 per cent per annum.

Rates of Tax

The several classes of beneficiaries are subject to the following rates of tax:

Class 1.—Parent, grandparent, husband, wife, lineal descendant, adopted child, adoptive parent, and lineal descendant of any adopted child:

1% of amount in excess of	$ 10,000	up to and including	$ 25,000
2% " " " " "	$ 25,000	" " " "	$100,000
3% " " " " "	$100,000	" " " "	$200,000
4% " " " " "	$200,000		

The deductible exemption of $10,000 is allowed the entire group.

Class 2.—Husband or wife of any child of such decedent, any stepchild, brother or sister of the full or half blood, and any descendant of such brother or sister:

2% of amount in excess of	$ 3,000	up to and including	$ 25,000
3% " " " " "	$ 25,000	" " " "	$100,000
4% " " " " "	$100,000	" " " "	$200,000
5% " " " " "	$200,000		

The $3,000 exemption is to the entire group.

Class 3.—All others except those previously mentioned as being entirely exempt:

5% of amount in excess of	$ 500	up to and including	$ 25,000
6% " " " " "	$ 25,000	" " " "	$100,000
7% " " " " "	$100,000	" " " "	$200,000
8% " " " " "	$200,000		

The $500 exemption is to the entire group.

Taxation of Life Insurance Proceeds

If the proceeds are payable to the estate, they are taxable; but if payable to a specifically named beneficiary or to a trustee for a specifically named beneficiary, they are not taxable.

DELAWARE

Property Subject to Tax

The tax is levied on all property within the jurisdiction of the state, real and personal, and every estate and interest therein which passes by will or by the intestate laws of the state or by deed, grant, gift, or settlement (except in cases of a bona fide purchase for full consideration in money or money's worth) made in contemplation of or intended to take effect in possession or enjoyment after, the death of the grantor, donor, or settlor.

It is also provided that a transfer of a material part of the property of a decedent in the nature of a final disposition or distribution thereof made by the decedent within two years prior to his death without full consideration in money or money's worth, shall, unless shown to the contrary, be deemed to have been made in contemplation of death.

Exemptions

No tax is imposed on any property or estate or interest therein passing to, or for the use of, or in trust for, charitable, educational, historical, or religious societies or institutions; or cities or towns for public improvement; or to school districts or library commission. Deductible exemptions to specific beneficiaries in Classes 1 and 2 are permitted as indicated below.

Nonresident Decedents

All property within the jurisdiction of the state, real and personal, and every interest therein except shares of the capital stock of corporations created under the laws of the state are taxable. Practically, this means only real estate and tangible property located within Delaware are taxed. The specific exception of capital stock is one of the attractive incorporation features offered by the State of Delaware.

Discount and Interest

No mention is made of an allowance for prompt payment or a charge of interest if not paid within a certain time. However, the law provides that if the executor or administrator has not paid within 13 months of the granting of letters testamentary he shall be denied his commission on the estate and shall be liable on his official bond.

Rates of Tax

The following rates of taxes are levied on property passing to, or for the use of, each of the several beneficiaries in the different classes.

Class 1.—Parent, grandparent, husband, wife, child by birth, wife or widow of a son, or the husband of a daughter, a child by legal adoption, or lineal descendant of the decedent:

1%	of amount	in	excess	of	\$ 3,000	and	not	exceeding	\$ 30,000
2%	"	"	"	"	\$ 30,000	"	"	"	\$100,000
3%	"	"	"	"	\$100,000	"	"	"	\$200,000
4%	"	"	"	"	\$200,000				

Each beneficiary in this class is allowed a deductible exemption of \$3,000.

CLASS 2.—A brother or sister, either of the whole or half blood, of the decedent or of the decedent's parent or grandparent; or a lineal descendant of any such brother or sister:

2%	of	amount	in	excess	of	$ 1,000	and	not	exceeding	$ 25,000
3%	"	"	"	"	"	$ 25,000	"	"	"	$100,000
4%	"	"	"	"	"	$100,000	"	"	"	$200,000
5%	"	"	"	"	"	$200,000				

CLASS 3.—Others not described in Class 1 or 2 or entirely exempt:

5% of any amount not exceeding $25,000

6%	of	amount	in	excess	of	$ 25,000	and	not	exceeding	$100,000
7%	"	"	"	"	"	$100,000	"	"	"	$200,000
8%	"	"	"	"	"	$200,000				

Taxation of Life Insurance Proceeds

There is no tax on life insurance payable to a specifically named beneficiary. When the proceeds are payable to the estate, they are taxable.

FLORIDA

The State of Florida has taken a very hostile attitude toward all inheritance taxes. In 1924, the state constitution was amended to prohibit the levying of inheritance taxes and personal income taxes. Undoubtedly this action attracted considerable capital to the state and intensified their land boom. Investment in real estate is particularly attractive to a nonresident, because his state of domicile cannot impose its inheritance tax rate on real property beyond its borders.

Florida has been greatly irritated over the 80 per cent credit clause of the 1926 Federal estate tax. It is claimed that this credit of inheritance taxes paid to any state or states virtually nullifies the effect of their constitutional amendment. As a result they attacked the constitutionality of the 80 per cent credit allowed in the Federal estate tax of 1926, but the Supreme Court of the United States refused to permit them to file a bill.

GEORGIA

The State of Georgia has abolished its detailed inheritance tax law and in its place has substituted a unique method of computing the taxes. It is now provided that whenever an estate is subject to the payment of a Federal estate tax a duplicate of the return made to the Federal authorities shall be filed with the State Tax Commissioner. He then computes the amount that would be due under the Federal estate tax law and assesses against the estate 80 per cent of the amount found due for Federal estate taxes. (This, it will be observed, is equivalent to the 80 per cent credit provided in the Federal Revenue Act of 1926.)

The tax is due within 6 months after notice from proper authority, and there is no discount for prompt payment. However, if not paid within 6 months, interest accrues thereafter at the rate of 1 per cent per month until paid.

The property of nonresidents is not taxed.

Life insurance proceeds are taxable under the same circumstances as in the Federal estate tax law.

IDAHO

Property Transfers Subject to Tax

A tax is imposed on the clear market value of all property or any interest therein or income therefrom which passes by will or by the intestate laws of the state from any person who may die seized or possessed of the same while a resident of the state, or which is transferred by deed, grant, sale, or gift made in contemplation of death or intended to take effect after death.

Exemptions

There is no tax on property transferred to societies, corporations, and institutions exempted from taxation, or which are devoted to charitable, benevolent, or educational purposes.

Exemptions of specific amounts are allowed to certain beneficiaries and these exemptions are deducted from the first $25,000 subject to tax. Idaho recognizes the law of community property and exempts one-half of all such property passing to the surviving spouse.

Nonresident Decedents

Nonresidents are taxed on all property located within the state. This includes the stocks and registered bonds of domestic corporations wherever located.

Discount and Interest

A discount of 5 per cent is allowed if the tax is paid within 6 months of death. After one year interest is charged at the rate of 6 per cent per annum.

Rate of Tax

The rates of tax affecting various amounts for the several classes of beneficiaries are as follows:

Class 1.—Widow, minor child, husband, lineal issue, lineal ancestor, or adopted child of decedent, or any child to whom decedent, for not less than 10 years prior to the transfer, stood in the mutually acknowledged relation of parent, or any lineal issue of such adopted or mutually acknowledged child.

1 %	of amount not exceeding $25,000			
1½%	of amount in excess of	$ 25,000	and not exceeding	$ 50,000
2 %	" " " " "	$ 50,000	" " "	$100,000
2½%	" " " " "	$100,000	" " "	$500,000
3 %	" " " " "	$500,000		

An exemption of $10,000 is permitted to a widow or minor child, and to other members of the group $4,000 each.

Class 2.—Brother, sister, or descendant of a brother or sister, wife or widow of a son, husband of a daughter of decedent:

1½%	of amount not exceeding	$25,000		
2¼%	of amount in excess of	$ 25,000	and not exceeding	$ 50,000
3 %	“ “ “ “ “	$ 50,000	“ “ “	$100,000
3¾%	“ “ “ “ “	$100,000	“ “ “	$500,000
4½%	“ “ “ “ “	$500,000		

An exemption of $2,000 is allowed each beneficiary.

Class 3.—Brother or sister of the father or mother of decedent, or a descendant of such person:

3 %	of amount not exceeding	$25,000		
4½%	of amount in excess of	$ 25,000	and not exceeding	$ 50,000
6 %	“ “ “ “ “	$ 50,000	“ “ “	$100,000
7½%	“ “ “ “ “	$100,000	“ “ “	$500,000
9 %	“ “ “ “ “	$500,000		

An exemption of $1,500 is allowed each beneficiary.

Class 4.—Brother or sister of the grandfather or grandmother of decedent, or descendant of such:

4 %	of amount not exceeding	$25,000		
6 %	of amount in excess of	$ 25,000	and not exceeding	$ 50,000
8 %	“ “ “ “ “	$ 50,000	“ “ “	$100,000
10 %	“ “ “ “ “	$100,000	“ “ “	$500,000
12 %	“ “ “ “ “	$500,000		

An exemption of $1,000 is allowed each beneficiary.

Class 5.—Any person in any other degree of consanguinity or a stranger in blood to decedent or a body politic or corporate:

5 %	of amount not exceeding	$25,000		
7½%	of amount in excess of	$ 25,000	and not exceeding	$ 50,000
10 %	“ “ “ “ “	$ 50,000	“ “ “	$100,000
12½%	“ “ “ “ “	$100,000	“ “ “	$500,000
15 %	“ “ “ “ “	$500,000		

An exemption of $500 is allowed each beneficiary.

Taxation of Life Insurance Proceeds

The proceeds of life insurance are taxable only when payable to the estate of the insured. When a specific beneficiary is designated there is no tax.

ILLINOIS

The Taxable Estate

The gross taxable estate of a decedent includes all real estate within the state or interest therein; all tangible personal property wherever located; and intangible personalty. The tax is applied when any of the property described above is transferred:

1. By bequest or devise;
2. Under intestate laws;
3. By deed, grant, bargain, sale, or gift made in contemplation of the death of the grantor, vendor, or donor;
4. By deed, grant, bargain, sale, or gift made or intended to take effect in possession or enjoyment at or after the death of the grantor, vendor, or donor;
5. Under the exercise or nonexercise of a power of appointment; or
6. By survivorship in a case of a joint tenancy or other form of joint ownership.

Exemptions

No tax is imposed on transfers to charitable, religious, or educational institutions if they are organized and operated under the law of Illinois exclusively for the purpose or purposes just mentioned.

Specific deductible exemptions are permitted certain beneficiaries as indicated later.

Nonresident Decedent

All real estate or any interest therein is taxable if located within the state. The tax is also imposed on all tangible personal property located in the state, and all intangible personalty relating to property or interests therein which have a situs in the state. The latter includes shares of stock in corporations organized under Illinois laws even though the shares are physically located without the state, but it does not include shares of stock of a foreign corporation even though the corporation owns property in the state.

Discount and Interest

The right of the state to the tax vests immediately upon the death of the decedent although 5 per cent discount is allowed if the tax is paid within 6 months. If not paid within that time interest accrues from the date of death at the rate of 6 per cent per annum. The court cannot remit this interest charge because it is compensation to the state for loss of use of the tax money and is not a penalty.

Rates of Tax

The classes of beneficiaries, their rates of tax and exemptions are given below:

Class 1.—Father, mother, lineal ancestor, husband, wife, child, brother, sister, wife or widow of son, husband of daughter, legally adopted child, mutually acknowledged child, all lineal descendants of decedent born in lawful wedlock:

2% on any amount up to and including $50,000 in excess of exemption
4% on the next $100,000 or any part thereof
6% " " " $100,000 " " " "
10% " " " $250,000 " " " "
14% on the amount representing the balance of each individual transfer

Deductible exemptions of $10,000 each to brother or sister, all others in this class $20,000 each.

Class 2.—Uncle, aunt, niece, nephew, lineal descendants of the same:

6%	on any amount up to and including $20,000 in excess of exemption	
8%	on the next $ 50,000	or any part thereof
12%	" " " $100,000	" " " "
16%	on the amount representing the balance of each individual transfer	

A deductible exemption of $500 is allowed each beneficiary.

Class 3.—All others not previously mentioned as being entirely exempt:

10%	on any amount up to and including $20,000 in excess of exemption	
12%	on the next $ 30,000	or any part thereof
16%	" " " $ 50,000	" " " "
20%	" " " $ 50,000	" " " "
24%	" " " $100,000	" " " "
30%	on the amount representing the balance of each individual transfer	

A deductible exemption of $100 is allowed each beneficiary.

Taxation of Life Insurance Proceeds

The proceeds of policies of insurance payable to the estate or executors or trustees for the benefit of the estate are taxable. This includes the proceeds of policies carried for the purpose of providing funds to pay inheritance or estate taxes or out of which debts or charges of the estate or legacies may be paid. Where a beneficiary dies before the insured the proceeds of the policy are distributed as a part of the latter's estate and are so taxed. This emphasizes the importance of naming contingent beneficiaries. The proceeds of policies of insurance not payable to, or for the benefit of, the decedent's estate are not taxed.

INDIANA

Property Subject to Tax

A tax is imposed upon any transfer of property, real, personal, or mixed, or any interest therein or income therefrom in trust or otherwise in the following cases:

1. When the transfer is by will or by the intestate laws of this state.

2. When the transfer is by deed, grant, bargain, sale, or gift, made without valuable and adequate consideration in money or money's worth to the full value of the property transferred, in contemplation of the death of the grantor, vendor, or donor; or intended to take effect in possession or enjoyment at or after such death; provided: that any conveyance, gift, or transfer made within two years of the death of any decedent, without such consideration, shall, unless shown to the contrary, be deemed to have been made in contemplation of death.

3. Whenever property transferred by will is not specifically bequeathed or devised, such property shall be deemed to be transferred proportionally to, and divided prorata among all the general legatees and devisees named in decedent's will, including all transfers under a residuary clause of such will.

4. Whenever any person or corporation shall exercise a power of appointment derived from any disposition of property.

5. Whenever property is held in the joint names of two or more persons, or is deposited in banks or other institutions or depositaries in the joint names of two or more persons and payable to either or the survivor, upon the death of one of such persons, the exercise of the right of the surviving person or persons to the immediate ownership or possession and enjoyment of such property shall be deemed a taxable transfer.

Exemptions

There is no tax imposed on transfers to county, town, or municipal corporations for strictly county, town, or municipal purposes; or to the bishop, rector, pastor, trustee, board of trustees, or governing body of any educational or religious institution, who shall use the property so transferred solely for religious, charitable, or educational purposes, within the state; and corporations of this state organized under its laws solely for religious, charitable, or educational purposes, which shall use the property so transferred exclusively for the purposes of their organization, within the state. Deductible exemptions of specific amounts are allowed certain designated beneficiaries.

Nonresident Decedents

The transfers by will or intestate law, or those made in contemplation of death, of all tangible or intangible property within the jurisdiction of the state and belonging to a nonresident, are taxable. Stocks of domestic corporations are taxed wherever located although bonds of such corporations are taxed only if they are physically within the state.

Discount and Interest

If the tax is paid within one year a discount of 5 per cent is allowed. If not paid within 18 months interest is charged from the time the tax accrued at the rate of 10 per cent per annum. This may be reduced to 6 per cent in case of unavoidable delay.

Rates of Tax

The several classes of beneficiaries are taxed as follows:

Class 1.—Wife, husband, decedent's child under 18, other lineal issue, lineal ancestor, acknowledged or adopted child, lineal issue of same:

1%	on remainder of first $25,000 above exemption				
2%	on excess of	$ 25,000	and	up to	$ 50,000
3%	" " "	$ 50,000	"	" "	$300,000
4%	" " "	$300,000			

Deductible exemptions of $15,000 to a wife, $5,000 to a child under 18, and $2,000 to all others in this class are permitted.

Class 2.—Brother, sister, descendant of same, son-in-law, daughter-in-law, widow of son:

2%	on remainder of first	$25,000 above exemption		
4%	on excess of	$ 25,000	and up to	$ 50,000
6%	" " "	$ 50,000	" " "	$300,000
8%	" " "	$300,000		

A deductible exemption of $500 is allowed each beneficiary in this class.

Class 3.—Uncle, aunt, descendant of same:

3%	on remainder of first	$25,000 above exemption		
6%	on excess of	$ 25,000	and up to	$ 50,000
9%	" " "	$ 50,000	" " "	$300,000
12%	" " "	$300,000		

A deductible exemption of $250.

Class 4.—Great uncle, great aunt, descendant of same:

4%	on remainder of first	$25,000 above exemption		
8%	on excess of	$ 25,000	and up to	$ 50,000
12%	" " "	$ 50,000	" " "	$300,000
16%	" " "	$300,000		

A deductible exemption of $150.

Class 5.—All others:

5%	on remainder of first	$25,000 above exemption		
10%	on excess of	$ 25,000	and up to	$ 50,000
15%	" " "	$ 50,000	" " "	$300,000
20%	" " "	$300,000		

An exemption of $100.

Taxation of Life Insurance Proceeds

There is no mention made in the law concerning insurance proceeds, but the state follows the general rule of taxing those proceeds which are receivable by the executor or administrator and exempting those which are payable to specifically named beneficiaries in their own right.

IOWA

Estates Taxable

The estates of all deceased persons in any property whether the decedents are inhabitants of Iowa or not, and whether such estates consist of real, personal, or mixed property, tangible or intangible; and any interest in, or income from, any such estate or property which estate or property is, at the death of the decedent owner, within the state, or is subject to the jurisdiction of Iowa courts; or the property of any decedent domiciled within the state, even though the property of such decedent was situated outside of the state, except real estate located outside of the state, is subject to tax.

If the decedent makes a transfer of, or creates a trust with respect to, any property in contemplation of his death or intended to take effect after his death, the inheritance tax is imposed. There is no time limit on "contemplation of death," and it is determined by the facts of each case.

Exemptions

There is no tax imposed on property passing to societies or institutions within the state incorporated for educational or religious purposes; or to cemetery associations; or societies within the state organized for purposes of public charity, including humane societies, or public libraries or public art galleries within the state, open to the use of the public and not operated for gain; or to hospitals within the state; or to municipal corporations for purely public purposes.

There is a flat exemption of $15,000 for transfers to direct heirs, and bequests to all others are exempt if the total is not in excess of $1,000; if it is in excess of $1,000 the whole amount is taxed.

Discount and Interest

The state of Iowa allows 18 months in which to pay the tax, and there is no discount if it is paid within that period. Interest at the rate of 8 per cent is charged for all time over 18 months unless delay was unavoidable, in which case the rate may be reduced to 6 per cent.

Rate of Tax

Class 1.—Wife or husband, father, mother, child, or lineal descendant including a legally adopted child or illegitimate child entitled to inherit under the laws of the state:

1 %	of amount	in	excess	of	$ 15,000	and	up	to	$ 30,000
1½%	"	"	"	"	$ 30,000	"	"	"	$ 45,000
2 %	"	"	"	"	$ 45,000	"	"	"	$ 60,000
2½%	"	"	"	"	$ 60,000	"	"	"	$ 90,000
3 %	"	"	"	"	$ 90,000	"	"	"	$120,000
4 %	"	"	"	"	$120,000	"	"	"	$180.000
5 %	"	"	"	"	$180,000	"	"	"	$240,000
6 %	"	"	"	"	$240,000	"	"	"	$300,000
7 %	of all sums in excess of $300,000								

The $15,000 exemption applies to each beneficiary. In the case of a surviving spouse the distributive share, which is one-third of the estate, is an additional exemption.

Class 2.—Person, firm, corporation, or society other than those designated in Class 1:

5% of amount up to $100,000
6% of amount in excess of $100,000 and up to $200,000
7% of all amounts in excess of $200,000

Nonresident Decedents and Nonresident Alien Beneficiaries

Nonresidents are taxed on the transfers of all property within the jurisdiction of the state, including money in bank and stocks and bonds of domestic corporations wherever located. Nonresidents of Iowa who are not aliens are taxed at the same rates as residents. Nonresident alien beneficiaries are taxed as follows:

Class 1.—If the foreign beneficiaries are brothers or sisters or within Class 1 given above, the rate is 10 per cent on all property transferred.

Class 2.—Transfers to all other nonresident aliens are taxed at 20 per cent.

There are no exemptions for either group.

Taxation of Life Insurance Proceeds

Proceeds of policies payable to a specifically named beneficiary are not taxed. However, if the proceeds are payable to the executors or administrators or become part of the assets of the decedent's estate, the inheritance tax will be imposed. An Iowa court has inferred that where an estate has been designated as beneficiary and a few days before death the insured assigns the policy to a specific individual, the transfer has been made in contemplation of death.

KANSAS

Property Subject to Tax

There is a tax on all transfers of real or personal property within the state if it passes by will, intestate law, or is transferred by deed, grant, or gift made in contemplation of death.

Exemptions

No tax is levied on transfers to the State of Kansas or to any county or municipality thereof for public purposes, or upon gifts for literary, educational, scientific, religious, benevolent, or charitable purposes if such bequests are exempt from other taxation. When specific provision is made to pay taxes out of sums other than the bequests the amounts so provided are exempt. There are also specific deductible exemptions allowed certain beneficiaries.

Nonresident Decedents

Nonresidents are taxed on all property within the state including the stock of domestic corporations regardless of whether the stock is within the state or not. Other intangible property is taxed only if it has a situs within the state. The rates of tax are the same as for residents, and exemptions are apportioned in the ratio of the property within the state to the entire estate.

Discount and Interest

The tax is due at the time of transfer and 6 per cent per annum is charged thereafter until paid. There is no discount allowed.

Rates of Tax

The beneficiaries are grouped and taxed as follows:

Class 1.—Wife:

½%	of the first	$ 25,000 above the exemption of $75,000
1 %	of the next	$ 25,000
1½%	" " "	$ 50,000
2 %	" " "	$400,000
2½%	of the remainder	

A deductible exemption of $75,000 is allowed.

Class 2.—Husband, lineal ancestor, lineal descendant, adapted child or lineal descendant of the same, wife or widow of a son, or husband of a daughter:

1%	of the first	$25,000		
2%	of all in excess of	$ 25,000	and up to	$ 50,000
3%	" " " " "	$ 50,000	" " "	$100,000
4%	" " " " "	$100,000	" " "	$500,000
5%	" " " " "	$500,000		

Each beneficiary in this class is allowed a deductible exemption of $15,000 before the tax is applied.

Class 3.—Brother or sister:

3 %	of the first	$25,000				
5 %	of all in excess of	$ 25,000	and	up	to	$ 50,000
7½%	" " " " "	$ 50,000	"	"	"	$100,000
10 %	" " " " "	$100,000	"	"	"	$500,000
12½%	" " " " "	$500,000				

Each beneficiary in this class is allowed a deductible exemption of $5,000 before the tax is applied.

Class 4.—All others except those previously mentioned as being entirely exempt:

5 %	of the first	$25,000				
7½%	of all in excess of	$ 25,000	and	up	to	$ 50,000
10 %	" " " " "	$ 50,000	"	"	"	$100,000
12½%	" " " " "	$100,000	"	"	"	$500,000
15 %	" " " " "	$500,000				

There are no deductible exemptions to this class of beneficiaries.

Taxation of Life Insurance Proceeds

The law of Kansas is unusual in its provision for not taxing sums provided by will or any other instrument for the purpose of paying taxes. This permits the use of life insurance to pay inheritance taxes and exempts the proceeds in so far as they are used for that purpose. The administrator or executor may be designated as the beneficiary with instructions to use the insurance to pay taxes, and the proceeds will be exempt if they are so used. Other specifically named beneficiaries are exempt also.

KENTUCKY

Property Subject to Tax

A tax is imposed on all property within the jurisdiction of the state, real or personal, and any interest therein, and all personal property wherever situated which shall pass by will, or by the laws regulating intestate succession, or by deed, grant, bargain, sale, or gift, made in contemplation of death. Every transfer made within three years prior to the death of the grantor, vendor, or donor, of a material part of his estate, or in the nature of a final disposition or distribution thereof, and without an adequate valuable consideration, shall be construed to have been made in contemplation of death. A tax is also imposed whenever any person shall exercise a power of appointment derived from any disposition of property or shall omit or fail to exercise the same. Whenever any property, real or personal, is held in the joint names of two or more persons, or as tenants by the entirety, or is deposited in banks or other institutions or depositaries in the joint names of two or more persons and payable to either or the survivor, upon the death of one of such persons the right of the surviving tenant by the entirety, joint tenant or joint tenants, person or persons, to the immediate ownership or possession and enjoyment of such property shall be deemed a taxable transfer of one-half or other proper fraction thereof.

Exemptions

There is no tax on transfers to educational, religious, or other institutions, societies, or associations, whose sole object and purpose is to carry on charitable, educational, or religious work, within the state; or transfers for, or in trust for, any charitable purpose in the state; and all transfers to cities and towns or public institutions in the state for public purposes. Deductible exemptions of specific amounts are allowed certain beneficiaries. These exemptions are deducted from the first $25,000 subject to tax.

Nonresident Decedents

Nonresidents are taxed at the same rates as residents on all real estate within the state or any interest therein which passes by will, laws regulating intestate succession, or conveyed in contemplation of death. All shares of stock in corporations organized under the laws of the state and all tangible personal property within the jurisdiction of the state and any interest therein, are subject to a tax of 2 per cent of its actual value upon its transfer, payment, or delivery to the executor, administrator, or trustee of the estate of the deceased. There are no exemptions allowed on personal property but for real property they are the same as for residents.

Discount and Interest

If the tax is paid within 18 months of death there is no interest charge, but if not paid within that period a penalty of 10 per cent per annum is charged for the entire period until paid. This may be reduced to 6 per cent and begin at the expiration of the 18-month period if the delay was unavoidable. There is a discount of 5 per cent if the tax is paid within 9 months.

Rates of Tax

The beneficiaries are classified and taxed according to the following schedule:

Class 1.—Husband, wife, lineal ancestor, lineal descendant, adopted child, any child to whom such decedent for not less than 10 years prior to such transfer stood in the mutually acknowledged relation of a parent, stepchild, daughter-in-law, son-in-law, or any lineal issue of such adopted or mutually acknowledged child or stepchild:

1%	of the value not exceeding $25,000			
2%	of the value exceeding	$ 25,000	and not exceeding	$ 50,000
3%	" " " "	$ 50,000	" " "	$ 100,000
4%	" " " "	$ 100,000	" " "	$ 250,000
5%	" " " "	$ 250,000	" " "	$ 500,000
6%	" " " "	$ 500,000	" " "	$ 750,000

7%	of the value exceeding	$ 750,000	and not exceeding	$1,000,000
8%	" " " "	$1,000,000	" " "	$2,000,000
9%	" " " "	$2,000,000	" " "	$3,000,000
10%	" " " "	$3,000,000	" " "	$4,000,000
11%	" " " "	$4,000,000	" " "	$5,000,000
12%	" " " "	$5,000,000	" " "	$6,000,000
13%	" " " "	$6,000,000	" " "	$7,000,000
14%	" " " "	$7,000,000	" " "	$8,000,000
15%	" " " "	$8,000,000	" " "	$9,000,000
16%	" " " "	$9,000,000		

A wife is allowed a $20,000 exemption, minors $10,000 each, and other beneficiaries in the group $5,000 each.

Class 2.—Brother, sister, brother-in-law, sister-in-law, nephew, niece, or lineal descendant of, the wife or widow of a nephew, or the husband of a niece, or uncle, or aunt, and all religious, charitable, educational, and state institutions within the United States but not within the state:

2%	of the value not exceeding $25,000			
3%	of the value exceeding	$ 25,000	and not exceeding	$ 50,000
5%	" " " "	$ 50,000	" " "	$ 100,000
7%	" " " "	$ 100,000	" " "	$ 250,000
9%	" " " "	$ 250,000	" " "	$ 500,000
12%	" " " "	$ 500,000	" " "	$1,000,000
13%	" " " "	$1,000,000	" " "	$3,000,000
14%	" " " "	$3,000,000	" " "	$6,000,000
15%	" " " "	$6,000,000	" " "	$9,000,000
16%	" " " "	$9,000,000		

Brothers, sisters, brothers-in-law and sisters-in-law, uncles and aunts are allowed a deductible exemption of $2,000 each. Other beneficiaries $500 each.

Class 3.—All others except those entirely exempt:

6%	of the value not exceeding $25,000			
8%	of the value exceeding	$ 25,000	and not exceeding	$ 50,000
10%	" " " "	$ 50,000	" " "	$ 100,000
12%	" " " "	$ 100,000	" " "	$ 250,000
14%	" " " "	$ 250,000	" " "	$ 500,000
16%	" " " "	$ 500,000		

A deductible exemption of $500 is allowed each beneficiary.

Taxation of Life Insurance Proceeds

The law of Kentucky contains a specific provision to the effect that the proceeds of life insurance payable to designated individual or individuals shall not be subject to inheritance tax. The practice is to tax only those proceeds which are payable to the estate, the executors, or the administrators in their official capacity.

LOUISIANA

Property Subject to Tax

The tax is imposed with respect to all property of every nature and kind included or embraced in any inheritance, legacy, or donation or gift made in contemplation of death, including all personal property physically in the State of Louisiana, whether inherited, bequeathed, given or donated to, under the law of the state or of any other state or country; and all personal property wherever situated. All donations or transfers of property for inadequate consideration within one year prior to death shall be presumed to have been made in contemplation of death unless proved to the contrary.

Exemptions

All legacies and donations to charitable, religious, or educational institutions located within the State of Louisiana are entirely exempt. Other exemptions of specific amounts are permitted beneficiaries in the various groups. This is accomplished by commencing the tax brackets immediately above the exemption for each beneficiary.

Nonresident Decedent

All property located in the state and belonging to a nonresident is taxed at its proportionate value of the entire estate. Stocks and bonds of domestic private corporations are subject to tax wherever located.

Discount and Interest

There is no discount for prompt payment. After 6 months interest accrues at the rate of 1 per cent per month and at the end of 12 months it is increased to 2 per cent per month. No transfers are allowed until the tax is paid.

Rates of Tax

The rates of tax on the various classes of beneficiaries are as follows:

CLASS 1.—Direct descendant, by blood or affinity, ascendant, or surviving spouse of decedent:

2% of amount in excess of $ 5,000 and up to $20,000
3% " " " " " $20,000

CLASS 2.—Collateral relation (including brothers or sisters by affinity):

5% of amount in excess of $ 1,000 and up to $20,000
7% " " " " " $20,000

CLASS 3.—Strangers:

5% of amount in excess of $ 500 and up to $ 5,000
10% " " " " " $ 5,000

Taxation of Life Insurance Proceeds

Louisiana follows the general rule of exempting those proceeds which are payable to specifically named beneficiaries in their own right and taxing all others.

MAINE

Property Subject to Tax

A tax is imposed on all property within the jurisdiction of this state, and any interest therein, and whether tangible or intangible, which passes by will, by the intestate laws of the state, or by allowance of a judge of probate, to a widow or child, by deed, grant, sale, or gift, except in cases of a bona fide purchase for full consideration in money or money's worth made or intended to take effect in possession or enjoyment after the death of the grantor.

Exemptions

There is no tax on property passing to, or for the use, of any educational, charitable, religious, or benevolent institution in the state. Deductible exemptions of specific amounts are also permitted certain beneficiaries. If a resident's property is taxed by another state, he is exempt to the extent of such tax.

Nonresident Decedent

The same general provisions of the act relating to taxable transfers affect residents and nonresidents alike. If the State of Maine has jurisdiction over the property, whether real or personal, it is taxed if transferred in one of the aforementioned ways. Naturally, this means that stocks and bonds are taxed. The exemptions are apportioned.

Discount and Interest

The tax is due within 2 years of the granting of letters testamentary or of administration unless the shares are distributed earlier, in which case the tax is due at that time. There is no discount allowed for prompt payment but interest is charged at the rate of 6 per cent per annum beginning when the tax is due.

Rates of Tax

The various classes of beneficiaries are taxed at the following rates:

Class 1.—Father, mother, son, daughter, husband, wife, adopted child, or adoptive parent:

1 % if the distributive share does not exceed \$50,000
1½% if the distributive share exceeds \$ 50,000 but not \$100,000
2 % " " " " " \$100,000

A deductible exemption of \$10,000 is allowed each beneficiary.

Class 2.—Grandparents and other lineal ancestors of remoter degrees, grandchildren and other lineal descendants of remoter degrees, wife or widow of son, or husband or widower of daughter:

1 % if the distributive share does not exceed \$50,000
1½% if the distributive share exceeds \$ 50,000 but not \$100,000
2 % " " " " " \$100,000

A deductible exemption of \$500 is allowed each beneficiary.

Class 3.—Brother, sister, uncle, aunt, nephew, niece, or cousin:

4 % if the distributive share does not exceed \$50,000
4½% if the distributive share exceeds \$ 50,000 but not \$100,000
5 % " " " " " \$100,000

A deductible exemption of \$500 is allowed each beneficiary.

Class 4.—All other heirs or legatees except educational, domestic, charitable, benevolent, or religious institutions:

5 % if the distributive share does not exceed \$50,000
6 % if the distributive share exceeds \$ 50,000 but not \$100,000
7 % " " " " " \$100,000

A deductible exemption of \$500 is allowed each beneficiary.

Notice should be taken of the fact that the distributive shares are not split up into various blocks at certain rates of tax but the amount of each share determines the rate that is to be applied to it.

Taxation of Life Insurance Proceeds

The act makes no mention of life insurance but the practice is to tax the proceeds if they are payable to the estate. If payable to a specific beneficiary there is no tax.

MARYLAND

Property Subject to Tax

The tax is imposed on all transfers of property, real or personal within the state, when the transfer is by will or intestate law or made in contemplation of death.

Exemptions

There is no tax on transfers to a father, mother, husband, wife, child, lineal descendants; or to any county or municipality in the state. A flat exemption of $500 is provided for all other transfers.

Nonresident Decedents

The tax is on all transfers of tangible property within the state. Generally speaking, this excludes stock of domestic corporations, but a tax is levied on the commission of the administrator or executor when ancillary proceedings are necessary. This tax is at the rate of 1 per cent on the first $20,000 of the estate and 1/5 of 1 per cent on the amount in excess of $20,000 and must be paid before the stock will be transferred. A nonresident is allowed the same exemptions as a resident.

Discount and Interest

If the tax is not paid within one year of death interest is charged at the rate of 6 per cent per annum. There is no discount allowed for prompt payment.

Rates of Tax

The beneficiaries are divided into three groups, only one of which is taxed. Class 1, consisting of father, mother, husband, wife, child, or lineal descendants, and Class 2, consisting of any county or municipality in the state, are entirely exempt. Class 3 or all others are taxed at the flat rate of 5 per cent excepting where the estate does not exceed $500, in which case there is no tax.

Taxation of Life Insurance Proceeds

Maryland follows the general rule of taxing insurance payable to the estate and exempting the proceeds if payable to a specifically named beneficiary.

MASSACHUSETTS

Property Subject to Tax

The inheritance tax in this state is imposed on the privilege of succession to any property within the jurisdiction of the commonwealth when such property passes by will, by the laws of intestate succession, by gift or conveyance in contemplation of the death, or intended to take effect in possession or enjoyment after the death of the donor or grantor; the exercise of a power of appointment; and in the case of property owned jointly when sole ownership accrues to the survivor upon the death of one of the joint owners.

Exemptions

Legacies of any amount to charitable, educational, or religious organizations incorporated in the state are entirely exempt. Exemptions are also allowed certain classes of beneficiaries providing the legacies are within specified limits.

Nonresident Decedents

Nonresidents are taxed on all real estate located in the state and any interest in real estate within Massachusetts. The only personal property subject to tax is stock of corporations organized under the laws of the commonwealth and of national banks located within the state. No other property of a nonresident is taxed, and stock is subject to a reciprocal provision.

Reciprocal Provision

Stock of Massachusetts corporations and national banks owned by a nonresident is exempt from the tax in Massachusetts if it is subject to a tax of like character and amount in the state or country of domicile, provided the laws of the state or country in which the deceased was domiciled grants a like exemption in favor of estates of deceased residents of Massachusetts.

Discount and Interest

The tax is due one year from the date of approval of the executor's or administrator's bond and there is no discount if paid prior to that time. However, interest accrues at the rate of 6 per cent per annum thereafter until paid.

Rates of Tax

The following rates of tax are levied on the legacies passing to the several classes of beneficiaries:

Class 1.—Husband, wife, father, mother, child, adopted child, adoptive parent, grandchild:

1 %	of amount not over $25,000		
2 %	of amount in excess of	$ 25,000 and not over	$ 50,000
4 %	" " " " "	$ 50,000 " " "	$ 250,000
5 %	" " " " "	$250,000 " " "	$ 500,000
5½ %	" " " " "	$500,000 " " "	$ 750,000
6 %	" " " " "	$750,000 " " "	$1,000,000
7 %	on excess above $1,000,000		

An exemption of $10,000 is allowed each person in this class except a grandchild who is allowed $1,000. These are not deductible exemptions, and if the legacy exceeds the exemption the entire amount is taxed, except that it cannot reduce the legacy below the amount of the exemption.

Class 2.—Lineal ancestor, except father or mother; lineal descendant, except child or grandchild; lineal descendant of adopted child; lineal ancestor of adoptive parent; wife or widow of a son; husband of a daughter:

1 %	of amount not over $10,000			
2 %	of amount in excess of	$ 10,000	and not over	$ 25,000
4 %	" " " " "	$ 25,000	" " "	$ 50,000
5 %	" " " " "	$ 50,000	" " "	$ 250,000
6 %	" " " " "	$250,000	" " "	$ 500,000
7 %	" " " " "	$500,000	" " "	$ 750,000
8 %	" " " " "	$750,000	" " "	$1,000,000
9 %	on excess above $1,000,000			

Same exemption as to a grandchild in Class 1.

Class 3.—Brother, sister, half brother, half sister, nephew, niece, stepchild, or step-parent:

3 %	of amount not over $10,000			
5 %	of amount in excess of	$ 10,000	and not over	$ 25,000
7 %	" " " " "	$ 25,000	" " "	$ 50,000
8 %	" " " " "	$ 50,000	" " "	$ 250,000
9 %	" " " " "	$250,000	" " "	$ 500,000
10 %	" " " " "	$500,000	" " "	$ 750,000
11 %	" " " " "	$750,000	" " "	$1,000,000
12 %	on excess above $1,000,000			

Same exemption as to a grandchild in Class 1.

Class 4.—All others:

5 %	of amount not over $10,000			
6 %	of amount in excess of	$ 10,000	and not over	$ 25,000
7 %	" " " " "	$ 25,000	" " "	$ 50,000
8 %	" " " " "	$ 50,000	" " "	$ 250,000
9 %	" " " " "	$250,000	" " "	$ 500,000
10 %	" " " " "	$500,000	" " "	$ 750,000
11 %	" " " " "	$750,000	" " "	$1,000,000
12 %	on excess above $1,000,000			

Same exemption as to a grandchild in Class 1.

Taxation of Life Insurance Proceeds

The tax law contains no specific mention of insurance, and therefore it is taxable only if the proceeds pass in one of the ways mentioned in the act as being taxable. In accordance with this no tax is being collected on the proceeds of life insurance except when the policy is payable to the executors, administrators, or the estate of the insured.

Massachusetts Income Tax

The State of Massachusetts has a personal income tax law which affects life insurance in some cases. The proceeds paid because of the death of the insured are not taxed but matured endowments and annuities are taxed. Thus, wherever a matured policy is paid in a given number of installments, the present value of all the future payments divided by the number of installments equals the amount in each installment which is being returned as apital. The excess over this amount is taxable income.

Whenever periodic payments are made contingent upon ırvival they are classified as annuities and taxed as such.

Dividends on insurance policies are not taxable whether the policies are full paid or not. However, if the dividends are allowed to remain with the insurance company to accumulate at a certain rate of interest, the amount that so accumulates is taxable when it is finally paid over by the insurance company.

MICHIGAN

Property Subject to Tax

A tax is imposed upon the transfer of any property, real or personal, of the value of $100 or over, or of any interest therein or income therefrom, in trust or otherwise: when the transfer is by will or by the intestate laws of the state;

when the transfer is by deed, grant, bargain, sale, or gift made in contemplation of the death of the grantor, vendor, or donor or intended to take effect, in possession or enjoyment at or after death (any transfer of a material part of this property in the nature of a final disposition or distribution thereof made by the decedent within two years prior to his death, except in case of a bona fide sale for a fair consideration in money or money's worth, shall, unless shown to the contrary, be deemed to have been made in contemplation of death); or whenever any person or persons, corporation or association, whether voluntary or organized pursuant to any statute, shall exercise a power of appointment derived from any disposition of property or shall omit or fail to exercise such power.

Exemptions

Transfers to associations or corporations exempt by law from taxation on real and personal property are not subject to inheritance tax. This includes religious, charitable, educational, and other similar institutions incorporated in the state.

Deductible exemptions of specific amounts are allowed certain beneficiaries.

Nonresident Decedents

A tax is imposed on the transfers of property within the state and belonging to a nonresident when the transfer is by will, intestate law, or in contemplation of death. The stocks and bonds of domestic corporations are taxable wherever located. Exemptions are apportioned in the ratio of the Michigan property to the entire estate.

Discount and Interest

The tax is due and payable at the time of transfer which is the date of death. If paid within 12 months of this date, a discount of 5 per cent is allowed. If not paid within 18 months, interest is charged at the rate of 8 per cent per annum from the time the tax accrued. In case of unavoidable delay this may be reduced to 6 per cent and commence at the expiration of 18 months after death.

Rates of Tax

The different beneficiaries are taxed as follows:

Class 1.—Grandfather, grandmother, father, mother, husband, wife, child, brother, sister, wife or widow of a son, or the husband of a daughter; or to, or for the use of, any child or children adopted as such in conformity with the laws of the state or any other state or country, of the decedent grantor, donor, or vendor, or for the use of any persons to whom such decedent grantor, donor, or vendor stood in the mutually acknowledged relation of a parent:

1%	of all in excess of	exemption	and up to	$50,000
2%	of all in excess of	$ 50,000	and up to	$250,000
4%	" " " " "	$250,000	" " "	$500,000
6%	" " " " "	$500,000	" " "	$750,000
8%	" " " " "	$750,000		

That portion of the property which consists of real estate is taxed at three-fourths of these rates.

Deductible exemptions are allowed as follows: $30,000 to husband or wife and $5,000 to each of the other beneficiaries in this class.

Class 2.—Collateral relations or strangers in blood, including the collateral relations and strangers in blood mentioned in Class 1, who are aliens not residing in the United States, or any corporation which is not chartered by the authority of the government of the United States or of any state are taxed a flat rate of 25 per cent.

There is no exemption in this class.

Class 3.—All others excepting those previously mentioned as being entirely exempt:

5% of the first $50,000
10% of the next $450,000
15% of all in excess of $500,000

There is no deductible exemption in this class.

Taxation of Life Insurance Proceeds

Life insurance proceeds are taxable when payable to the executors, administrators, or the estate; but those paid to a specifically named beneficiary in his own right are not taxed.

MINNESOTA

Property Subject to Tax

A tax is imposed upon any transfer of property, real, personal, or mixed, or any interest therein, or income therefrom in trust or otherwise when the transfer is by will or by the intestate laws of the state; or when the transfer is of property by deed, grant, bargain, sale, or gift, made in contemplation of the death of the grantor, vendor, or donor, or intended to take effect in possession or enjoyment at or after death; or whenever any person or corporation shall exercise a power of appointment derived from any disposition of property, or shall omit or fail to exercise the same.

Exemptions

There is no tax on any devise, bequest, gift, or transfer to, or for the use of, the State of Minnesota or any political division thereof for public purposes exclusively; and any devise, bequest, gift, or transfer to, or for the use of, any corporation or association organized and operated for religious, charitable, scientific, literary, or educational purposes exclusively, including the encouragement of art and the prevention of cruelty to children or animals. This applies to institutions within the state only.

Deductible exemptions of specific amounts are allowed certain beneficiaries.

Nonresident Decedents

Nonresidents are taxed on the transfers of all property within the state or within its jurisdiction when it passes by will or intestate law or is conveyed in contemplation of death. Stocks and bonds of domestic corporations are taxable wherever located.

Discount and Interest

If the tax is not paid within one year from the date of death interest is charged at the rate of 7 per cent per annum from the time of such death until paid, although it may be reduced to 6 per cent because of unavoidable delay. There is no discount allowed if the tax is paid in less than one year's time.

Rates of Tax

The following rates of tax are imposed on the several classes of beneficiaries:

Class 1.—Wife or lineal issue:

1 %	of amount in excess of exemption and not exceeding $15,000
2 %	" " " " " $ 15,000 and up to $ 30,000
2½%	" " " " " $ 30,000 " " " $ 50,000
3 %	" " " " " $ 50,000 " " " $100,000
4 %	" " " " " $100,000

Deductible exemption $10,000 each.

Class 2.—Husband, lineal ancestor of the decedent, or any child adopted as such in conformity with the laws of this state, or any child to whom such decedent for not less than 10 years prior to such transfer stood in the mutually acknowledged relation of a parent:

1½%	of	amount	in	excess	of	exemption and not exceeding $15,000
3 %	"	"	"	"	"	$ 15,000 and up to $ 30,000
3¾%	"	"	"	"	"	$ 30,000 " " " $ 50,000
4½%	"	"	"	"	"	$ 50,000 " " " $100,000
6 %	"	"	"	"	"	$100,000

A deductible exemption of $10,000 is allowed all in this class except lineal ancestor who is allowed $3,000.

Class 3.—Brother or sister, or a descendant of a brother or sister of the decedent, a wife or widow of a son, or the husband of a daughter of the decedent:

3 %	of	amount	in	excess	of	exemption and not exceeding $15,000
6 %	"	"	"	"	"	$ 15,000 and up to $ 30,000
7½%	"	"	"	"	"	$ 30,000 " " " $ 50,000
9 %	"	"	"	"	"	$ 50,000 " " " $100,000
12 %	"	"	"	"	"	$100,000

Each beneficiary is allowed a $1,000 exemption.

Class 4.—Brother or sister of the father or mother, or a descendant of a brother or sister of the father or mother of the decedent:

4 %	of	amount	in	excess	of	the exemption and not exceeding $15,000
8 %	"	"	"	"	"	$ 15,000 and up to $ 30,000
10 %	"	"	"	"	"	$ 30,000 " " " $ 50,000
12 %	"	"	"	"	"	$ 50,000 " " " $100,000
16 %	"	"	"	"	"	$100,000

Each beneficiary is allowed a $250 exemption.

Class 5.—Any other degree of collateral consanguinity than is hereinbefore stated, or a stranger in blood to the decedent, or a body politic or corporate, excepting those entirely exempt:

5 %	of	amount	in	excess	of	exemption and not exceeding $15,000
10 %	"	"	"	"	"	$ 15,000 and up to $ 30,000
12½%	"	"	"	"	"	$ 30,000 " " " $ 50,000
15 %	"	"	"	"	"	$ 50,000 " " " $100,000
20 %	"	"	"	"	"	$100,000

Each beneficiary is allowed a deductible exemption of $100.

Taxation of Life Insurance Proceeds

Minnesota follows the general rule of taxing the proceeds which are payable to the estate but not those payable to a specifically named beneficiary.

MISSISSIPPI

Property Subject to Tax

The tax imposed by Mississippi is in the nature of an estate tax on all property, real or personal, tangible or intangible, to the extent of the decedent's interest which is subject to the payment of charges against the estate and is subject to disposition as part of his estate; or any interest therein of the surviving spouse existing at the time of the decedent's death by virtue of any statute creating an estate, in lieu of dower or curtesy, or homestead or other exemptions; or any interest therein jointly or as tenants in the entirety, by the decedent and any other person, or deposited in banks or other institutions in their joint names and payable to either or the survivor; or any property passing under a general power of appointment exercised by the decedent by will, or by deed executed in contemplation of, or intended to take effect in possession or enjoyment at or after, his death, except in case of a bona fide sale for a fair consideration in money or money's worth; or the amount receivable by the executor as insurance under policies, taken out by the decedent upon his own life; and to the extent of the excess of $20,000 of the amount receivable by all other beneficiaries as insurance under policies, taken out by the decedent upon his own life; or any interest therein of which the decedent has at any time made a transfer, or with respect to which he has at any time created a trust in contemplation of, or intended to take effect in possession or enjoyment at or after, his death, except in case of a bona fide sale for a fair consideration in money or money's worth. Any transfer of a material part of his property in the nature of a final disposition or distribution thereof, made by a decedent within two years of his death without such consideration, shall be deemed to have been made in contemplation of death.

Exemptions

There is no tax on bequests, legacies, devises, or gifts to, or for the use of, the State of Mississippi, or for any political subdivision thereof, for exclusively public purposes; or for any corporation or association organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, no part of the net earnings of which inures to the benefit of any private stockholder or individual; or to a trustee or trustees exclusively for such religious, charitable, scientific, literary, or educational purposes.

The gross estate is allowed a deductible exemption of $10,000.

Property acquired from any person who died within two years of decedent shall not be taxed if it has been taxed as part of the estate of the person who died first.

Nonresident Decedents

A nonresident is taxed on all property, real, personal, or mixed, located in the state at the time of decedent's death. This includes trusts and transfers which would be taxable in a resident's estate. Stocks of domestic corporations are taxable wherever located; bonds only if within the state. Exemptions are apportioned in the ratio of Mississippi property to the entire estate.

Discount and Interest

The tax is due 8 months after the death of the decedent and there is no discount for earlier payment. After 8 months interest is charged at the rate of 6 per cent per annum until paid.

Rates of Tax

As previously mentioned, this is an estate tax and the beneficiaries are not divided into several groups. The net taxable estate is determined by deducting the allowable expenses and an exemption from the gross estate. In the case of a resident the exemption is $5,000 for the widow and a like sum for each child subject to a minimum of $25,000. A nonresident is allowed a flat deduction of $10,000. Thereafter the following rates of tax are charged:

1%	of amount not in excess of $25,000					
2%	of amount exceeding	$ 25,000	and	not	exceeding	$ 50,000
3%	" "	"	$ 50,000	" "	"	$ 75,000
4%	" "	"	$ 75,000	" "	"	$100,000
5%	" "	"	$100,000	" "	"	$200,000
6%	" "	"	$200,000	" "	"	$400,000
7%	" "	"	$400,000	" "	"	$600,000
8%	" "	"	$600,000	" "	"	$800,000
9%	" "	"	$800,000	" "	"	$1,000,000
10%	" "	"	$1,000,000			

Taxation of Life Insurance Proceeds

The inheritance tax law of Mississippi specifically provides that all life insurance taken out by the decedent on his own life and payable to designated beneficiaries is taxable to the extent that it exceeds $20,000. All insurance receivable by the executor is taxable.

Mississippi Income Tax Law

The personal income tax law does not include in taxable income the proceeds of life insurance paid upon the death of the insured. It also excludes from taxation any amount received by the insured as a return of premium paid by him under life insurance, endowment, or annuity contracts either during the term or at maturity or upon surrender. This means that "dividends" are not taxed but the amount returned on an annuity or endowment which exceeds the premiums paid is taxable.

MISSOURI

Property Subject to Tax

A tax is imposed upon the transfer of any property, real, personal, or mixed or any interest therein or income therefrom, in trust or otherwise, in the following cases: when the transfer is by will or by the intestate laws of the state; or when the transfer is by deed, grant, bargain, sale, or gift made in contemplation of death of grantor, vendor, or donor, or intending to take effect in possession or enjoyment at or after such death. Every transfer by deed, grant, bargain, sale, or gift made within two years prior to the death of grantor, vendor, or donor, of a material part of his estate or in the nature of a final disposition or distribution thereof without an adequate valuable consideration, shall be construed to have been made in contemplation of death.

Exemptions

All transfers of property or any beneficial interest therein to be used and actually used solely for county, city, town, or municipal purposes or for religious, charitable, or educational purposes in the state, are exempt from taxation.

Deductible exemptions of specific amounts are allowed certain beneficiaries.

Nonresident Decedents

A nonresident is taxed on all property within the state or within its jurisdiction when transferred by will or intestate law or conveyed in contemplation of death. Stocks of domestic corporations are taxable wherever located; bonds only if they are within the state.

Discount and Interest

The tax is due within 9 months of death and there is no discount if paid sooner. If not paid when due, interest is charged at the rate of 6 per cent per annum for the first year following death and 12 per cent per annum thereafter until paid.

Rates of Tax

The beneficiaries are classified and taxed according to the following schedule:

Class 1.—Husband or wife, insane and blind lineal descendants, lineal ancestor, lineal descendant, adopted child or its descendant, or illegitimate child:

1%	of	all	in	excess	of	exemption and not exceeding $20,000				
2%	"	"	"	"	"	$ 20,000	and	up	to	$ 40,000
3%	"	"	"	"	"	$ 40,000	"	"	"	$ 80,000
4%	"	"	"	"	"	$ 80,000	"	"	"	$200,000
5%	"	"	"	"	"	$200,000	"	"	"	$400,000
6%	"	"	"	"	"	$400,000				

Deductible exemptions are allowed as follows: husband or wife $20,000; insane and blind lineal descendants $15,000; all others $5,000 each.

Class 2.—Brother, sister, or their descendants, son-in-law, daughter-in-law, aunt, uncle or descendant thereof:

3%	of	all	in	excess	of	exemption and not exceeding $20,000				
6%	"	"	"	"	"	$ 20,000	and	up	to	$ 40,000
9%	"	"	"	"	"	$ 40,000	"	"	"	$ 80,000
12%	"	"	"	"	"	$ 80,000	"	"	"	$200,000
15%	"	"	"	"	"	$200,000	"	"	"	$400,000
18%	"	"	"	"	"	$400,000				

Deductible exemption of $500.

CLASS 3.—Brother or sister of grandparents or their descendants:

4% of all in excess of exemption and not exceeding	$20,000	
8% " " " " "	$ 20,000 and up to	$ 40,000
12% " " " " "	$ 40,000 " " "	$ 80,000
16% " " " " "	$ 80,000 " " "	$200,000
20% " " " " "	$200,000 " " "	$400,000
24% " " " " "	$400,000	

Deductible exemption of $100.

CLASS 4.—All others, including foreign, charitable, and religious bequests:

5% of all in excess of exemption and not exceeding	$20,000	
10% " " " " "	$ 20,000 and up to	$ 40,000
15% " " " " "	$ 40,000 " " "	$ 80,000
20% " " " " "	$ 80,000 " " "	$200,000
25% " " " " "	$200,000 " " "	$400,000
30% " " " " "	$400,000	

If less than $100, not taxed; but if more than $100 then no exemption.

Taxation of Life Insurance Proceeds

There is no tax on life insurance proceeds payable to a designated beneficiary. If payable to the estate, they are treated the same as any other property and taxed. War risk insurance has been excepted from this by a ruling of the State Attorney-General.

MISSOURI INCOME TAX

The personal income tax law of Missouri exempts the proceeds of life insurance policies paid to individual beneficiaries upon the death of the insured. It also excludes those amounts which are returns of premiums (dividends) but does not exclude the amount returned on endowment or annuity contracts in excess of the premiums paid.

MONTANA

Property Subject to Tax

A tax is imposed upon any transfer of property, real, personal, or mixed, or any interest therein, or income therefrom in trust or otherwise, when the transfer is by will or by intestate laws of the state; or when the transfer is by deed, grant, bargain, sale, or gift, made in contemplation of the death of the grantor, vendor, or donor, or intended to take effect in possession or enjoyment at or after such death. Every transfer by deed, grant, bargain, sale, or gift, made within two years prior to the death of the grantor, vendor, or donor, of a material part of his estate, or in the nature of a final disposition or distribution thereof, and without a fair consideration in money or money's worth shall, unless shown to the contrary, be deemed to have been made in contemplation of death. The tax is imposed also whenever any person or corporation shall exercise a power of appointment derived from any disposition of property, or shall omit or fail to exercise the same. Whenever any property, real or personal, is held in the joint names of two or more persons, or as tenants by the entirety, or is deposited in banks or other institutions or depositories in the joint names of two or more persons and payable to either or the survivor, upon the death of one of such persons, the right of the surviving tenant by the entirety, joint tenant or joint tenants, person or persons, to the immediate ownership or possession of such property shall be deemed a taxable transfer of one-half or other proper fraction thereof. Insurance in excess of $50,000 is taxable also.

Exemptions

There is no tax on transfers to the State of Montana, or any of its institutions, county, town, or municipal corporations within the state, for strictly county, town, municipal, or other public purposes; and corporations of the state organized under its laws, or voluntary associations organized solely for religious, charitable, or educational purposes, which shall use the property so transferred exclusively for the purposes of their organization, within the state. Deductible exemptions of specific amounts are allowed certain beneficiaries.

Nonresident Decedents

Nonresident decedents are taxed on all property within the state or within its jurisdiction if transferred by will, intestate law, or in contemplation of death. The stocks and bonds of domestic corporations are taxable wherever located.

Discount and Interest

If the tax is paid within 18 months a discount of 5 per cent is allowed. If not paid at that time interest at the rate of 10 per cent per annum is charged for the entire period. This may be reduced to 6 per cent in the case of unavoidable delay.

Rates of Tax

The various beneficiaries are taxed at the following rates:

Class 1.—Husband, wife, lineal issue, lineal ancestor of the decedent, any child adopted as such in conformity with law, or any child to whom such decedent for not less than 10 years prior to such transfer stood in the mutually acknowledged relation of a parent:

1%	of the first $25,000 less the exemption		
2%	of all in excess of	$ 25,000	and up to $ 50,000
3%	" " " " "	$ 50,000	" " " $100,000
4%	" " " " "	$100,000	

Deductible exemptions are allowed as follows: wife $17,500; husband, $5,000; all others in this class $2,000 each.

CLASS 2.—Brother or sister, or a descendant of a brother or sister of the decedent, a wife of a son or the husband of a daughter of the decedent:

2%	on the first $25,000 less the exemption		
4%	of all in excess of	$ 25,000	and up to $ 50,000
6%	" " " " "	$ 50,000	" " " $100,000
8%	" " " " "	$100,000	

Deductible exemption of $500 is allowed each beneficiary in this class.

CLASS 3.—Uncle, aunt, or first cousin of the decedent:

3%	of the first $25,000		
6%	of all in excess of	$ 25,000	and up to $ 50,000
9%	" " " " "	$ 50,000	" " " $100,000
12%	" " " " "	$100,000	

There are no exemptions to this class.

CLASS 4.—All others except those entirely exempt:

4%	of the first $25,000		
8%	of all in excess of	$ 25,000	and up to $ 50,000
12%	" " " " "	$ 50,000	" " " $100,000
16%	" " " " "	$100,000	

There are no exemptions to this class.

Taxation of Life Insurance Proceeds

The Montana law is one of the few containing a specific provision with reference to insurance. All insurance in excess of $50,000 payable upon the death of any person is deemed to be part of the taxable estate. If it is payable to more than one person the $50,000 exemption is prorated between them in the same proportion as the amount of insurance payable to each.

The foregoing is unusual in that it taxes proceeds payable to specifically named beneficiaries. However, this is not a substitute for the general principle that proceeds of insurance payable to the estate are taxable, because they also are taxed in Montana.

NEBRASKA

Property Subject to Tax

The tax is imposed on all transfers of property, real or personal, within the state when the transfer is by will or intestate law, or made in contemplation of death or intended to take effect at or after death.

Exemptions

The law of Nebraska is unusual in that charitable and all other similar bequests are taxable. However, deductible exemptions of specific amounts are allowed certain designated beneficiaries, and there is no tax if the estate is less than $500.

Nonresident Decedents

According to the law, all property within the state is taxable. This law, however, is not enforced against personal property. The rates of tax and the exemptions are the same as for residents.

Discount and Interest

There is no interest charge if the tax is paid within one year of death. If not paid at that time interest accrues at the rate of 7 per cent per annum commencing at the date of death. No discount is allowed for prompt payment of the tax.

Rates of Tax

The several classes of beneficiaries are taxed as follows:

CLASS 1.—Father, mother, husband, wife, child, brother, sister, wife or widow of son, husband of daughter, adopted or mutually acknowledged child, or lineal descendant at the rate of 1 per cent of all amounts above $10,000 to any one beneficiary; a deductible exemption of $10,000 being allowed to each beneficiary in this class.

CLASS 2.—Uncle, aunt, niece, nephew, or lineal descendant thereof at the rate of 4 per cent of all amounts above $2,000 to any one beneficiary; a deductible exemption of $2,000 being allowed to each beneficiary in this group.

CLASS 3.—All beneficiaries not included in Classes 1 or 2 are taxed at the rate of:

4%	of all amounts up to $5,000								
6%	of	all	in excess	of	$ 5,000	and	up	to	$10,000
8%	"	"	"	"	$10,000	"	"	"	$20,000
10%	"	"	"	"	$20,000	"	"	"	$50,000
12%	"	"	"	"	$50,000				

There is no exemption to this class.

Taxation of Life Insurance Proceeds

If the proceeds are payable to the estate, they are taxable. If paid to a specific beneficiary other than the executors or administrators, they are not taxable.

NEVADA

The State of Nevada formerly had an inheritance tax law affecting the transfer of all property, real and personal, or interest therein or income therefrom except real property located outside the state. However, it was thought to be to the best interests of the state to abolish this tax, and on February 24, 1925, the Nevada Legislature passed an act repealing the inheritance tax law as of July 1, 1925.

NEW HAMPSHIRE

Property Subject to Tax

The tax is imposed on any transfer of property, real or personal, or any interest or income therefrom when the transfer is by will or intestate law or made in contemplation of death or intended to take effect at or after death.

Exemptions

There is no tax on transfers to educational, religious, cemetery, or other institutions, societies, or associations of public charity, within the state, or to a city or town in the state, to be used for public purposes. Certain specifically enumerated beneficiaries are accorded the same exemption.

Nonresident Decedents

A nonresident is taxed on all real property within the state at the same rate and exemptions that are provided for residents. Personal property within the state including stocks and registered bonds of domestic corporations are subject to a special tax of 2 per cent with no exemption permitted.

Discount and Interest

The tax is due at the time of the transfer. Interest accrues at the rate of 10 per cent per annum after the transfer or after 15 months, whichever first occurs. No discount is allowed for prompt payment.

Rates of Tax

There is no tax on transfers to Class 1 beneficiaries, *i.e.*, father, mother, husband, wife, lineal descendant, adopted child, lineal descendant of an adopted child, wife or widow of a son, or husband of a daughter. Likewise there is no tax on the transfers to institutions or for uses previously mentioned as exempt. All other beneficiaries are taxed at the flat rate of 5 per cent on the full amount of the property transferred.

Taxation of Life Insurance Proceeds

According to a letter from the insurance commissioner of New Hampshire, life insurance proceeds are not subject to any tax. This is most unusual in that insurance payable to the estate is not subject to tax. This means that insurance may be made payable to the executor or administrator, for the purpose of paying taxes and the proceeds will not be taxed.

New Hampshire Income Tax

New Hampshire has an income tax on "interest and dividends." This, however, does not affect the proceeds of life insurance policies.

NEW JERSEY

Property Subject to Tax

A tax is imposed upon the transfer of any property, real or personal, of the value of $500 or over, or of any interest therein or income therefrom, in trust or otherwise, in the following cases:

1. When the transfer is by will or by the intestate laws of the state.

2. A transfer by deed, grant, bargain, sale, or gift made in contemplation of the death of the grantor, vendor, or donor, or intended to take effect in possession or enjoyment at or after death. Every such transfer made within two years prior to the death of the grantor, vendor, or donor, of a material part of his estate, or in the nature of a final disposition or distribution thereof, and without an adequate valuable consideration, shall in the absence of proof to the contrary, be deemed to have been made in contemplation of death.

3. A transfer of an estate in expectance of any kind or character which is contingent or defeasible, transferred by an instrument taking effect after the passage of the act, or of any property transferred pursuant to a power of appointment.

4. Whenever property, real or personal, is held in the joint names of two or more persons, or is deposited in banks or other institutions or depositories in the joint names of two or more persons and payable to either or the survivor, upon the death of one of such persons, the right of the surviving joint tenant or joint tenants, person or persons, to the immediate ownership or possession and enjoyment of such property is taxable.

Exemptions

A general exemption is allowed all property passing to, or for the use of, a municipal corporation within the State of New Jersey, or other political subdivision thereof, for exclusively public purposes.

If the amount passing to any beneficiary or beneficiaries is less than $500, there is no tax. However, if it equals or exceeds that amount, then the tax is on the whole amount except to beneficiaries in Class 1 who are permitted an exemption of $5,000 each.

Nonresident Decedent

A nonresident decedent is taxed on real property, goods, wares, and merchandise only if located within the state. The transfers which are taxable are the same as those for residents. In order to determine the amount of the tax, it is first assumed that all the decedent's property wherever located is in New Jersey and the tax is calculated accordingly. The proportion which the decedent's property located in the state bears to the total of all property wherever located, is then ascertained. This proportion of the total tax as first calculated is the amount due from the nonresident decedent's estate. Stocks of domestic corporations are taxable wherever located; bonds are not.

Discount and Interest

There is no discount for prompt payment and if tax is not paid within one year, interest accrues at the rate of 10 per cent per annum. This may be reduced to 6 per cent if the delay is unavoidable.

Rates of Tax

The rates of tax imposed on the different classes of beneficiaries are as follows:

Class 1.—Father, mother, husband, wife, child or children adopted by the decedent in conformity with the laws of any state or country:

1%	of any amount in excess of	$ 5,000	and up to	$ 50,000
2%	" " " " " "	$ 50,000	" " "	$ 100,000
3%	" " " " " "	$ 100,000	" " "	$ 150,000
4%	" " " " " "	$ 150,000	" " "	$ 200,000
5%	" " " " " "	$ 200,000	" " "	$ 300,000
6%	" " " " " "	$ 300,000	" " "	$ 500,000
7%	" " " " " "	$ 500,000	" " "	$ 700,000
8%	" " " " " "	$ 700,000	" " "	$ 900,000
9%	" " " " " "	$ 900,000	" " "	$1,100,000

1½%	of amount	in	excess	of	exemption and not exceeding	$15,000
3 %	"	"	"	"	$ 15,000 and up to	$ 30,000
3¾%	"	"	"	"	$ 30,000 " " "	$ 50,000
4½%	"	"	"	"	$ 50,000 " " "	$100,000
6 %	"	"	"	"	$100,000	

A deductible exemption of $10,000 is allowed all in this class except lineal ancestor who is allowed $3,000.

CLASS 3.—Brother or sister, or a descendant of a brother or sister of the decedent, a wife or widow of a son, or the husband of a daughter of the decedent:

3 %	of amount	in	excess	of	exemption and not exceeding	$15,000
6 %	"	"	"	"	$ 15,000 and up to	$ 30,000
7½%	"	"	"	"	$ 30,000 " " "	$ 50,000
9 %	"	"	"	"	$ 50,000 " " "	$100,000
12 %	"	"	"	"	$100,000	

Each beneficiary is allowed a $1,000 exemption.

CLASS 4.—Brother or sister of the father or mother, or a descendant of a brother or sister of the father or mother of the decedent:

4 %	of amount	in	excess	of	the exemption and not exceeding	$15,000
8 %	"	"	"	"	$ 15,000 and up to	$ 30,000
10 %	"	"	"	"	$ 30,000 " " "	$ 50,000
12 %	"	"	"	"	$ 50,000 " " "	$100,000
16 %	"	"	"	"	$100,000	

Each beneficiary is allowed a $250 exemption.

CLASS 5.—Any other degree of collateral consanguinity than is hereinbefore stated, or a stranger in blood to the decedent, or a body politic or corporate, excepting those entirely exempt:

5 %	of amount	in	excess	of	exemption and not exceeding	$15,000
10 %	"	"	"	"	$ 15,000 and up to	$ 30,000
12½%	"	"	"	"	$ 30.000 " " "	$ 50.000
15 %	"	"	"	"	$ 50,000 " " "	$100,000
20 %	"	"	"	"	$100,000	

Each beneficiary is allowed a deductible exemption of $100.

Taxation of Life Insurance Proceeds

Minnesota follows the general rule of taxing the proceeds which are payable to the estate but not those payable to a specifically named beneficiary.

MISSISSIPPI

Property Subject to Tax

The tax imposed by Mississippi is in the nature of an estate tax on all property, real or personal, tangible or intangible, to the extent of the decedent's interest which is subject to the payment of charges against the estate and is subject to disposition as part of his estate; or any interest therein of the surviving spouse existing at the time of the decedent's death by virtue of any statute creating an estate, in lieu of dower or curtesy, or homestead or other exemptions; or any interest therein jointly or as tenants in the entirety, by the decedent and any other person, or deposited in banks or other institutions in their joint names and payable to either or the survivor; or any property passing under a general power of appointment exercised by the decedent by will, or by deed executed in contemplation of, or intended to take effect in possession or enjoyment at or after, his death, except in case of a bona fide sale for a fair consideration in money or money's worth; or the amount receivable by the executor as insurance under policies, taken out by the decedent upon his own life; and to the extent of the excess of $20,000 of the amount receivable by all other beneficiaries as insurance under policies, taken out by the decedent upon his own life; or any interest therein of which the decedent has at any time made a transfer, or with respect to which he has at any time created a trust in contemplation of, or intended to take effect in possession or enjoyment at or after, his death, except in case of a bona fide sale for a fair consideration in money or money's worth. Any transfer of a material part of his property in the nature of a final disposition or distribution thereof, made by a decedent within two years of his death without such consideration, shall be deemed to have been made in contemplation of death.

Exemptions

There is no tax on bequests, legacies, devises, or gifts to, or for the use of, the State of Mississippi, or for any political subdivision thereof, for exclusively public purposes; or for any corporation or association organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, no part of the net earnings of which inures to the benefit of any private stockholder or individual; or to a trustee or trustees exclusively for such religious, charitable, scientific, literary, or educational purposes.

The gross estate is allowed a deductible exemption of $10,000.

Property acquired from any person who died within two years of decedent shall not be taxed if it has been taxed as part of the estate of the person who died first.

Nonresident Decedents

A nonresident is taxed on all property, real, personal, or mixed, located in the state at the time of decedent's death. This includes trusts and transfers which would be taxable in a resident's estate. Stocks of domestic corporations are taxable wherever located; bonds only if within the state. Exemptions are apportioned in the ratio of Mississippi property to the entire estate.

Discount and Interest

The tax is due 8 months after the death of the decedent and there is no discount for earlier payment. After 8 months interest is charged at the rate of 6 per cent per annum until paid.

Rates of Tax

As previously mentioned, this is an estate tax and the beneficiaries are not divided into several groups. The net taxable estate is determined by deducting the allowable expenses and an exemption from the gross estate. In the case of a resident the exemption is $5,000 for the widow and a like sum for each child subject to a minimum of $25,000. A nonresident is allowed a flat deduction of $10,000. Thereafter the following rates of tax are charged:

1%	of amount not in excess of $25,000							
2%	of	amount	exceeding	$ 25,000	and	not	exceeding	$ 50,000
3%	"	"	"	$ 50,000	"	"	"	$ 75,000
4%	"	"	"	$ 75,000	"	"	"	$100,000
5%	"	"	"	$100,000	"	"	"	$200,000
6%	"	"	"	$200,000	"	"	"	$400,000
7%	"	"	"	$400,000	"	"	"	$600,000
8%	"	"	"	$600,000	"	"	"	$800,000
9%	"	"	"	$800,000	"	"	"	$1,000,000
10%	"	"	"	$1,000,000				

Taxation of Life Insurance Proceeds

The inheritance tax law of Mississippi specifically provides that all life insurance taken out by the decedent on his own life and payable to designated beneficiaries is taxable to the extent that it exceeds $20,000. All insurance receivable by the executor is taxable.

Mississippi Income Tax Law

The personal income tax law does not include in taxable income the proceeds of life insurance paid upon the death of the insured. It also excludes from taxation any amount received by the insured as a return of premium paid by him under life insurance, endowment, or annuity contracts either during the term or at maturity or upon surrender. This means that "dividends" are not taxed but the amount returned on an annuity or endowment which exceeds the premiums paid is taxable.

MISSOURI

Property Subject to Tax

A tax is imposed upon the transfer of any property, real, personal, or mixed or any interest therein or income therefrom, in trust or otherwise, in the following cases: when the transfer is by will or by the intestate laws of the state; or when the transfer is by deed, grant, bargain, sale, or gift made in contemplation of death of grantor, vendor, or donor, or intending to take effect in possession or enjoyment at or after such death. Every transfer by deed, grant, bargain, sale, or gift made within two years prior to the death of grantor, vendor, or donor, of a material part of his estate or in the nature of a final disposition or distribution thereof without an adequate valuable consideration, shall be construed to have been made in contemplation of death.

Exemptions

All transfers of property or any beneficial interest therein to be used and actually used solely for county, city, town, or municipal purposes or for religious, charitable, or educational purposes in the state, are exempt from taxation.

Deductible exemptions of specific amounts are allowed certain beneficiaries.

Nonresident Decedents

A nonresident is taxed on all property within the state or within its jurisdiction when transferred by will or intestate law or conveyed in contemplation of death. Stocks of domestic corporations are taxable wherever located; bonds only if they are within the state.

Discount and Interest

The tax is due within 9 months of death and there is no discount if paid sooner. If not paid when due, interest is charged at the rate of 6 per cent per annum for the first year following death and 12 per cent per annum thereafter until paid.

Rates of Tax

The beneficiaries are classified and taxed according to the following schedule:

Class 1.—Husband or wife, insane and blind lineal descendants, lineal ancestor, lineal descendant, adopted child or its descendant, or illegitimate child:

1%	of all in excess of	exemption and not exceeding	$20,000
2%	" " " " "	$ 20,000	and up to $ 40,000
3%	" " " " "	$ 40,000	" " " $ 80,000
4%	" " " " "	$ 80,000	" " " $200,000
5%	" " " " "	$200,000	" " " $400,000
6%	" " " " "	$400,000	

Deductible exemptions are allowed as follows: husband or wife $20,000; insane and blind lineal descendants $15,000; all others $5,000 each.

Class 2.—Brother, sister, or their descendants, son-in-law, daughter-in-law, aunt, uncle or descendant thereof:

3%	of all in excess of	exemption and not exceeding	$20,000
6%	" " " " "	$ 20,000	and up to $ 40,000
9%	" " " " "	$ 40,000	" " " $ 80,000
12%	" " " " "	$ 80,000	" " " $200,000
15%	" " " " "	$200,000	" " " $400,000
18%	" " " " "	$400,000	

Deductible exemption of $500.

Class 3.—Brother or sister of grandparents or their descendants:

4% of all in excess of exemption and not exceeding	$20,000		
8% " " " " "	$ 20,000	and up to	$ 40,000
12% " " " " "	$ 40,000	" " "	$ 80,000
16% " " " " "	$ 80,000	" " "	$200,000
20% " " " " "	$200,000	" " "	$400,000
24% " " " " "	$400,000		

Deductible exemption of $100.

Class 4.—All others, including foreign, charitable, and religious bequests:

5% of all in excess of exemption and not exceeding	$20,000		
10% " " " " "	$ 20,000	and up to	$ 40,000
15% " " " " "	$ 40,000	" " "	$ 80,000
20% " " " " "	$ 80.000	" " "	$200,000
25% " " " " "	$200,000	" " "	$400,000
30% " " " " "	$400,000		

If less than $100, not taxed; but if more than $100 then no exemption.

Taxation of Life Insurance Proceeds

There is no tax on life insurance proceeds payable to a designated beneficiary. If payable to the estate, they are treated the same as any other property and taxed. War risk insurance has been excepted from this by a ruling of the State Attorney-General.

Missouri Income Tax

The personal income tax law of Missouri exempts the proceeds of life insurance policies paid to individual beneficiaries upon the death of the insured. It also excludes those amounts which are returns of premiums (dividends) but does not exclude the amount returned on endowment or annuity contracts in excess of the premiums paid.

MONTANA

Property Subject to Tax

A tax is imposed upon any transfer of property, real, personal, or mixed, or any interest therein, or income therefrom in trust or otherwise, when the transfer is by will or by intestate laws of the state; or when the transfer is by deed, grant, bargain, sale, or gift, made in contemplation of the death of the grantor, vendor, or donor, or intended to take effect in possession or enjoyment at or after such death. Every transfer by deed, grant, bargain, sale, or gift, made within two years prior to the death of the grantor, vendor, or donor, of a material part of his estate, or in the nature of a final disposition or distribution thereof, and without a fair consideration in money or money's worth shall, unless shown to the contrary, be deemed to have been made in contemplation of death. The tax is imposed also whenever any person or corporation shall exercise a power of appointment derived from any disposition of property, or shall omit or fail to exercise the same. Whenever any property, real or personal, is held in the joint names of two or more persons, or as tenants by the entirety, or is deposited in banks or other institutions or depositories in the joint names of two or more persons and payable to either or the survivor, upon the death of one of such persons, the right of the surviving tenant by the entirety, joint tenant or joint tenants, person or persons, to the immediate ownership or possession of such property shall be deemed a taxable transfer of one-half or other proper fraction thereof. Insurance in excess of $50,000 is taxable also.

Exemptions

There is no tax on transfers to the State of Montana, or any of its institutions, county, town, or municipal corporations within the state, for strictly county, town, municipal, or other public purposes; and corporations of the state organized under its laws, or voluntary associations organized solely for religious, charitable, or educational purposes, which shall use the property so transferred exclusively for the purposes of their organization, within the state. Deductible exemptions of specific amounts are allowed certain beneficiaries.

Nonresident Decedents

Nonresident decedents are taxed on all property within the state or within its jurisdiction if transferred by will, intestate law, or in contemplation of death. The stocks and bonds of domestic corporations are taxable wherever located.

Discount and Interest

If the tax is paid within 18 months a discount of 5 per cent is allowed. If not paid at that time interest at the rate of 10 per cent per annum is charged for the entire period. This may be reduced to 6 per cent in the case of unavoidable delay.

Rates of Tax

The various beneficiaries are taxed at the following rates:

Class 1.—Husband, wife, lineal issue, lineal ancestor of the decedent, any child adopted as such in conformity with law, or any child to whom such decedent for not less than 10 years prior to such transfer stood in the mutually acknowledged relation of a parent:

1% of the first $25,000 less the exemption			
2% of all in excess of	$ 25,000	and up to	$ 50,000
3% " " " " "	$ 50,000	" " "	$100,000
4% " " " " "	$100,000		

Deductible exemptions are allowed as follows: wife $17,500; husband, $5,000; all others in this class $2,000 each.

Class 2.—Brother or sister, or a descendant of a brother or sister of the decedent, a wife of a son or the husband of a daughter of the decedent:

2% on the first $25,000 less the exemption			
4% of all in excess of	$ 25,000	and up to	$ 50,000
6% " " " " "	$ 50,000	" " "	$100,000
8% " " " " "	$100,000		

Deductible exemption of $500 is allowed each beneficiary in this class.

Class 3.—Uncle, aunt, or first cousin of the decedent:

3% of the first $25,000			
6% of all in excess of	$ 25,000	and up to	$ 50,000
9% " " " " "	$ 50,000	" " "	$100,000
12% " " " " "	$100,000		

There are no exemptions to this class.

Class 4.—All others except those entirely exempt:

4% of the first $25,000			
8% of all in excess of	$ 25,000	and up to	$ 50,000
12% " " " " "	$ 50,000	" " "	$100,000
16% " " " " "	$100,000		

There are no exemptions to this class.

Taxation of Life Insurance Proceeds

The Montana law is one of the few containing a specific provision with reference to insurance. All insurance in excess of $50,000 payable upon the death of any person is deemed to be part of the taxable estate. If it is payable to more than one person the $50,000 exemption is prorated between them in the same proportion as the amount of insurance payable to each.

The foregoing is unusual in that it taxes proceeds payable to specifically named beneficiaries. However, this is not a substitute for the general principle that proceeds of insurance payable to the estate are taxable, because they also are taxed in Montana.

NEBRASKA

Property Subject to Tax

The tax is imposed on all transfers of property, real or personal, within the state when the transfer is by will or intestate law, or made in contemplation of death or intended to take effect at or after death.

Exemptions

The law of Nebraska is unusual in that charitable and all other similar bequests are taxable. However, deductible exemptions of specific amounts are allowed certain designated beneficiaries, and there is no tax if the estate is less than $500.

Nonresident Decedents

According to the law, all property within the state is taxable. This law, however, is not enforced against personal property. The rates of tax and the exemptions are the same as for residents.

Discount and Interest

There is no interest charge if the tax is paid within one year of death. If not paid at that time interest accrues at the rate of 7 per cent per annum commencing at the date of death. No discount is allowed for prompt payment of the tax.

Rates of Tax

The several classes of beneficiaries are taxed as follows:

Class 1.—Father, mother, husband, wife, child, brother, sister, wife or widow of son, husband of daughter, adopted or mutually acknowledged child, or lineal descendant at the rate of 1 per cent of all amounts above $10,000 to any one beneficiary; a deductible exemption of $10,000 being allowed to each beneficiary in this class.

Class 2.—Uncle, aunt, niece, nephew, or lineal descendant thereof at the rate of 4 per cent of all amounts above $2,000 to any one beneficiary; a deductible exemption of $2,000 being allowed to each beneficiary in this group.

Class 3.—All beneficiaries not included in Classes 1 or 2 are taxed at the rate of:

4% of all amounts up to $5,000
6% of all in excess of $ 5,000 and up to $10,000
8% " " " " " $10,000 " " " $20,000
10% " " " " " $20,000 " " " $50,000
12% " " " " " $50,000

There is no exemption to this class.

Taxation of Life Insurance Proceeds

If the proceeds are payable to the estate, they are taxable. If paid to a specific beneficiary other than the executors or administrators, they are not taxable.

NEVADA

The State of Nevada formerly had an inheritance tax law affecting the transfer of all property, real and personal, or interest therein or income therefrom except real property located outside the state. However, it was thought to be to the best interests of the state to abolish this tax, and on February 24, 1925, the Nevada Legislature passed an act repealing the inheritance tax law as of July 1, 1925.

NEW HAMPSHIRE

Property Subject to Tax

The tax is imposed on any transfer of property, real or personal, or any interest or income therefrom when the transfer is by will or intestate law or made in contemplation of death or intended to take effect at or after death.

Exemptions

There is no tax on transfers to educational, religious, cemetery, or other institutions, societies, or associations of public charity, within the state, or to a city or town in the state, to be used for public purposes. Certain specifically enumerated beneficiaries are accorded the same exemption.

Nonresident Decedents

A nonresident is taxed on all real property within the state at the same rate and exemptions that are provided for residents. Personal property within the state including stocks and registered bonds of domestic corporations are subject to a special tax of 2 per cent with no exemption permitted.

Discount and Interest

The tax is due at the time of the transfer. Interest accrues at the rate of 10 per cent per annum after the transfer or after 15 months, whichever first occurs. No discount is allowed for prompt payment.

Rates of Tax

There is no tax on transfers to Class 1 beneficiaries, *i.e.*, father, mother, husband, wife, lineal descendant, adopted child, lineal descendant of an adopted child, wife or widow of a son, or husband of a daughter. Likewise there is no tax on the transfers to institutions or for uses previously mentioned as exempt. All other beneficiaries are taxed at the flat rate of 5 per cent on the full amount of the property transferred.

Taxation of Life Insurance Proceeds

According to a letter from the insurance commissioner of New Hampshire, life insurance proceeds are not subject to any tax. This is most unusual in that insurance payable to the estate is not subject to tax. This means that insurance may be made payable to the executor or administrator, for the purpose of paying taxes and the proceeds will not be taxed.

New Hampshire Income Tax

New Hampshire has an income tax on "interest and dividends." This, however, does not affect the proceeds of life insurance policies.

NEW JERSEY

Property Subject to Tax

A tax is imposed upon the transfer of any property, real or personal, of the value of $500 or over, or of any interest therein or income therefrom, in trust or otherwise, in the following cases:

1. When the transfer is by will or by the intestate laws of the state.

2. A transfer by deed, grant, bargain, sale, or gift made in contemplation of the death of the grantor, vendor, or donor, or intended to take effect in possession or enjoyment at or after death. Every such transfer made within two years prior to the death of the grantor, vendor, or donor, of a material part of his estate, or in the nature of a final disposition or distribution thereof, and without an adequate valuable consideration, shall in the absence of proof to the contrary, be deemed to have been made in contemplation of death.

3. A transfer of an estate in expectance of any kind or character which is contingent or defeasible, transferred by an instrument taking effect after the passage of the act, or of any property transferred pursuant to a power of appointment.

4. Whenever property, real or personal, is held in the joint names of two or more persons, or is deposited in banks or other institutions or depositories in the joint names of two or more persons and payable to either or the survivor, upon the death of one of such persons, the right of the surviving joint tenant or joint tenants, person or persons, to the immediate ownership or possession and enjoyment of such property is taxable.

Exemptions

A general exemption is allowed all property passing to, or for the use of, a municipal corporation within the State of New Jersey, or other political subdivision thereof, for exclusively public purposes.

If the amount passing to any beneficiary or beneficiaries is less than $500, there is no tax. However, if it equals or exceeds that amount, then the tax is on the whole amount except to beneficiaries in Class 1 who are permitted an exemption of $5,000 each.

Nonresident Decedent

A nonresident decedent is taxed on real property, goods, wares, and merchandise only if located within the state. The transfers which are taxable are the same as those for residents. In order to determine the amount of the tax, it is first assumed that all the decedent's property wherever located is in New Jersey and the tax is calculated accordingly. The proportion which the decedent's property located in the state bears to the total of all property wherever located, is then ascertained. This proportion of the total tax as first calculated is the amount due from the nonresident decedent's estate. Stocks of domestic corporations are taxable wherever located; bonds are not.

Discount and Interest

There is no discount for prompt payment and if tax is not paid within one year, interest accrues at the rate of 10 per cent per annum. This may be reduced to 6 per cent if the delay is unavoidable.

Rates of Tax

The rates of tax imposed on the different classes of beneficiaries are as follows:

Class 1.—Father, mother, husband, wife, child or children adopted by the decedent in conformity with the laws of any state or country:

1%	of	any	amount	in	excess	of	$ 5,000	and	up	to	$ 50,000
2%	"	"	"	"	"	"	$ 50,000	"	"	"	$ 100,000
3%	"	"	"	"	"	"	$ 100,000	"	"	"	$ 150,000
4%	"	"	"	"	"	"	$ 150,000	"	"	"	$ 200,000
5%	"	"	"	"	"	"	$ 200,000	"	"	"	$ 300,000
6%	"	"	"	"	"	"	$ 300,000	"	"	"	$ 500,000
7%	"	"	"	"	"	"	$ 500,000	"	"	"	$ 700,000
8%	"	"	"	"	"	"	$ 700,000	"	"	"	$ 900,000
9%	"	"	"	"	"	"	$ 900,000	"	"	"	$1,100,000

tion of learning within the state; or to, or for the use of, an institution for purposes only of public charity, carried on in whole or in substantial part within the state. There are also deductible exemptions of specified amounts permitted to beneficiaries in certain classes. These are given in detail in connection with "rates of tax."

Nonresident Decedent

Nonresident decedents must pay taxes on all property (as previously defined) passing by will or by the intestate laws of Ohio or any other state or country.

Transfers in contemplation of death are treated the same as in the case of residents. Stocks and registered bonds of domestic corporations are taxed wherever located.

When assessing the tax on a nonresident decedent, it is necessary to ascertain the aggregate value of all property of the decedent located within or without the state passing to the successor. A like computation is made for the property located in Ohio. The exemptions are then proportioned in the ratio borne by the value of the Ohio succession to the aggregate succession. The tax is then assessed on the balance of the Ohio succession at the same rates as resident decedents.

Discount and Interest

If the taxes are paid before the expiration of one year, a discount of 1 per cent per month for each full month prior to one year is allowed. If not paid within one year, interest at the rate of 8 per cent per annum is collected, unless caused by unavoidable delay in which event the rate is 5 per cent.

Rates of Tax

The rates at which the tax is levied are as follows for the different classes of beneficiaries:

CLASS 1.—Wife, father, mother, husband, child, or other lineal descendant of the decedent, or an adopted child, or person recognized by the decedent as an adopted child and designated by such decedent as a legal heir under the provisions of a statute of this or any other state or country, or the lineal descendants thereof, or a lineal descendant of an adopted child:

1% of the amount up to and including $25,000 in excess of exemption
2% on the next $ 75,000 or any part thereof
3% " " " $100,000 " " " "
4% of the amount representing the balance of the value of each individual succession

A deductible exemption of $5,000 is allowed to the wife and also to each minor child. All others in this class are permitted an exemption of $3,500 each.

CLASS 2.—Brother or sister, niece, nephew, the wife or widow of a son, the husband of a daughter of the decedent, or any child to whom the decedent for not less than 10 years prior to the succession stood in the mutually acknowledged relation of a parent:

5% of the amount up to and including $25,000 in excess of exemption
6% on the next $ 75,000 or any part thereof
7% " " " $100,000 " " " "
8% of the amount representing the balance of the value of each individual succession

A deductible exemption of $500 is permitted each beneficiary in this class.

CLASS 3.—All other persons, institutions, or corporations:

7% of the amount up to and including $25,000
8% of the next $ 75,000 or any part thereof
9% " " " $100,000 " " " "
10% of the amount representing the balance of the value of each individual succession

No exemption is allowed in this class.

Taxation of Life Insurance Proceeds

If the proceeds are payable to the estate, they are taxable. If payable to a specifically named beneficiary or to a trustee for a specifically named beneficiary, they are not taxable.

OKLAHOMA

Property Subject to Tax

A tax is imposed on the transfer of all property, real or personal, or interest therein or income therefrom except real or tangible personal property outside the state. The tax is levied when the transfer is by will or intestate law, or made in contemplation of death, or intended to take effect at or after death.

Exemptions

No tax is imposed on transfers for religious, charitable, or educational purposes within the state. Certain designated beneficiaries are allowed exemptions of specific amounts which are deducted from the first $25,000, subject to tax.

Nonresident Decedents

A nonresident is taxed on all tangible property within the state at the same rate as residents, the exemptions being apportioned in the ratio of the Oklahoma property to the entire estate. Stocks and registered bonds of domestic corporations are taxable wherever located.

Interest and Discount

The tax must be paid within one year of death or interest accrues at the rate of 10 per cent per annum from the date of death. This may be reduced to 6 per cent because of unavoidable delay. A discount of 5 per cent is allowed if the tax is paid within one year of the death of the decedent.

Rates of Tax

The several classes of beneficiaries are grouped and taxed as follows:

CLASS 1.—Father, mother, husband, wife, child, adopted or mutually acknowledged child, or lineal descendant:

1%	of any amount up to $25,000 less the exemption
2%	of all in excess of $ 25,000 and up to $ 50,000
3%	" " " " " $ 50,000 " " " $100,000
4%	" " " " " $100,000

A deductible exemption of $15,000 is allowed to the wife, $10,000 to each child, and $5,000 to each of the remaining beneficiaries in this group.

CLASS 2.—Brother, sister, wife or widow of a son, or husband of a daughter:

1%	of any amount up to $25,000 less the exemption
3%	of all in excess of $ 25,000 and up to $ 50,000
4%	" " " " " $ 50,000 " " " $100,000
5%	" " " " " $100,000

A deductible exemption of $1,000 is allowed each beneficiary.

CLASS 3.—All others except those previously mentioned as being entirely exempt:

6%	of any amount up to $25,000 less the exemption
7%	of all in excess of $ 25,000 and up to $ 50,000
8%	" " " " " $ 50,000 " " " $100,000
10%	" " " " " $100,000

A deductible exemption of $500 is allowed each beneficiary in this class.

Taxation of Life Insurance Proceeds

Oklahoma follows the general rule of taxing insurance proceeds which are payable to the estate and exempting those paid to a specifically named beneficiary.

OREGON

Property Subject to Tax

A tax is imposed on all property within the jurisdiction of the state, and any interest therein, whether tangible or intangible, which shall pass or vest by dower, curtesy, will; or by statutes of inheritance of this, or any other state; or by deed, grant, bargain, sale or gift; or as an advancement or division of his or her estate made in contemplation of the death of the grantor, or bargainor, or intended to take effect in possession or enjoyment after death; or whenever property is held in the joint names of two or more persons, or deposited in banks or other institutions or depositories in the joint names of two or more persons and payable to either or the survivor, upon the death of one of such persons, the right of the surviving joint tenant or tenants, person or persons, to the immediate ownership or possession and enjoyment of such property shall be deemed a taxable transfer. These transfers are really subject to two taxes. There is an estate tax on the entire estate as a unit, and there is also a tax on the amounts passing to individual beneficiaries.

Exemptions

There is no tax on devises, bequests, legacies, and gifts to benevolent, charitable, or educational institutions, societies, associations, or corporations organized or existing within the state and actually engaged in the state in carrying out the objects and purposes for which so organized or existing, or to a corporation, association, or society to be organized for such purposes under the laws of the state pursuant to the terms of the instrument providing such devise, bequest, or gift; and devises, bequests, legacies, or gifts to any corporation, society, institution, person or persons, or association of persons in trust for such charitable, benevolent, or educational purpose where such devise, bequest, legacy, or gift is limited by the donor for use within the United States of America. The estate tax is subject to a $10,000 deductible exemption. Certain beneficiaries are entirely exempt from the individual tax and others are allowed deductible exemptions.

Nonresident Decedents

All property within the jurisdiction of the state and any interest therein and belonging to nonresidents is taxable when passing in ways described as taxable for residents. Stocks and bonds of domestic corporations are taxable wherever located.

Discount and Interest

The taxes are due within 8 months of death, and a discount of 5 per cent is allowed if paid within that period. If not paid, interest is charged thereafter at the rate of 8 per cent per annum until paid. This may be reduced to 6 per cent if the delay is unavoidable.

Rates of Tax

The rates of tax prescribed for the estate tax are as follows:

1 %	of all in excess of	$ 10,000	and up to	$ 25,000
1½%	" " " " "	$ 25,000	" " "	$ 50,000
2 %	" " " " "	$ 50,000	" " "	$ 100,000
3 %	" " " " "	$100,000	" " "	$ 300,000
5 %	" " " " "	$300,000	" " "	$ 500,000
7 %	" " " " "	$500,000	" " "	$1,000,000
10 %	" " " " "	$1,000,000		

After applying the estate tax rates to the estate as a unit the individual beneficiaries are classified and taxed as follows:

Class 1.—Grandfather, grandmother, father, mother, husband, wife, child, or lineal descendant:

There is no additional tax on the amounts passing to anyone in this class.

Class 2.—Brother, sister, uncle, aunt, niece, nephew, or any lineal descendant of same:

1%	of	all	in	excess	of	$ 1,000	and	up	to	$ 3,000
2%	"	"	"	"	"	$ 3,000	"	"	"	$ 5,000
4%	"	"	"	"	"	$ 5,000	"	"	"	$10,000
7%	"	"	"	"	"	$10,000	"	"	"	$30,000
10%	"	"	"	"	"	$30,000	"	"	"	$50,000
15%	"	"	"	"	"	$50,000				

The deductible exemption of $1,000 is allowed each beneficiary in this class.

Class 3.—All others except those entirely exempt:

2%	up to $500									
4%	of	all	in	excess	of	$ 500	and	up	to	$ 1,000
6%	"	"	"	"	"	$ 1,000	"	"	"	$ 2,000
8%	"	"	"	"	"	$ 2,000	"	"	"	$ 4,000
10%	"	"	"	"	"	$ 4,000	"	"	"	$10,000
15%	"	"	"	"	"	$10,000	"	"	"	$25,000
20%	"	"	"	"	"	$25,000	"	"	"	$50,000
25%	"	"	"	"	"	$50,000				

Taxation of Life Insurance Proceeds

Oregon follows the general rule that proceeds of insurance made payable to named beneficiaries pass by virtue of contract and are, therefore, not taxable. If they pass through the estate and are distributed by will or intestate law, they are taxable.

PENNSYLVANIA

The Pennsylvania inheritance tax law is quite unlike most such laws in the other states. The tax is a flat rate and is not accelerated nor is it progressive. There are no deductible exemptions, excepting a $500 widow's allowance. There are only two classes of beneficiaries that are taxed and the only general exemption is limited to gifts for exhibition purposes for sole use of the public.

Property Subject to Tax

The tax is imposed upon the transfer of any property, real or personal, or any interest therein or income therefrom, in trust or otherwise, when the transfer is:

1. By will or by the intestate laws of the state from any person dying seized or possessed of the property while a resident of the state, whether the property be situated within the state or elsewhere;
2. By deed, grant, bargain, sale, or gift, made in contemplation of the death of the grantor, vendor, or donor, or intended to take effect in possession or enjoyment at or after such death;
3. Pursuant to a power of appointment.

It will be remembered that in the case of Lewellyn *vs.* Frick, discussed in an earlier chapter, the United States Supreme Court denied Pennsylvania the right to tax tangible personalty having its situs outside of the state. This makes a part of the law ineffective, and it will in all probability be changed at the next session of the legislature.

Exemptions

On account of a constitutional restriction the only general exemption is confined to gifts for exhibition purposes. The act is unusual in that it does not provide a schedule of exemptions for different classes of beneficiaries. However, there is a widow's allowance of $500 which is deductible.

Discount and Interest

A discount of 5 per cent is allowed if the tax is paid within 3 months. If not paid within one year, interest at 12 per cent per annum is charged beginning at that time.

Rates of Tax

The rates of tax imposed on the two classes of beneficiaries are as follows:

Class 1.—Any and all amounts at the rate of 2 per cent to, or for the use of, father, mother, husband, wife, children, lineal descendants born in lawful wedlock, legally adopted children, children of a former husband or wife, or the wife or widow of the son of a person dying seized or possessed thereof, and also on the clear value of such property passing from the mother of an illegitimate child, or from any person of whom the mother is a lineal descendant, to such child, his wife, or widow, and passing from an illegitimate child to his mother.

Class 2.—Any and all amounts at the rate of 10 per cent to, or for the use of, any other person or persons, bodies corporate or politic.

Minimum Tax

By an amendment in 1925 the tax cannot be less than 25 per cent of the amount imposed by Section 301 of the Federal estate tax of 1924.

Nonresident Decedent Estates

The tax is levied when the transfer is by will or intestate laws of real property within the state; or of goods, wares, or merchandise within the state; or of shares of stock of corporations of the state or of national banking associations located in the state; or the same property transferred in contemplation of death or passing under a power of appointment.

Reciprocal Provision

The personal property of a nonresident decedent subject to a tax under this law shall be exempted if a like exemption is made by the laws of the state of decedent's residence in favor of residents of Pennsylvania.

Taxation of Life Insurance Proceeds

The act is silent on the taxing of insurance proceeds, but the practice is to tax proceeds payable to the estate. If a specific beneficiary is named, there is no tax.

RHODE ISLAND

Rhode Island has three sets of taxes applicable to decedents' estates. Originally they had merely an ordinary inheritance transfer tax law, but this was amended and a tax was placed on net estates. When the Federal Government reduced the Federal estate tax in 1926, Rhode Island sought to obtain the benefit. The result was an additional estate tax containing a schedule designed for the avowed purpose of collecting the 80 per cent credit allowed in the Federal law. For convenience the estate taxes will be designated 1 and 2.

Property Subject to Transfer Tax

The ordinary inheritance tax is imposed on any real property within the state, or any tangible or intangible personal property, except tangible personal property having an actual situs outside this state, or interest therein or income therefrom in the following cases:

1. When the transfer is under a will or by the statutes of descent and distribution,

2. When the transfer is made by deed, grant, bargain, sale, or gift, without valuable and adequate consideration, and in contemplation of the death of the grantor, vendor, or donor, or intended to take effect in possession or enjoyment at or after death,

3. The exercise of a power of appointment or the omission or failure to exercise the power within the time provided,

4. Whenever any person during his life shall appoint a trustee, naming himself or others as beneficiaries, and providing for the administration of said trust after his death, or providing for a termination of said trust and a distribution of the trust estate or any part thereof at his death held jointly or as tenants by the entirety by the decedent and spouse. The right of the survivor or survivors to the immediate ownership or possession and enjoyment of such property is deemed a transfer.

5. Dower and curtesy in property located within the state shall be deemed to be interests in real property subject to tax.

Exemptions

Full exemptions are allowed with respect to all property or interests transferred to any corporation, association, or institution located in Rhode Island, which is exempt from taxation by charter or under the laws of the state, or to any corporation, association, or institution located outside of the state, which if located within the state would be exempt, or to any person in trust for the same, or to any city or town in the state for public purposes.

Deductible exemptions are permitted to individual beneficiaries of the several classes; details of these exemptions are given below in connection with the rates of tax.

Nonresident Decedents

A nonresident is taxed on any real property within the state, or any interest therein, or any real property, tangible personal property or intangible personal property over which said nonresident exercised or omitted or failed to exercise a power of appointment, which said power was derived from a resident of Rhode Island, to any person or persons, in trust or otherwise.

Exemptions are allowed in such proportion as the value of the transferee's share in the taxable estate bears to the value of the transferee's share in the entire estate.

Rates of Tax

The several classes of beneficiaries are taxed as follows:

CLASS 1.—Grandparent, parent, husband, wife, child, brother, sister, whether said child, brother, or sister shall be of the whole or of the half blood; nephew, niece, wife or widow of the son, or husband or widower of the daughter, or any child adopted in conformity with the laws of Rhode Island, or the laws of any other state or country, or any person to whom the deceased for not less than 10 years prior to death stood in the acknowledged relation of a parent:

½%	of amount not in excess of	$50,000		
1 %	of amounts in excess of	$ 50,000	and not exceeding	$ 250,000
1½%	" " " " "	$ 250,000	" " "	$ 500,000
2 %	" " " " "	$ 500,000	" " "	$ 750,000
2½%	" " " " "	$ 750,000	" " "	$1,000,000
5 %	" " " " "	$1,000,000		

Exemption of $25,000 is allowed each beneficiary in this class and is deducted from the first $50,000 subject to tax.

CLASS 2.—All other persons not designated in Class 1 or those entirely exempt:

5 %	of amount not in excess of	$50,000		
6 %	of amounts in excess of	$ 50,000	and not exceeding	$ 250,000
7 %	" " " " "	$ 250,000	" " "	$1,000,000
8 %	" " " " "	$1,000,000		

An exemption of $1,000 may be deducted by each beneficiary from the first $50,000 subject to tax.

Interest or Penalty

These taxes are due in 6 months after death and if not paid within 9 months, interest is charged at the rate of 8 per cent per annum, unless caused by unavoidable delay in which case the rate is 6 per cent.

Property Subject to the Estate Taxes

Both of the estate taxes apply to the transfer of the net estate of every resident decedent, except real property located outside the state and tangible personal property having an actual situs outside the state.

The net estate includes the real property located within the state and any interest therein, and the tangible personal property and intangible personal property of the decedent at the date of his decease, except tangible personal property having an actual situs outside the state, including transfers in contemplation of death, powers of appointment, and dower and curtesy, from which may be deducted the amount of all claims legally due and payable in the lifetime of the decedent and allowed against the estate, contingent claims which may become justly due from the estate, funeral expenses, probate charges, fees of appraisers, executors, administrators, or trustees, unpaid mortgages, except mortgages on real property not located within the state.

Nonresident Decedents

The net estate of a nonresident consists of real property located within the state and tangible personal property having an actual situs within the state, or any interest therein, or consists of real property, tangible personal property, or intangible personal property over which the nonresident decedent exercised or omitted or failed to exercise a power of appointment, with deductions of such proportion of the indebtedness of the entire estate of such nonresident decedent as the value of said real property and said tangible personal property of such nonresident decedent located within the state bears to the value of the entire estate.

Rate of Estate Taxes

The first estate tax exempts the first $10,000 of each estate and taxes the remainder at 1 per cent. Estate tax No. 2 does not apply until the value reaches $250,000; thereafter the following scale applies:

1.4 %	of	all	in	excess	of	$ 250,000	and	not	exceeding	$ 300,000
2.2 %	"	"	"	"	"	$ 300,000	"	"	"	$ 500,000
3 %	"	"	"	"	"	$ 500,000	"	"	"	$ 700,000
3.8 %	"	"	"	"	"	$ 700,000	"	"	"	$ 900,000
4.6 %	"	"	"	"	"	$ 900,000	"	"	"	$ 1,000,000
5.24%	"	"	"	"	"	$ 1,000,000	"	"	"	$ 1,500,000
6.04%	"	"	"	"	"	$ 1,500,000	"	"	"	$ 2,000,000
6.84%	"	"	"	"	"	$ 2,000,000	"	"	"	$ 2,500,000
7.64%	"	"	"	"	"	$ 2,500,000	"	"	"	$ 3,000,000
8.44%	"	"	"	"	"	$ 3,000,000	"	"	"	$ 3,500,000
9.24%	"	"	"	"	"	$ 3,500,000	"	"	"	$ 4,000,000
10.12%	"	"	"	"	"	$ 4,000,000	"	"	"	$ 5,000,000
10.92%	"	"	"	"	"	$ 5,000,000	"	"	"	$ 6,000,000
11.72%	"	"	"	"	"	$ 6,000,000	"	"	"	$ 7,000,000
12.52%	"	"	"	"	"	$ 7,000,000	"	"	"	$ 8,000,000
13.32%	"	"	"	"	"	$ 8,000,000	"	"	"	$ 9,000,000
14.12%	"	"	"	"	"	$ 9,000,000	"	"	"	$10,000,000
14.92%	"	"	"	"	"	$10,000,000				

Apportionment of Estate Tax

The law provides that the estate tax shall be apportioned among the transferees of the net estate of the decedent in the proportion which the value of the share of each such transferee bears to the total value of the net estate.

Maximum Tax

Whenever the total of the inheritance transfer tax and the two estate taxes exceeds the credit under the Federal estate tax of 1926, estate tax No. 2 may be scaled down until it does not exceed said tax.

Interest or Penalty

The estate taxes are due upon notice to the executor of the amount. If not paid within 30 days they bear interest at the rate of 8 per cent per annum. However, in the case of estate tax No. 1, the charging of such interest may be postponed not longer than 15 months, and estate tax No. 2 may be extended with or without interest for as long as 4 years.

Taxation of Life Insurance Proceeds

Although the act is silent on the subject of insurance, the practice of the state is to tax only those proceeds that pass through the estate. Therefore, policies payable to specifically named beneficiaries are not subject to tax.

SOUTH CAROLINA

Property Subject to Tax

The tax is imposed upon the transfer of any property, real, personal, or mixed; or of any interest therein or income therefrom, in trust or otherwise; and all property and the rights of any nature whatsoever over which the state has jurisdiction, in the following cases:

1. When the transfer is by will or by the intestate laws of the state.

2. When the transfer is of property made by deed, grant, bargain, sale, or gift, made in contemplation of death of the grantor, vendor, or donor, or intended to take effect in possession or enjoyment at or after such death. Transfers of property by gift or deed, between parties related by blood or marriage, made and completed within 5 years prior to death, and without an adequate, valuable consideration, shall be considered made in contemplation of death.

3. Whenever any person, institution, or corporation shall exercise a power of appointment derived from any disposition of property; or shall omit or fail to exercise such power.

4. Whenever property, real or personal, is held in the joint names of two or more persons, or is deposited in banks or other institutions or depositories in the joint names of two or more persons and payable to either or the survivor, upon the death of one of such persons the right of the surviving joint tenant or joint tenants, person or persons, to the immediate ownership or possession, and enjoyment of such property, shall be deemed a taxable transfer.

Exemptions

All property which shall pass to, or for the use of, any educational, religious, cemetery, or other institutions, societies, or public charities in the state, at, for, or upon trust for, any charitable purpose in the state; or for the care of cemetery lots; or for a city or town in the state, for public purposes, shall not be subject to any tax. Deductible exemptions of specific amounts are permitted certain beneficiaries.

Nonresident Decedents

Property located in the state and belonging to a nonresident is taxed on transfers by will or intestate law or transfers made in contemplation of death. Stocks and bonds of domestic corporations are taxable wherever located. Rates and exemptions are the same as for residents.

Interest and Discount

The taxes are due within one year after qualification of the executors or administrators, and there is no discount if paid earlier. However, if not paid by that time interest at the rate of 10 per cent per annum is charged until paid.

Rates of Tax

The different beneficiaries are taxed at the following rates:

Class 1.—Husband, wife, minor child, minor grandchild, adult children, adult grandchildren, father or mother:

1%	of any amount up to and including the sum of $20,000		
2%	of all in excess of	$ 20,000 and not exceeding	$ 40,000
3%	" " " " "	$ 40,000 " " "	$ 80,000
4%	" " " " "	$ 80,000 " " "	$150,000
5%	" " " " "	$150,000 " " "	$300,000
6%	" " " " "	$300,000	

Deductible exemptions are allowed as follows before the tax is calculated: husband or wife $10,000; minor child $7,500; adult child, father, or mother $5,000; grandchild $500.

Class 2.—Lineal ancestors, lineal descendants, other than in Class 1, or brothers, sisters, uncles, aunts, nieces, or nephews, or the wife or widow of a son, or the husband of a daughter:

2%	of any amount up to and including $20,000		
3%	of all in excess of	$ 20,000 and not exceeding	$ 40,000
4%	" " " " "	$ 40,000 " " "	$ 80,000
5%	" " " " "	$ 80,000 " " "	$150,000
6%	" " " " "	$150,000 " " "	$300,000
7%	" " " " "	$300,000	

Deductible exemption of $500 is allowed each beneficiary in this group before the tax is calculated.

Class 3.—All other beneficiaries not entirely exempt:

4%	of any amount up to and including the sum of	$20,000	
6%	of all in excess of	$ 20,000	and not exceeding $ 40,000
8%	" " " " "	$ 40,000	" " " $ 80,000
10%	" " " " "	$ 80,000	" " " $150,000
12%	" " " " "	$150,000	" " " $300,000
14%	" " " " "	$300,000	

A deductible exemption of $200 is allowed each beneficiary in this group before the tax is calculated.

Taxation of Life Insurance Proceeds

The act makes no mention of insurance proceeds, but the practice is to make them taxable if payable to the estate of the insured. There is no tax if the proceeds are payable to a specifically named beneficiary.

South Carolina Income Tax

The personal income tax law of South Carolina prescribes the Federal income tax law as the basis for determining the state tax. This means that proceeds of policies paid by reason of the death of the insured are not taxed, nor are "dividends." However, the amount returned in excess of the cost of an endowment or annuity contract is taxable.

SOUTH DAKOTA

Property Subject to Tax

A tax is imposed upon any transfer of property, real, personal, or mixed, or any interest therein or income therefrom, in the following cases:

1. When the transfer is by will or by intestate laws of the state.

2. When the transfer is of property by deed, grant, bargain, sale, or gift, made in contemplation of the death of the grantor, vendor, or donor, or intended to take effect in possession or enjoyment at or after death.

3. Whenever any person or corporation shall exercise a power of appointment derived from any disposition of property, or shall omit or fail to exercise such power.

Exemptions

All transfers to a county, township, or municipal corporation, within the state, for strictly county, township, or municipal purposes are entirely exempt. Deductible exemptions varying from $100 to $10,000 are allowed certain beneficiaries. These exemptions are deducted from the first $15,000 subject to tax.

Nonresident Decedents

The tax applies to all transfers by will or intestate law of property within the state or within its jurisdiction. The securities of domestic corporations are taxable regardless of their physical location.

Discount and Interest

The taxes accrue upon the death of the decedent and if not paid within one year interest at the rate of 7 per cent per annum is charged for the entire time. This may be reduced to 6 per cent if the delay was unavoidable. There is no discount allowed for prompt payment.

Rates of Tax

The different classes of beneficiaries are taxed according to the following schedule:

Class 1.—Wife or lineal issue:

1%	of any amount not in excess of	$15,000		
2%	of all in excess of	$ 15,000	and up to	$ 50,000
3%	" " " " "	$ 50,000	" " "	$100,000
4%	" " " " "	$100,000		

A deductible exemption of $10,000 is allowed each beneficiary in this class.

Class 2.—Husband, lineal ancestors, adopted or mutually acknowledged child:

2%	of any amount not in excess of	$15,000		
4%	of all in excess of	$ 15,000	and up to	$ 50,000
6%	" " " " "	$ 50,000	" " "	$100,000
8%	" " " " "	$100,000		

A deductible exemption of $10,000 is allowed husband or adopted child and $3,000 to lineal ancestors.

Class 3.—Brothers, sisters, and descendants of either; wife or widow of a son, or husband of a daughter:

3%	of any amount not in excess of	$15,000		
6%	of all in excess of	$ 15,000	and up to	$ 50,000
9%	" " " " "	$ 50,000	" " "	$100,000
12%	" " " " "	$100,000		

An exemption of $500 to each.

Class 4.—Brother or sister of father or mother, or descendant of brother or sister of father or mother of decedent:

4%	of any amount not in excess of	$15,000		
8%	of all in excess of	$ 15,000	and up to	$ 50,000
12%	" " " " "	$ 50,000	" " "	$100,000
16%	" " " " "	$100,000		

An exemption of $200 to each.

Class 5.—Persons in other degrees of collateral consanguinity, strangers in blood, and bodies politic or corporate:

5%	of any amount not in excess of	$15,000		
10%	of all in excess of	$ 15,000	and up to	$ 50,000
15%	" " " " "	$ 50,000	" " "	$100,000
20%	" " " " "	$100,000		

A deductible exemption of $2,500 is allowed to a public hospital, academy, college, university, seminary of learning, church, or purely charitable institution within this state; all others $100 each.

All the above exemptions are deducted from the first $15,000.

Taxation of Life Insurance Proceeds

The author has been unable to obtain the rulings with reference to insurance. However, other states with similar laws tax only the proceeds payable to the estate; specific beneficiaries are not taxed.

TENNESSEE

Property Subject to Tax

A tax is imposed upon every transfer of property, real, personal, or mixed, or any interest therein or income therefrom, in trust or otherwise, to persons or corporation in the following cases:

1. When the transfer is by will or by the intestate or other laws of the state.

2. When the transfer of property is by deed, grant, bargain, sale, gift, or by life insurance policy, or contract; and is made in the nature of a final disposition or distribution of such property in contemplation of death to take effect in possession or enjoyment at or after the date of death. Every such transfer made within 2 years preceding the date of death without consideration equal in money or money's worth to the full value of the property transferred, shall be construed to have been made in contemplation of death.

3. When the proceeds of any life insurance policy or contract, upon the death of the insured, by the terms thereof, by operation of law, or by the will of the insured, inure to the benefit of any person or persons, other than the direct descendants or ascendants or the widow or

husband of the insured in the nature of a gift, bequest, or devise not based upon a valuable consideration passing from said beneficiaries to the insured in his lifetime.

4. Where any property shall be transferred subject to any charges, estates, or interests, determinable by death of any person, or at any period, ascertainable only by reference to death, the increase accruing to any person or corporation upon the extinction or determination of such charge, estate, or interest, shall be deemed a taxable transfer of property.

5. Whenever real or personal property is held in the joint names of two or more persons, the vesting of title or ownership or possession and enjoyment of such property in such survivor or survivors at such death or deaths shall be deemed a taxable transfer. Partnerships formed to operate any kind of a business undertaking and real estate held by the entireties by husband.and wife if the real estate vests in the survivor are not subject to this provision.

6. Whenever any person, trustee, or corporation has the power of making disposition of property under an appointment by will, deed, or other instrument; a transfer of such property shall be deemed to take place for the purposes of taxation, whether the power is then exercised or not.

Exemptions

Property of an intestate, testator, or grantor, where the whole estate has a clear market value of less than $1,000; all property transferred to municipal corporations, for strictly municipal purposes; all property devised or transferred to any church for purely religious purposes, to any school or college for purely educational purposes, to any hospital or bona fide charitable institution; and transfers of property on which an inheritance tax was paid within 5 years are entirely exempt from taxation. An exemption of

$10,000 is allowed the entire group of direct heirs and $1,000 to all others combined.

Nonresident Decedents

Nonresidents are taxed:

When the transfer is by will or by intestate or other laws of property within the state, or within its jurisdiction. The following are specifically excluded: (*a*) money on hand or on deposit: (b) shares of stock, bonds, or notes held as collateral to secure any bona fide indebtedness owed by such nonresident to any person, firm, or corporation in the state; (*c*) shares of stocks, bonds, notes, or other evidences of debt, where the imposition of an inheritance tax thereon in the state would result in the payment of a second, or double inheritance tax upon such property by reason of the fact that it is subject to the payment of such a tax in the state where the nonresident decedent lived at the time of his death.

When such transfers are made in contemplation of death as previously described.

Discount and Interest

If the tax is paid within 6 months, a discount of 5 per cent is allowed. If not paid within 12 months, interest is charged at the rate of 6 per cent from the date the tax accrued.

Rates of Tax

The various classes of beneficiaries are taxed as follows:

Class 1.—Husband, wife, or direct descendants or ascendants, or any child adopted as such in conformity with the laws of the state:

1 % on amounts from $10,000 to $25,000
1½% on the next $ 25,000 or any part thereof
2 % " " " $ 50,000 " " " "
3 % " " " $400,000 " " " "
5 % on $500,000 and all over that sum

A deductible exemption of $10,000 is allowed the entire class.

Class 2.—All others except those previously mentioned as being entirely exempt:

5 %	on amounts from	$1,000 to $50,000
6 %	on the next	$ 50,000 or any part thereof
7 %	" " "	$ 50,000 " " " "
8 %	" " "	$ 50,000 " " " "
9 %	" " "	$ 50,000 " " " "
10 %	on	$250,000 and all over that sum

A deductible exemption of $1,000 is allowed the entire class.

Taxation of Life Insurance Proceeds

The law of Tennessee is among the few that make specific mention of life insurance. Usually the laws are silent on the subject and leave the matter for court interpretation. Tennessee, however, intends that all insurance not payable to direct ascendants or descendants or husband or wife shall be taxed and the law so states.

TEXAS

Property Subject to Tax

A tax is imposed on the transfer by will, intestate law, or made in contemplation of death of all property, real or personal, or any interest or income therefrom.

Exemptions

Deductible exemptions of specific amounts are allowed certain beneficiaries. There are no groups, such as religious or charitable organizations, entirely exempt from the tax.

Nonresident Decedent

Nonresidents are taxed the same rate as residents on all property within the jurisdiction of the state. This includes the stocks and bonds of domestic corporations wherever the securities may be located. Exemptions are the same as those of a resident.

Discount and Interest

There is no interest charged if the tax is paid within 3 months. Thereafter interest accrues at the rate of 2 per cent per month or 24 per cent per annum until paid. No discount is allowed for prompt payment.

Rates of Tax

The beneficiaries are classified and taxed according to the following schedule:

Class 1.—Husband, wife, lineal descendant, adopted child, wife of son, husband of daughter; domestic religious, educational, or charitable organizations; the State of Texas, or any municipality in the state, or to the United States for use within the state:

1%	of the first	$25,000	above the exemption of	$25,000
2%	of all in excess of	$ 50,000	and up to	$ 100,000
3%	" " " " "	$ 100,000	" " "	$ 200,000
4%	" " " " "	$ 200,000	" " "	$ 500,000
5%	" " " " "	$ 500,000	" " "	$1,000,000
6%	" " " " "	$1,000,000		

Each beneficiary in this group is allowed a deductible exemption of $25,000.

Class 2.—Brother or sister or lineal descendant thereof:

3%	of the first	$15,000	above the exemption of	$10,000
4%	of all in excess of	$ 25,000	and up to	$ 50,000
5%	" " " " "	$ 50,000	" " "	$ 100,000
6%	" " " " "	$ 100,000	" " "	$ 250,000
7%	" " " " "	$ 250,000	" " "	$ 500,000
8%	" " " " "	$ 500,000	" " "	$ 750,000
9%	" " " " "	$ 750,000	" " "	$1,000,000
10%	" " " " "	$1,000,000		

Each beneficiary in this class is allowed a deductible exemption of $10,000.

Class 3.—Uncle or aunt or lineal descendant thereof:

4%	of the first $9,000 above the exemption of $1,000			
5%	of all in excess of	$ 10,000	and up to	$ 25,000
6%	" " " " "	$ 25,000	" " "	$ 50,000
7%	" " " " "	$ 50,000	" " "	$ 100,000
10%	" " " " "	$ 100,000	" " "	$ 500,000
12%	" " " " "	$ 500,000	" " "	$1,000,000
15%	" " " " "	$1,000,000		

Each beneficiary in this class is allowed a deductible exemption of $1,000.

Class 4.—All others:

5%	of the first $9,500 above the exemption of $500			
6%	of all in excess of	$ 10,000	and up to	$ 25,000
8%	" " " " "	$ 25,000	" " "	$ 50,000
10%	" " " " "	$ 50,000	" " "	$ 100,000
12%	" " " " "	$ 100,000	" " "	$ 500,000
15%	" " " " "	$ 500,000	" " "	$1,000,000
20%	" " " " "	$1,000,000		

Each beneficiary is entitled to a $500 deductible exemption.

Taxation of Life Insurance Proceeds

Texas is one of the few states which has allowed an executor to be designated as a beneficiary without being taxed. The proceeds may be used to pay taxes or they may be turned over to a residuary legatee, and yet there is no tax. Naturally, insurance payable to other specifically designated beneficiaries is not subject to tax.

UTAH

Property Subject to Tax

A tax is imposed on all property within the jurisdiction of the state, and any interest therein, whether tangible or intangible, which shall pass by will or by the statutes of inheritance of this or any other state or by deed, grant, bargain, sale, or gift, made in contemplation of the death of the grantor, vendor, or donor, or intended to take effect in possession or enjoyment at or after the death of the grantor, vendor, or donor, or any person in trust or otherwise. Any transfer of a material part of any such property in the nature of a final disposition or distribution thereof made by the decedent within 3 years prior to his death, except in case of a bona fide sale for a fair consideration in money or money's worth, unless shown to the contrary, shall be deemed to have been made in contemplation of death; or whenever property is held in the joint names of two or more persons, or as tenants by the entirety, or is deposited in banks or other institutions or depositories in the joint names of two or more persons and payable to or cast upon either or the survivor, upon the death of one of such persons, the right of the surviving tenant by the entirety, joint tenant or joint tenants, person or persons, to the immediate ownership or possession and enjoyment of such property shall be deemed a taxable transfer.

Exemptions

The only exemption allowed is that of $10,000 for the entire estate. The nature of the beneficiary is immaterial.

Nonresident Decedents

A nonresident is taxed on all property within the jurisdiction of the state and any interest therein, whether tangible or intangible, if it passes by will, statutes of inheritance, or is transferred in contemplation of death. Stocks of domestic corporations are taxable wherever located; bonds physically outside the state are not taxed.

Discount and Interest

The tax is due within one year from the date of death of the decedent, and there is no discount for prompt payment.

If not paid within one year interest is charged at the rate of 8 per cent per annum.

Rates of Tax

The tax is in the nature of an estate tax, and there are no classes of beneficiaries. If the estate exceeds $10,000 a tax of 3 per cent is levied on the amount between $10,000 and $25,000; and 5 per cent of the amount in excess of $25,000.

Taxation of Life Insurance Proceeds

If the proceeds are payable to a specifically named beneficiary, there is no tax. If payable to the estate of the insured, the amount becomes part of his estate for inheritance tax purposes.

VERMONT

Property Subject to Tax

A tax is imposed on the transfers of all real or personal property or any interest therein passing under the laws of descent or the intestate laws of Vermont, or any other state or government; or transfers of real estate within the state or any interest therein by deed, grant, or gift, except in case of a bona fide purchase for a full consideration in money or money's worth, made or intended to take effect in possession or enjoyment upon or after the death of the grantor or donor.

Exemptions

There is no tax on legacies in trust or otherwise, if used for purchasing, maintaining, caring for, or beautifying a burial lot or for a monument or other structure thereon. Deductible exemptions of $10,000 are allowed certain beneficiaries.

Nonresident Decedents

Real estate of a nonresident is taxable the same as that of a resident, but there is no tax on personal property.

Discount and Interest

The tax is due and payable 2 years from the date of death of decedent and there is no discount for earlier payment. If not paid within that time interest is charged at the rate of 6 per cent per annum thereafter, unless a court extends the time.

Rates of Tax

The several classes of beneficiaries are taxed as follows:

Class 1.—Husband, wife, child, father, mother, or grandchild of a decedent, the wife or widow of a son, or the husband of a daughter thereof, a child adopted during its minority by a decedent during his life under the laws of this state, a stepchild of a decedent, a child of such adopted child or of such stepchild, or other lineal descendant:

1%	of the excess over $ 10,000	and not exceeding	$ 25,000
2%	" " " " $ 25,000	" " "	$ 50,000
4%	" " " " $ 50,000	" " "	$250,000
5%	" " " " $250,000		

The deductible exemption of $10,000 is allowed each beneficiary in this class.

Class 2.—All others except those entirely exempt are taxed at the rate of 5 per cent on whatever amount they receive. There are no exemptions to this class.

Taxation of Life Insurance Proceeds

If the proceeds are payable to the estate they are taxable. If payable to a specifically named beneficiary they are not taxable.

VIRGINIA

Property Subject to Tax

All property within the jurisdiction of the state, real, personal, and mixed, and any interest therein, whether belonging to inhabitants of the state or not, which shall pass by will, or by the laws regulating descents and distributions, or grant or gift (except in case of a bona fide purchase for full consideration in money or money's worth) made or intended to take effect in possession or enjoyment after death of the grantor, or grant or gift made in contemplation of death (all grants or gifts made within one year next preceding the death of the decedent, shall be deemed prima facie to have been made in contemplation of death) are subject to tax.

Exemptions

Any gift, devise, or bequest made exclusively for state, county, or municipal purpose in this state, for charitable, educational, or religious purposes within the state; or any such gift, devise, or bequest made for the exclusive benefit of any institution, association, or corporation in the state whose property is exempt from taxation by the laws of the state, shall not be subject to tax.

Deductible exemptions are also allowed to certain beneficiaries.

Nonresident Decedents

The law as amended in 1926 provides for a tax of 2 per cent of the actual value of all personal property and real estate within the jurisdiction of the state and any interest therein, belonging to persons whose domicile is without the state, except that such tax shall not apply to money on deposit in any incorporated bank, trust company, or other similar institution in the state, if such deposit be owned by the estate of a nonresident, nor to the obligations of municipal corporations or other subdivisions of the state. Stocks and bonds of other domestic corporations are taxable wherever located. No tax is imposed upon the transfer of property declared by the law of Virginia not to have a situs in that state. No deductions or exemptions of any sort are allowed.

Discount and Interest

Taxes on transfers of resident decedents are payable one year after death. There is no discount for prompt payment, but if they are not paid when due 1 per cent interest is charged each month until paid, except in case of unavoidable delay.

In the case of nonresident decedents, the tax is due at the time of transfer and if not paid then, interest at the rate of 10 per cent per annum is charged. In any event, transfer is presumed to have taken place within 4 months after death and interest accrues from that time.

Rates of Tax

The regular rate of tax on resident decedents is given below. The exemption in each case is deducted from the amount in the first bracket.

Class 1.—Husband, wife, lineal ancestor, or lineal descendant:

1%	of amount not exceeding	$50,000	
2%	of amount in excess of	$ 50,000	and not exceeding $ 100,000
3%	" " " " "	$ 100,000	" " " $ 500,000
4%	" " " " "	$ 500,000	" " " $1,000,000
5%	" " " " "	$1,000,000	

A deductible exemption of $10,000 is allowed each of the above beneficiaries.

Class 2.—Brother, sister, nephew, or niece:

2%	of amount not exceeding $25,000			
4%	of amount in excess of	$ 25,000	and not exceeding	$ 50,000
6%	" " " " "	$ 50,000	" " "	$ 100,000
8%	" " " " "	$ 100,000	" " "	$ 500,000
10%	" " " " "	$ 500,000		

A deductible exemption of $4,000 is allowed each beneficiary:

Class 3.—Those not enumerated in Class 1 or 2:

5%	of amount not exceeding $25,000			
7%	of amount in excess of	$ 25,000	and not exceeding	$ 50,000
9%	" " " " "	$ 50,000	" " "	$ 100,000
12%	" " " " "	$ 100,000	" " "	$ 500,000
15%	" " " " "	$ 500,000		

A deductible exemption of $1,000 is allowed each beneficiary.

Alternate Rate

In order to take advantage of the 1926 reduction in Federal estate tax rates, the law of Virginia was amended so that whenever the tax computed under the old schedule is not equivalent to the amount obtained by applying the Federal estate tax rates, then the latter shall apply. In estates of $100,000 or less, the Virginia rate will always apply because the exemption provided is much less than that of the Federal estate tax law. (The Federal tax rates are given elsewhere.)

Taxation of Life Insurance Proceeds

If the proceeds are payable to the estate they are taxable. If payable to a specific beneficiary they ordinarily are not taxable. However, the 1926 amendment to the Virginia inheritance tax law is designed to absorb the 80 per cent credit under the Federal estate tax, and if a part of the Federal estate tax arises out of insurance in excess of $40,000 and payable to specific beneficiaries, it is taxable to the extent of the 80 per cent credit.

Virginia Income Tax

The Virginia income tax law recognizes the nature of life insurance and exempts all proceeds paid by reason of the death of the insured. It also recognizes the nature of "dividends" on life insurance policies by exempting the amount received by the insured as a return of premiums paid by him on life, endowment, or annuity contracts, either during the term or at the maturity of the contract or at the surrender of the same. Observe that the amount received by the insured in excess of the amount paid on endowment and annuity contracts is not exempted.

WASHINGTON

Property Subject to Tax

A tax is imposed on all property within the jurisdiction of the state, and any interest therein, and whether tangible or intangible, which shall pass by will or by the statutes of inheritances of this or any other state; or by deed, grant, sale, or gift made in contemplation of the death of the grantor or donor; or by deed, grant, sale, or gift made or intended to take effect in possession or in enjoyment after the death of the grantor or donor to any person in trust or otherwise.

Exemptions

There is no tax on bequests and devises of property for one of the following charitable purposes, namely, the relief of the aged, indigent and poor people, maintenance of sick or maimed, the support or education of orphans or indigent children; and all bequests and devises to the State of Washington or to any county, city, school district, or other municipal corporation therein for eleemosynary, charitable, educational, or philanthropic purposes; and all bequests and devises made to schools and colleges in the state supported in whole or in part by gifts, endowments, or charity, the entire income of which said school or college, after paying the expenses thereof, is devoted to the purposes of such institution and which is open to all persons upon equal terms. A $10,000 deductible exemption is allowed the entire group of Class I beneficiaries. Otherwise there are no deductible exemptions.

Nonresident Decedents

All property within the jurisdiction of the state whether tangible or intangible and belonging to a nonresident is taxable when passing by will or intestate law or conveyed in contemplation of death. Stocks and bonds of domestic corporations are taxable wherever located. The tax rates and exemptions are the same as for residents.

Discount and Interest

The tax is due within 15 months of death and if not paid within that time interest is charged at the rate of 8 per cent per annum from the date of death until paid. There is no discount allowed for prompt payment.

Rates of Tax

The several classes of beneficiaries are taxed as follows:

Class 1.—Father, mother, husband, wife, lineal descendant, adopted child, or lineal descendant of an adopted child:

1%	of any value not exceeding $50,000									
2%	of	any	value	in	excess	of	$ 50,000	and	not	exceeding $100,000
3%	"	"	"	"	"	"	$100,000	"	"	" $150,000
4%	"	"	"	"	"	"	$150,000	"	"	" $200,000
5%	"	"	"	"	"	"	$200,000	"	"	" $300,000
7%	"	"	"	"	"	"	$300,000	"	"	" $500,000
10%	"	"	"	"	"	"	$500,000			

$10,000 of the net value of any estate is exempt in this class and is deducted before the computation of the tax is begun.

CLASS 2.—Sister, brother, uncle, aunt, nephew, or niece:

5%	of any value not exceeding $50,000
6%	of any value in excess of $ 50,000 and not exceeding $100,000
8%	" " " " " " $100,000 " " " $150,000
10%	" " " " " " $150,000 " " " $200,000
12%	" " " " " " $200,000 " " " $300,000
15%	" " " " " " $300,000 " " " $500,000
20%	" " " " " " $500,000

CLASS 3.—Collateral heirs beyond the third degree of relationship or strangers to the blood:

10%	of any value not exceeding $50,000
12%	of any value in excess of $ 50,000 and not exceeding $100,000
15%	" " " " " " $100,000 " " " $150,000
20%	" " " " " " $150,000 " " " $200,000
25%	" " " " " " $200,000 " " " $300,000
30%	" " " " " " $300,000 " " " $500,000
40%	" " " " " " $500,000

Taxation of Life Insurance Proceeds

Washington does not impose any tax on insurance proceeds payable to a specifically named beneficiary even if it is the executor or administrator who is supposed to use the fund to pay inheritance taxes.

WEST VIRGINIA

Property Subject to Tax

A tax is imposed on the transfer, in trust, or otherwise, of any property, or interest therein, real, personal, or mixed, of $500 or more if such transfer is:

1. By will or by laws of the state regulating descents and distributions.

2. By deed, grant, bargain, sale, or gift, made in contemplation of the death of the grantor, bargainor, or donor, or intended to take effect in possession or enjoyment at or

after such death. Every transfer by deed, grant, bargain, sale, or gift, made within 3 years prior to the death of the grantor, bargainor, vendor, or donor, of value of $500, or in excess thereof, at the time of such transfer in the nature of final disposition, or distribution of an estate, and without adequate valuable consideration, shall be construed to have been made in contemplation of death.

3. If any person shall transfer any property which he owns, or shall cause any property, to which he is absolutely entitled, to be transferred to, or vested in himself and any other person jointly so that the title therein, or in some part thereof, vests no survivorship in such other person, a transfer shall be deemed to occur and to be taxable.

4. Whenever any person shall exercise a power of appointment derived from any disposition of property or other omission or failure to exercise such.

Exemptions

All property transferred to a person or corporation, in trust for use solely for educational, literary, scientific, religious, or charitable purposes; or to the state, or to any county or municipal corporation thereof, for public purposes, provided the property so transferred for such purposes is used exclusively in the state, is entirely exempt from taxation.

Deductible exemptions are also allowed certain beneficiaries; details of these exemptions are given below in connection with the rates of tax.

Nonresident Decedents

The transfer of the following property belonging to nonresidents which shall pass by will or inheritance under the law of any other state, or country, shall be subject to tax:

1. The transfer of all real estate and tangible personal property including money on deposit in the state.

2. The transfer of all intangible personal property, including bonds, securities, shares of stock, and choses in action kept within the state for investment, safe-keeping, or otherwise.

3. The transfer of shares of capital stock of all corporations organized and existing under the laws of the state, the certificates of which shares of stock shall be within or without the state.

4. The transfer of shares of capital stock of all corporations organized and existing under the laws of any other state or country and regularly admitted to transact business in West Virginia to the extent of the value of such shares of stock represented by property actually situated in the state.

If bonds of a domestic corporation are physically located outside the state they are not subject to tax.

The rates of tax are the same as for a resident and the exemptions are apportioned in the ratio of the West Virginia property to the entire estate.

Penalty and Interest

The tax is due 90 days after the first appointed executor or administrator qualifies, or 4 months after death of the decedent if letters testamentary are not issued. There is no discount for prompt payment. If not paid within 6 months after death a penalty of 10 per cent *is added* in addition to the statutory rate of interest of 10 per cent per annum. This may be suspended if there is sufficient cause.

Rates of Tax

The several classes of beneficiaries are taxed as follows:

Class 1.—Wife, husband, child, or the children of a deceased child, or father or mother:

2 %	of any amount up to	$50,000		
4 %	of all in excess of	$ 50,000	up to and not exceeding	$100,000
4½%	" " " " "	$100,000	" " " " "	$150,000
5 %	" " " " "	$150,000	" " " " "	$200,000
5½%	" " " " "	$200,000	" " " " "	$300,000
6 %	" " " " "	$300,000	" " " " "	$400,000
6½%	" " " " "	$400,000	" " " " "	$500,000
7 %	" " " " "	$500,000		

A deductible exemption of $15,000 is allowed the widow; all others in this class, $10,000 each. These exemptions are deducted from the first bracket of $50,000.

Class 2.—Brother or sister (and the term brother or sister shall not include a brother or sister of the half blood):

4 %	of any amount up to	$50,000		
8 %	of all in excess of	$50,000	up to and not exceeding	$100,000
9 %	" " " " "	$100,000	" " " " "	$150,000
10 %	" " " " "	$150,000	" " " " "	$200,000
11 %	" " " " "	$200,000	" " " " "	$300,000
12 %	" " " " "	$300,000	" " " " "	$400,000
13 %	" " " " "	$400,000	" " " " "	$500,000
14 %	" " " " "	$500,000		

There is no exemption to anyone in this class.

Class 3.—Other relatives further removed in relationship from the decedent than brother or sister:

6 %	of any amount up to	$50,000		
12 %	of all in excess of	$ 50,000	up to and not exceeding	$100,000
13½%	" " " " "	$100,000	" " " " "	$150,000
15 %	" " " " "	$150,000	" " " " "	$200,000
16½%	" " " " "	$200,000	" " " " "	$300,000
18 %	" " " " "	$300,000	" " " " "	$400,000
19½%	" " " " "	$400,000	" " " " "	$500,000
21 %	" " " " "	$500,000		

There is no exemption to anyone in this class.

Class 4.—All others except those previously mentioned as being entirely exempt:

10 %	of any amount up to $50,000	
20 %	of all in excess of $ 50,000 up to and not exceeding	$100,000
22½%	" " " " " $100,000 " " " " "	$150,000
25 %	" " " " " $150,000 " " " " "	$200,000
27½%	" " " " " $200,000 " " " " "	$300,000
30 %	" " " " " $300,000 " " " " "	$400,000
32½%	" " " " " $400,000 " " " " "	$500,000
35 %	" " " " " $500,000	

There is no deductible exemption allowed any beneficiary in this class.

Taxation of Life Insurance Proceeds

The act makes no mention of life insurance proceeds, and they are taxable only when payable to the estate of the insured.

WISCONSIN

Property Subject to Tax

A tax is imposed upon any transfer of property, real, personal, or mixed, or any interest therein, or income therefrom in trust or otherwise, when the transfer is by will or by the intestate laws of the state; or when the transfer is by deed, grant, bargain, sale, or gift, made in contemplation of the death of the grantor, vendor, or donor, or intended to take effect in possession or enjoyment at or after death (every transfer by deed, grant, bargain, sale, or gift, made within 6 years prior to the death of the grantor, vendor, or donor, of a material part of his estate, or in the nature of a final disposition or distribution thereof, and without an adequate valuable consideration, shall be construed to have been made in contemplation of death); [1] or whenever any person or

[1] This was declared illegal (Schlesinger *vs.* Wisconsin).

corporation shall exercise a power of appointment derived from any disposition of property. Whenever any property, real or personal, is held in the joint names of two or more persons, or as tenants by the entirety, or is deposited in banks or other institutions or depositories in the joint names of two or more persons and payable to either or the survivor, upon the death of one of such persons the right of the surviving tenant by the entirety, joint tenant or joint tenants, person or persons, to the immediate ownership or possession and enjoyment of such property shall be deemed a transfer of one half or other proper fraction thereof taxable under the provisions of this chapter in the same manner as though the property to which such transfer relates belonged to the tenants by the entirety, joint tenants or joint depositors, as tenants in common, and had been bequeathed or devised to the surviving tenant by the entirety, joint tenant or joint tenants, person or persons, by such deceased tenant by the entirety, joint tenant or joint depositor, by will.

Exemptions

There is no tax on transfers to county, town, or municipal corporations within the state, for strictly county, town, or municipal purposes; and corporations of the state organized under its laws, or voluntary associations, organized solely for religious, charitable, or educational purposes, which shall use the property so transferred exclusively for the purposes of their organization, within the state. Deductible exemptions of specific amounts are allowed certain beneficiaries.

Nonresident Decedents

Nonresidents are taxed on all transfers by will or intestate law, of property within the state or within its jurisdiction; or when similar property is transferred in contemplation of death. The stocks of domestic corporations are taxable wherever located, but the bonds are not taxable.

Discount and Interest

The tax is due at the time of transfer and there is a discount of 5 per cent allowed if it is paid within one year. If not paid within 18 months, interest is charged at the rate of 10 per cent per annum for the entire period beginning when it was due. This may be reduced to 6 per cent in case of unavoidable delay.

Rates of Tax

The following rates of tax apply to the different classes of beneficiaries, subject to a maximum of 15 per cent of the amount transferred to any one beneficiary.

CLASS 1.—Husband, wife, lineal issue, lineal ancestor, adopted or acknowledged child:

2%	of any amount not in excess of $25,000										
4%	of	all	in	excess	of	$ 25,000	and	up	to	$ 50,000
6%	"	"	"	"	"	$ 50,000	"	"	"	$100,000
8%	"	"	"	"	"	$100,000	"	"	"	$500,000
10%	"	"	"	"	"	$500,000				

A deductible exemption of $15,000 is allowed the widow and $2,000 to each of the others in this class and is deducted from the first $25,000 subject to tax.

CLASS 2.—Brother, sister, descendant of brother or sister, wife or widow of son, or husband of daughter:

4%	of any amount not in excess of $25,000									
8%	of	all	in	excess	of	$ 25,000	and	up	to	$ 50,000
12%	"	"	"	"	"	$ 50,000	"	"	"	$100,000
16%	"	"	"	"	"	$100,000	"	"	"	$500,000
20%	"	"	"	"	"	$500,000				

A deductible exemption of $500 is allowed each beneficiary in this class.

Class 3.—Brother or sister of the father or mother, or a descendant of the brother or sister of the father or mother of the decedent.

6%	of any amount not in excess of	$25,000		
12%	of all in excess of	$ 25,000	and up to	$ 50,000
18%	" " " " "	$ 50,000	" " "	$100,000
24%	" " " " "	$100,000	" " "	$500,000
30%	" " " " "	$500,000		

A deductible exemption of $250 each.

Class 4.—Any other degree of consanguinity, or a stranger in blood, or a body politic or corporate:

8%	of any amount not in excess of	$25,000		
16%	of all in excess of	$ 25,000	and up to	$ 50,000
24%	" " " " "	$ 50,000	" " "	$100,000
32%	" " " " "	$100,000	" " "	$500,000
40%	" " " " "	$500,000		

A deductible exemption of $100 each.

Taxation of Life Insurance Proceeds

The Wisconsin inheritance tax law is among those that mention life insurance specifically, and it provides that insurance payable upon the death of any person shall be deemed a part of his estate for the purpose of the tax, and shall be taxable to the person or persons entitled thereto. It makes no difference if it is payable to the estate or a specifically named beneficiary. It has been ruled that the proceeds of war risk insurance are an exception to this.

Wisconsin Income Tax

There is no income tax on insurance proceeds received by any person or persons in payment of a death claim by any insurance company, fraternal benefit society, or other insurer, except insurance paid to a corporation or partnership upon policies on the lives of its officers, partners, or employees. In the case of insurance paid to corporations or partnerships, the net premiums are deducted and only the difference is taxable. Likewise, if the insurance is paid to the insured (as in case of endowment policies) only the amount in excess of the net premiums is taxable.

WYOMING

Property Subject to Tax

A tax is imposed on all property within the jurisdiction of the State of Wyoming, corporeal or incorporeal, and any interest therein, which shall pass by will or by the laws regulating intestate succession; or which shall pass by the operation of any of the statutes of the State of Wyoming which become operative to transfer property upon the death of a person (except that provision of law relative to the homestead to surviving spouse or child or children); or by deed, grant, or gift made in contemplation of the death of the grantor or donor, or made or intended to take effect in possession or enjoyment after his death, except in case of bona fide purchase for full consideration in money or money's worth; and any beneficial interest therein which shall arise or accrue by survivorship or in any form of joint ownership in which decedent joint owner contributed during his life any part of the property held in such ownership or any part of the purchase price thereof, to any person absolute or in trust.

Exemptions

There is no tax on gifts for state, municipal, charitable, educational, or religious purposes; or to any institution for use in the preservation of wild fowls or game.

Deductible exemptions of $10,000 and $5,000 are allowed each of the beneficiaries in Classes 1 and 2 respectively.

Nonresident Decedent

A nonresident is taxed on the same property transfers as a resident except that stocks and bonds of domestic corporations are not taxable.

Discount and Penalty

If the tax is paid within 16 months, a discount of 5 per cent is allowed. If not paid by that time, interest at the rate of 8 per cent per annum is charged from the date of death of the decedent. This may be reduced to 6 per cent in case of unavoidable delay.

Rates of Tax

The following rates of tax are charged the several classes of beneficiaries:

Class 1.—Wife, husband, child, parent, brother, sister, adopted child, or adoptive parent:

2 per cent on any amount over the deductible exemption of $10,000 allowed to each beneficiary in this class.

Class 2.—Grandparent, grandchild, half brother, or half sister.

4 per cent on any amount over the deductible exemption of $5,000 allowed each beneficiary in this class.

Class 3.—All others except those previously mentioned as being entirely exempt are taxed at 6 per cent on any and all amounts.

There is no exemption in this class.

Taxation of Life Insurance Proceeds

No specific mention is made in the act with reference to life insurance. However, the only proceeds taxable are those payable to the estate of the insured.

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