STRAYER UNIVERSITY

CAUSE AND EFFECT OF RAISING THE ESTATE TAX CREDIT THROUGH 2009 AND AN EVALUATION OF THE SUNSET PROVISION IN 2011

A DIRECTED RESEARCH PROJECT SUBMITTED TO THE FACULTY OF THE GRADUATE SCHOOL OF BUSINESS IN CANDIDACY FOR THE DEGREE OF MASTERS IN ACCOUNTING

BY

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Certification and Approval

This directed research project on “Cause and Effect of Raising the Estate Tax Credit through 2009 and an Evaluation of the Sunset Provision in 2011” is submitted as my own research for approval of the Graduate School of Strayer University in candidacy for the degree of Masters of Science in Accounting.

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Abstract

This purpose of this study was to provide a recommendation for future treatment of the federal estate tax in 2011 and beyond. Congress reserves the right to execute a sunset provision in 2011 of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001. The sunset provision would roll back the estate tax treatment to what it was before the EGTRRA was passed (Pope, Anderson, & Kramer, 2008). To provide this recommendation, four sub-questions were explored. First, the effects the estate tax and the corresponding estate tax incentives on American retirement savings was examined. Second, estate tax contributions to federal revenue were researched. Third, specific stipulations in the computation of the estate tax were examined to provide a recommendation whether the computation of the estate tax itself should be modified. Last, financial and physical burdens that the estate tax imposes on certified public accountants and their clients were explored. Secondary research was conducted through a review of periodicals, government publications, and journals, particularly editorials. Primary research was conducted by polling 155 certified public accountants, at least two per state, and conducting Student t analysis and Chi-squared analysis on the 34 responses to make inferences on the CPA population. Refer to Chapter One and Appendix E for details of the research methodology.

Neither the primary nor the secondary research revealed convincing evidence that the estate tax incentives of the EGTRRA have significantly increased retirement savings activity. Further, the research has indicated that a permanent abolishment of the estate tax would not spawn enhanced retirement savings activity. While the research showed that the estate tax is not a significant source of federal revenue, the research also showed a fair amount of concern from the standpoint of certified public accountants that the permanent abolishment of the estate tax would significantly jeopardize federal revenue. The research did not show convincing evidence one way the other whether the testamentary transfer and deathbed lifetime transfer inclusions in the decedent's gross estate was fair, but it did show that the existence of these stipulations has had a significant impact on the number of estates incurring an estate tax liability. Although there were some exceptions, the primary research did not indicate that the estate tax has not imposed a burden on certified public accountants and CPA clients acting as estate executors to the extent portrayed by the media.

Based on evidence found in the study, it was not recommended that the repeal of the estate tax last beyond 2010, the year in which the estate tax is scheduled to be repealed, as the estate tax incentives have not influenced retirement saving activity, and out of fear that the permanent abolishment of the estate tax would significantly jeopardize federal revenue. However, the sunset provision of the EGTRRA in 2011 should not be executed in full, since many middle-class families have estates which would be subject to an estate tax at 2001 rates, particularly when testamentary transfers and deathbed transfers are included in the gross estate. Rather, the available estate tax credit was recommended to either continue to increase or remain at 2009 levels and the testamentary transfer and deathbed transfer stipulations be removed. This recommendation would provide tax relief to those who need it, help stabilize federal revenue, and deter a government operated solely by the wealthy. It was recommended that the estate tax should not be repealed on account of physical and financial burdens placed on estate executors and certified public accountants since the primary research has shown these burdens are not as significant as portrayed by certain media sources.

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Chapter One

Introduction

A research proposal to study the effects the increase of the estate tax credit through 2009 and its scheduled repeal in 2010 has on American retirement savings, federal revenue, and the time and financial commitments placed on estate executors is presented in this chapter. Further, the chapter contains a proposal to evaluate the means by which the estate tax is computed. The chapter contains the context of the problem, statement of the problem, primary research question with subquestions, a significance of the study, the research methodology, the organization of the study, and a proposed reference list.

Context of the Problem

Congress enacted the Economic Growth and Tax Relief Reconciliation Act in 2001, which phased in reductions of the maximum unified transfer tax rates through 2009. Further, the act increased the available estate tax credit from $345,800 in 2002 to $1,455,800 in 2009. The act repeals the estate tax in year 2010. The available gift tax credit in 2010 is reduced compared to the 2009 credit since the maximum gift tax rate reduces from 45 percent in 2009 35 percent in 2010. Further, the gift tax applies to tax bases over $500,000 in 2010 compared to $1.5 million in 2009. Retaining the gift tax prevents wealthy individuals from making tax-free transfers to individuals in lower tax brackets. If no further legislation is passed, both the estate and gift tax credits and exemptions will revert to their 2001 levels as if the Economic Growth and Tax Relief Reconciliation Act had never been enacted as far as the unified transfer tax is concerned (Pope, Anderson, & Kramer, 2008, p. C12-2).

Arguments exists to abolish the estate tax permanently and not just in year 2010. Proponents of the measure claim that the estate tax creates an undue financial burden on executors of the estate. As an executor of her father's estate, Ms. Lynn Elander paid taxes on the estate including the estate tax and a $7,000 property tax out of her own funds and was later reimbursed by the estate since the taxes were due with potential penalties to be incurred, and yet it took time for cash to be transferred from her father's account to the estate account (Opdyke, 2008, p. A12). Without the estate tax, Ms. Elander may not have been required to use personal funds to pay the estate bills. Further, acting as an estate executor is a substantial commitment and may be time consuming and physically draining. Estate executor, Ms. Patricia Marek, reports "Pouring over IRS documents to make sure I submitted all the required forms became like a second job” (Opdyke, p. A12). The permanent repeal of the estate tax would relieve some of the time commitment imposed on estate executors and not make estate administration such a formidable task.

Still, the repeal of the estate tax has received stiff opposition. When Congress was debating the phase out of the federal estate tax by 2010 in 2000, the U.S. President at that time, Bill Clinton, attacked the bill and intended to veto it on two grounds. First, the President at the time set an administrative objective to balance the federal budget, which would be difficult to achieve without an estate tax. Second, the estate tax break was considered a tax break for the rich since most estates do not owe estate tax even before the EGGTRRA. For example, in 1998, only 47,500 estates owed an estate tax and most of the federal revenue from the estate tax came from estates worth more than $5 million (Vandehei, 2000, p. A20).

Statement of the Problem

The gradual increase of the federal estate tax credit and the gradual decrease in the maximum tax rate imposed on estates along with the repeal of the estate tax in 2010 is one of a multitude of tax relief initiatives offered to Americans at the start of the twenty-first century. However, the recently passed estate tax relief incentives is criticized for only favoring wealthy Americans, creating strain in generating a balanced federal budget, and offering little to no physical relief to the already burdensome task of administering an estate for a deceased person. A study of the effects of the estate tax initiatives to date from the perspective of tax professionals in relation to their clients and the effects on federal revenue by the estate tax initiatives will provide a recommendation whether the sunset provision to the estate tax initiative should be executed in 2011 or whether the estate tax should be modified or permanently repealed.

Research Question

The purpose of this study was to evaluate the effectiveness of the increased estate tax credit from the standpoint of federal revenue, the financial impact on estates, and the impact on executors of estates from the perspective of tax professionals. To assist in the research four sub questions were addressed.

The first sub question was “How has the increase in the estate tax credit and the repeal of the estate tax in 2010 affected the way clients of tax professionals save for retirement?” Raising the estate tax credit permits Americans to save more for retirement without concerning themselves so much in the government collecting high taxes on the estate in the event of the earlier than expected death of the retiree. Since one of the purposes of recent tax relief legislation is to encourage Americans to save for retirement, a study of trends in recent retirement savings behavior can determine if there is a correlation between the increase in the estate tax credit and retirement savings, providing evidence that the increase in the estate tax credit is fulfilling this purpose.

The second sub question was “What impact has the federal estate tax had on federal revenue as a result of the enactment of the Economic Growth and Tax Relief Reconciliation Act?” Solely studying the benefits the estate tax incentives provide to taxpayers and the extent to which taxpayers are taking advantage of those incentives would provide a biased recommendation as to whether the 2011 sunset provision should be enforced. In order to provided an unbiased recommendation, a study and analysis of the negative effects on the ability of the government to provide services without obtaining debt must be conducted.

The third sub question was “What effect has the testamentary transfer and deathbed transfer stipulations for the computation of the gross estate had on the number of estates owing estate tax and are these stipulations fair?” The solution to the problem may not be as simple as to permanently repeal the estate tax or to enforce the 2011 sunset provision. Since there are many facets to the computation of the state tax, an optimal solution may be to modify the existing estate tax to provide an appropriate balance between tax relief and federal revenue. A study of the current estate tax provisions and whether they are justified explores the possibility of such a solution.

The final sub question was “What impact has the federal estate tax had on estate executors settling estate? How would a repeal of the estate tax affect the willingness of people to act as estate executors or empower tax professionals to serve more clients?” The administration of an estate is a time-intensive process. While important, many Americans are reluctant to serve as estate executors due to time commitments involved and accounting firms devote a great amount of time to estate planning and administration. A study of the effects the estate tax incentives have on the time and financial burdens placed on estate executors and tax professionals can help quantify and evaluate the usefulness of the incentives in order to provide more evidence for or against permanently repealing the estate tax.

Significance of the Study

Saving for retirement is a huge potential problem for America's workers. Fifty percent of all Americans are not covered by any retirement plan. The average Individual Retirement Account balance according to the Federal Reserve is $29,000 (Smith, 2006). According to the Employee Benefit Research Institute, for American workers of age sixty to sixty-five and on the verge of retirement, the balance of the average retirement account is approximately three times their salary. It is estimated that such a retirement account would last approximately seven to eight years into retirement and the remaining life expectancy of a person age sixty to sixty-five is approximately seventeen years. It is recommended that workers have a retirement account balance up to eight times their pre-retirement salary at the point of retirement (Smith, 2006).

Congress is attempting to help resolve the retirement problem by offering tax incentives for Americans to save for retirement such as tax-deferred contributions to traditional Individual Retirement Accounts (IRAs) or tax-free distributions from Roth IRAs. The estate tax credit increase and the repeal of the estate tax in 2010 serve as yet another incentive for Americans to save for retirement. Yet, unlike the tax incentives to contribute to Individual Retirement Accounts which serves the middle and upper classes, the estate tax incentive is criticized for only serving the upper class. In 2008, only estates with a tax basis of $1.5 million potentially owed an estate tax if all of the available estate tax credit has been used (Pope, Anderson, & Kramer, 2008, p. C13-3). A study of the effectiveness of the estate tax incentive in influencing Americans to save for retirement can shed light to whether the estate tax would be better served as a federal revenue driver than a tax incentive and would provide a recommendation whether the 2011 sunset provision of the estate tax should be enforced.

As illustrated above in the examples of Ms. Patricia Merek and Ms. Lynne Elander (Opdyke, 2008), administering an estate can be a formidable and time-consuming task, particularly since computing and paying the estate tax is only a portion of the time and financial responsibilities of the estate executor. A study of the effects of the estate tax on the executors of estates allows the federal revenues generated from the estate tax to be weighed against the time and effort put forth by the estate executors. Perhaps more efficient ways to generate federal revenue exist.

Research Design and Methodology

This study contains a review of existing literature covering the estate tax, the increase of the estate tax credit, and proposals to permanently repeal or modify the estate tax. Tax research will be conducted via periodical searches of both Strayer University and Duke University library systems. Further, the National Tax Association's quarterly journal will be accessed to locate resources pertaining to the estate tax.

Since the primary purpose of the study is to examine the effects of the estate tax modifications on the macro population, the study will be entirely quantitative in nature. One hundred fifty five tax professionals will be polled at random with at least two tax professionals per state. Survey questions were presented in quasi-random order instead of strictly grouped by category to reduce the probability of a respondent systematically giving the same response to every question in a given category. Addresses of tax professionals were selected at random via an online telephone directory. A sample base consisting of a cross-section of males and females proportional to the population of tax professionals was sought. At minimum, 30 responses were sought to satisfy the requirement for Student t distribution statistical analysis. A Student t distribution analysis determined 90 percent confidence intervals for means of opinions of certified public accountants relating to the estate tax (Triola, 2005). Refer to Appendix C for a copy of the survey sent to tax professionals. Refer to Appendix E for a description of how survey data was analyzed and presented in tables and figures included in this study.

Organization of the Study

Chapter Two of this study focuses on the literary review of existing material. Literary searches focused on opinions of politicians, journalists, and scholars regarding the increase in the estate tax credit. Literary reviews of trends in retirement savings since the enactment of the Economic Growth and Tax Relief Reconciliation Act and the financial impact of the act were also examined. Statistical analysis of primary research in subsequent chapters is compared against the discussion in this chapter.

Chapter Three, addressing the first sub question, focuses on the effects of the estate tax credit increases and the 2010 repeal of the estate tax has had on the American taxpayer’s retirement savings behavior. Since tax professionals are often more knowledgeable about the estate tax and aid clients in tax and retirement planning, tax professionals were polled to determine the effects of the estate tax incentive on the retirement saving activity of the professionals’ clients and the retirement saving activity of the population at large. Student t distribution and Chi-squared statistical analysis show mean and variance confidence intervals regarding the effects of the estate tax incentives on retirement savings from the viewpoint of tax professionals.

Chapter Four, addressing the second sub question, is a quantitative analysis to compare the effects of the estate tax on federal revenue as a result of the enactment of the Economic Growth and Tax Relief Reconciliation Act of 2001. This chapter allows arguments to permanently repeal the estate tax to be weighed against potential losses in federal revenue to lead to unbiased conclusions. In addition, the analysis allows other sources of federal funding to be weighed against the estate tax. Tax professionals were polled with Student t distribution and Chi-Squared analysis determining the effects of the estate tax on federal funding from the standpoint of tax professionals.

Chapter Five, addressing the third sub question, analyzes the computation of the estate tax itself. The computation of the estate tax involves more than simply the value of the decedent's assets at the date of death, such as the addition of lifetime testamentary and deathbed transfers. This chapter explores the justification of these stipulations to provide a recommendation whether the estate tax computation should be modified. Student t distribution and Chi-squared statistical analysis provide this recommendation from the standpoint of tax professionals.

Chapter Six, addressing the fourth sub question, focuses on the physical and personal financial burdens and time constraints placed on estate administrators and certified public accountants, particularly coupled with the computation of the estate tax. The chapter explores whether a repeal of the estate tax would ease time commitments tax professionals must devote to a client, empowering more clients to be served. Polled tax professionals were asked to respond on behalf of their clients with respect to how the estate tax has influenced their clients. A Student t distribution and Chi-squared analysis gives the mean variance 90 percent confidence intervals for the level of physical and personal financial burdens the estate tax has on estate executors from the standpoint of tax professionals.

Chapter seven concludes the research. The ultimate purpose of the study was to provide an unbiased recommendation whether the estate tax should be permanently repealed, modified, or reverted to 2001 provisions. Combining statistical analysis questions answered in the previous four chapters coupled with scholarly opinions of the literary review allows such a recommendation be made, provided the statistical analysis yields convincing results.

Proposed Reference List

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Summary

Chapter one contained the proposal for the study of the effects the increased estate tax credit and the 2010 estate tax revocation has had on American retirement savings, federal revenue, and the time and financial burdens placed on estate executors and administrators. A proposal to study the computation of the estate tax was also presented to evaluate the fairness of the computation of the estate. Research methodology and presentation of final results were discussed. The study results ideally offer a recommendation whether the 2011 sunset provision of the repeal of the federal estate tax should be enforced or some other action taken with respect to future treatment of the estate tax.

Chapter Two

Literature Review

A review of the existing literature covering the increase of the estate tax credit, the decrease in maximum estate tax rate, and the repeal of the estate tax offers published opinions from scholars and public officials to complement primary research, gathering public opinion in order to provide a more unbiased recommendation for future administration of the estate tax. Findings from a review of the literature concerning the estate tax are discussed in this chapter. The chapter is subdivided into sections covering a literary review of each of the four sub questions presented in this chapter.

Estate Tax and Retirement Planning

The increase in the estate tax credit has had some effect the way Americans, particularly wealthy Americans, prepare for retirement and beyond according to a review of the literature. The Hartford Financial Services Group conducted a study of adults with household income of $150,000 or more of which 70 percent had a net worth of at least $1 million. As a result of the increase of the estate tax credit through 2009 and its repeal in 2010, 81 percent of those surveyed have written a will, 63 percent have created a power of attorney or living will, and 47 percent have worked with an accountant (Hartford, 2008). Sample sizes and inferential statistics were not revealed in the study report, meaning confidence intervals pertaining to the behavior of the population at large may not be easily discerned from the study report.

Prior to the Congress passing the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001, moderately wealthy Americans typically made efforts to avoid the estate tax by issuing bequests to heirs or increasing consumption, since before the EGTRRA was passed, the exemption equivalent was $675,000, and estates were taxed at a 55 percent marginal tax rate (McGarry, 2000). Contrast this to the 2008 estate exemption equivalent of $2 million with a 45 percent marginal tax rate (Pope, Anderson, & Kramer, 2008). According to Professor Kathleen McGarry of the University of California, Los Angeles, before the passage of EGTRRA, many estate tax avoidance strategies existed, but the common thread among the strategies involved the donor relinquishing control over the estate assets either through inter vivos giving or bequests (McGarry, 2000). As mentioned in Chapter One, retirement specialists advise saving much more for retirement than Americans do now, namely seven to eight times pre-retirement salary and some recommend even more (Smith, 2006). Without the EGTRRA, a conflict of interest can arise for even a moderately wealthy American between retirement savings and increasing consumption or relinquishing assets to avoid the estate tax. Raising the estate tax equivalent isolates the dilemma to the exceptionally wealthy Americans and encourages more Americans to save for retirement.

Raising the estate tax credit not only provides an incentive for Americans to avoid the estate tax while saving for retirement, but also enhances income tax deferral to heirs of the decedent. When a beneficiary receives an individual retirement account (IRA) as part of an estate that owes estate tax and the estate tax is paid through a distribution from the IRA, the distribution is taxable ordinary income to the beneficiary during the year of the distribution in addition to the imposed estate tax (Aba, 2006). Raising the estate tax credit encourages Americans to save for retirement since upon death, a retirement plan participant not only decreases the likelihood the heirs would be subject to the estate tax, but also further permits heirs to enjoy the tax deferral benefits of the IRA.

Are more Americans taking advantage of the opportunity to save for retirement without so much of a concern for the estate tax? Several economists, including John Stuart Mill, A.C. Pigou, Richard Musgrave, and Joseph Pechman, have argued that a tax payable at death does not deter lifetime savings as much as lifetime taxes such as the income tax (Gale & Slemrod, 2000). While the estate tax is levied at a higher rate than the income tax, the studied suggested that the reason the estate tax does not influence savings so much as a lifetime tax is that the estate tax is levied at a distant point in time, while lifetime taxes have more of an immediate affect on the taxpayer. Still, examining a correlation between retirement and estate planning is important, because if a tax has a negative affect on savings, capital stock is reduced along with reduced wages (Gale & Slemrod, 2000).

Estate Tax and Federal Revenue

In order to provide an unbiased recommendation as to future treatment of estate tax, secondary research of published material on the effects the estate tax repeal would have on federal revenue is required.

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) has had a significant impact on the number of estates owing federal estate tax from 108,071 in 2001 to 45,070 in 2005 (Raub, 2007). However, the number of estate tax returns with an estate valuation of $1.5 million or greater actually increased from 2002 through 2005. With respect to net federal revenue, while the EGTRRA has affected the number of returns being filed, it has had an insignificant affect in the taxability on those returns. From 2001 through 2005, the percentage of estate returns owing estate tax varied between 44.9 percent and 48.2 percent (Raub, 2007). With the overall number of estate returns decreasing and yet the number of high-end estates increasing and the number of estate returns owing estate tax remaining relatively constant, one might expect relatively stable federal revenue levels from estate taxes between 2001 and 2005 despite the enactment of EGTRRA. Indeed, there has been a modest decline in federal revenue from estate taxes from $23.5 billion in 2001 to $21.7 billion in 2005 (Raub, 2007). Of course, a permanent repeal of the estate tax would have more stark consequences and Congress is compensating partially for the repeal of the estate tax in 2010 by imposing a gift tax on bases of $500,000 in 2010, as opposed to $1.5 million in 2009 (Pope, Anderson, & Kramer, 2008, p. C12-3).

CPA, Martin Spencer, evaluates the effectiveness of the estate tax on federal revenue more starkly. Spencer reports that estate tax avoidance tactics such as inter vivos giving, charitable contributions, and continual remarriage of a younger spouse to continually take advantage of the marital deduction, decrease federal revenue by approximately $25 billion per year (Spencer, 2004). This amount lost is even less than federal revenue amounts collected as reported by Raub, $23.5 billion in 2001 through $21.7 billion in 2005 Raub (2007). Considering the federal administration, enforcement, and litigation costs associated with the estate tax, Spencer claims, “The estate-gift tax collects next to nothing” (Spencer, 2004, p. 11).

Estate Tax Credit Impact on State Revenue

Federal revenue would not be the only source of government funding affected by a repeal of the estate tax. States also impose an estate tax and some are proposing a repeal of the state estate tax, which may have stark consequences for the state. The state of Oklahoma passed a measure to repeal its estate tax in 2009, a year before the 2010 estate tax repeal. Repealing the Oklahoma estate tax one year earlier would cost the state of Oklahoma approximately $30.2 million in state revenue (Jones, 2008). The state legislature is divided concerning the decrease in state revenue. Republican Oklahoma state senator, Owen Laughlin, states regarding the state estate tax repeal, “We have a moral imperative to do this.… We are taking a bite out of their [Oklahoma workers] income when they are living, and doing it again when they die” (Jones, 2008, p. 1), while Democrat Oklahoma state senator, Jim Wilson, argued that the lost state revenue is needed in a state already lacking in education funding and funding of the public employee retirement system (Jones, 2008). Another Democrat state senator, Tom Adelson, quoted economists stating that while tax cuts do stimulate the economy, there is no empirical proof that the stimulated economy replaces lost tax dollars from the tax cuts (Jones, 2008).

Proposals to Modify Estate Tax

U.S. Senator from Arkansas, Mark Pryor, issued a statement favoring the current estate tax relief, but advocates further raising the estate tax credit as opposed to permanently repealing the estate tax. Pryor believes the wealthiest of should remain subject to the estate tax. Pryor proposes raising the estate tax exemption to $5 million ($10 million for married couples) and reducing the marginal estate tax rate to 35 percent. The Senator's proposal phases out the estate tax benefit for estates valued over $30 million (Pryor, 2008).

Conversely, billionaire Warren Buffett argues that the estate tax not be repealed and the estate tax credit should not be increased. Buffett states "A meaningful estate tax is necessary to prevent our democracy from becoming a dynastic plutocracy [government by the wealthy]" (Buffett, 2007, p. C8). Currently, fewer one percent of American households pay the estate tax (Buffett, 2007). Being part of the class subject to the estate tax, Buffett argues that recent tax incentives such as the estate tax credit increase and repeal has helped him save on taxes while, as Buffett states, “During that time the average American went exactly nowhere on the economic scale: he’s been on a treadmill while the superrich have been on a spaceship” (Buffett, 2007, p. C8). Democratic senators back Buffett’s statement urging the sunset provision of the estate tax repeal be enforced, while Republican senators tend to support a statement by Republican senator, Charles Grassley of Iowa, “Death should not be a taxable event” (Buffett, 2007, p. C8).

Democrat Bob Etheridge of the U.S. House of Representatives of North Carolina assumes more middle ground with respect to the estate tax. Although Congressman Etheridge favors estate tax relief, he advocates targeting the relief to farms and small businesses, making those entities virtually exempt from the estate tax. Etheridge’s position is if the estate tax were permanently repealed for all, burdens of controlling national debt will be passed on to posterity. Etheridge endorses a slightly higher estate tax exemption schedule for individuals than the EGTRRA provides: $3 million ($6 million for married couples) beginning in 2006 and increasing to $3.5 million ($7 million for married couples) in 2009 (Etheridge, 2005).

Estate Tax Provisions

The literature review now turns to examining prominent aspects of computing the estate tax itself. Internal Revenue Code 2035 stipulates that gift taxes paid by the decedent within three years of the date of death are included in the gross estate (Nash, & Quinn, 2003). This stipulation to the computation of the estate tax can have some profound consequences. As an example, Willet Brown gave his wife, Betty, $3.1 million to fund a life insurance trust to hold insurance on Betty’s life with their heirs as beneficiaries to allow the heirs to pay estate taxes on Willet’s $180 million estate upon Betty’s death. The $3.1 million gift transfer was a taxable event, triggering a gift tax of $1,415,732. Willet’s attorney advised that Betty pay the gift tax since Betty was expected to survive Willet and therefore the gift tax would not be considered a deathbed transfer with the gift tax includable in the gross estate. Since Betty lacked personal funds of her own to pay the gift tax, Willet gave Betty the funds to pay the gift tax. Betty deposited the funds into her own account and the next day withdrew the funds to pay the gift tax. Within three years, Willet died and the filed estate returned declared no estate tax liability, claiming that Betty paid the gift tax and the remainder of the estate was absorbed by the marital deduction and estate administrative expenses (Nash, & Quinn, 2003).

The IRS charged the estate in amount of $1,415,732, the gift tax for the $3.1 million transfer, plus interest, claiming that although Willet did not physically pay the gift tax, Willet had in substance paid the gift tax since he gave funds amounting to the gift tax to Betty who lacked the funds on her own and the next day Betty used the funds to pay the gift tax. The IRS collapsed these two transactions into a single transaction where Willet paid the gift tax on his own, and consequently the IRS charged the gift tax amount to the estate. The district court ruled in favor of the IRS and the decision was upheld by the Ninth Circuit Court of Appeals (Nash, & Quinn, 2003). A study of the fairness of this stipulation is presented in Chapter Five.

Other noteworthy stipulations to the computation of the estate tax exist. First, testamentary transfers are included in the gross estate. Before the enactment of this stipulation, high-end wealthy individuals would avoid the estate tax by bequeathing property to individuals at death. To combat this tactic, Congress stipulated that the gross estate includes both the decedent’s assets and the bequeathed assets at death (Pope, Anderson, & Kramer, 2008). A study on the fairness of this stipulation is presented in Chapter Five. Transfers to charitable organizations are excluded without limit from the estate tax. Charities are concerned that an estate tax credit increase will have a negative impact on charitable giving, since a high-end Americans will have less charitable giving incentives. A final stipulation permits the spouse of a decedent to take a marital deduction to avoid the estate tax until the surviving spouse dies. Subsequent marriages may postpone the imposition of the estate tax indefinitely (Spencer, 2004).

Burdens from Estate Tax on Estate Executors

Administering an estate is a time consuming and sometimes costly process. The increase of the estate tax credit and exemption equivalent has decreased the number of annual estates filing Federal Tax Form 706, *U.S. Estate (and Generation-Skipping Transfer) Tax Return*. In 2001, approximately 108,330 estates from individuals were required to file this return due to having an estate value exceeding the exemption equivalent (Eller, 2005). Approximately 45,070 individual estates owed estate tax in 2005, indicating that the number of estate executors required filing an estate tax return decreased by over 50 percent as a result of the increased estate tax credit (Raub, 2007). Since filing an estate tax return can be a time-consuming task, the literature review suggested that raising the estate tax credit can provide relief to estate executors in terms of time and may encourage more individuals to act as estate executors.

A second statistic relevant to burdens on estate executors pertains to the marital status of the decedents. In 2001, ten percent of married decedents owed an estate tax liability, whereas between 65 and 80 percent of single and widowed decedents owed an estate tax liability (Eller, 2005). The difference is largely due to the unlimited availability of the marital deduction. The U.S. Department of Health and Human Services reports that from 1992 through 2001 the difference in life expectancy between estate females and estate males has increased (Eller, 2005). Assuming that the trend is continuing, if estate females are surviving estate males by a greater number of years, then more estates will be from non-married individuals and without an increase in the estate tax credit, more estates would be subject to the estate tax. Raising the estate tax credit can counteract the effects of more estates owing estate tax due to the widening life expectancy difference between males and females and can further reduce the number of estates owing estate tax and physical burdens placed on estate executors.

Summary

A review of the literature shows compelling arguments both to repeal the estate tax and execute the sunset provision of the EGTRRA to revert the estate tax laws to those in effect in 2001. The literature shows that despite the increase in estate tax credit providing incentives for retirement, the increase does not significantly impact U.S. retirement saving behavior, an indication that the sunset provision of the estate tax should be enforced. Comparatively speaking in relation to other forms of taxation, the estate tax does not provide a significant source of federal revenue, indicating that the estate tax should be repealed. An estate tax may be a significant revenue source for states, however. A significant portion of the estate tax revenue that is collected is from current estate tax computation procedures such as including lifetime gift taxes in a taxable estate or imposing a tax on gifts made within three years of date of death. Statistics show that an increase in the estate tax credit has significantly reduced the number of estates required to file Form 706 which has freed time commitments required of estate executors and would encourage more individuals to act as executors, an indication the estate tax should be repealed or modified in such a way that executors are not overly burdened.

Chapter Three

Estate Tax and Retirement Savings

This is the first of four chapters presenting results of primary research, the analysis of which is from the survey responses of 34 certified public accountants. The first of these chapters focuses on the effect the increase in the estate tax credit has on U.S. retirement savings activity. Confidence intervals pertaining to both the mean and standard deviation of the degree to which the estate tax credit has affected retirement savings will be presented. This chapter, as well as the following three chapters, presents Student t distribution and Chi-squared data analysis of primary research results.

Student T-Distribution Analysis

Student t-distribution analysis to construct confidence intervals of a population mean assume a simple random sample and either a normally distributed population or a sample size of 30 or more (Triola, 2005). The first criterion was met by randomly polling 155 certified public accountants, at least two from each state, using an online telephone directory. The second criterion was met by a sample size of either 33 or 34 for each survey question. (The sample sizes vary slightly depending on the survey question, since not all respondents answered every question on the survey.) Since a minimum of 30 responses were collected for each of the survey questions and not solely the questions pertaining to the estate tax effects on retirement, Student t distribution requirements for analysis presented in this chapter and the subsequent three chapters were met.

Sample means and confidence intervals for each of the three questions pertaining to retirement savings are shown in Table One. Refer Appendix E for an explanation of the methodology used to construct this table. Raw data and calculations may be found in Appendix D.

Question	Number of Responses	Sample Mean	90% Confidence Interval Minimum of Population Mean	90% Confidence Interval Maximum of Population Mean
The increase in the estate tax credit has caused many of my clients to save for retirement.	34	3.441	2.950	3.932
The increase in the estate tax has in general caused more Americans to save for retirement.	34	3.147	2.712	3.582
Without an estate tax, more Americans would save for retirement.	34	3.088	2.571	3.605

Table 1: Mean Confidence Intervals for Estate Tax Incentives on Retirement

Considering a neutral interval between 3.5 and 4.5, it may be claimed with 90 percent confidence that CPA population mean for the level of agreement with the statement that estate tax incentive is caused Americans to save for retirement does not lie in a region indicating that the estate tax incentive has had a positive effect on savings activity, since none of the confidence intervals cover a region above 4.5. Further, although it may not be shown statistically with 90 percent confidence without a larger sample size that the estate tax credit increase has not boosted retirement saving idea since a portion of each of the confidence intervals lie within the neutral range, a considerable portion of the confidence intervals lie outside of the neutral range, suggesting that the increase in the estate tax credit has not had a significant effect on retirement saving. Surprisingly, however, when the sample size was 24 and the data had not yet been collected in its entirety, the confidence intervals for the questions pertaining to whether the estate tax caused CPA clients to save for retirement and whether the absence of the estate tax would cause more Americans to save for retirement were both shifted downward from their current positions by about 0.3. The final results show the estate tax incentives have had more of an effect on saving behavior than the initial results had shown.

Chi-Squared Analysis

Ninety percent confidence intervals for the CPA population standard deviation of the effects the estate tax credit increase has had on retirement saving activity are shown in the Table Two. Refer to Appendix E for details as to how this table was constructed.

Question	Number of Responses	Sample Standard Deviation	90% Confidence Interval Minimum of Population Standard Deviation	90% Confidence Interval Maximum of Population Standard Deviation
The increase in the estate tax credit has caused many of my clients to save for retirement.	24	1.691	1.411	2.217
The increase in the estate tax has in general caused more Americans to save for retirement.	24	1.500	1.252	1.887
Without an estate tax, more Americans would save for retirement.	24	1.782	1.486	2.240

Table 2: Standard Deviation Confidence Intervals for Estate Tax Incentives on Retirement

Appendices C and D show that the responses to survey questions pertaining to the effect an estate tax abolishment or credit increase has on retirement have some of the lowest variations compared to responses to other survey questions. This observation is despite these variations increasing since the initial data results. The increase in variation from the initial results stems from the fact that the last ten survey respondents fairly significantly shifted the mean confidence intervals upward, meaning that the last respondents reported data outside the initial confidence interval, thereby increasing the variance. Still, low variation coupled with the population mean confidence interval indicating that the estate tax abolishment and credit does not have a large impact on retirement savings shows that a small proportion of the CPA population feels that an estate tax credit or abolishment is an effective resolution to the problem of insufficient retirement savings.

Summary

The primary research confirms what the secondary research claims that the either the abolishment of the estate tax or an increase in the estate tax credit is not an effective solution to the problem of Americans saving insufficiently for retirement. A possible explanation may be that since even before the Economic Growth and Tax Relief Reconciliation Act of 2001, only relatively large estates worth $675,000 or more owed estate tax (Pope, Anderson, & Kramer, 2008). A substantial portion of the middle class does not own estates large enough to be subject to the estate tax and an increase in the estate tax credit would have no effect on this social-economic group. Further research may be conducted to examine the effects other retirement savings tax incentives, such as tax-free Roth IRAs and tax-deferred Traditional IRAs, have had on the amounts Americans save for retirement.

Chapter Four

Estate Tax and Federal Revenue

A primary purpose of imposing federal taxes is to permit the U.S. government to provide public services to the population at large. Therefore, an analysis solely on how Americans have benefited from the estate tax credit increase or would benefit from an estate tax repeal would lead to a biased recommendation on future treatment of the estate tax. In order to provide an unbiased recommendation, a study of the effect the estate tax credit increase would have on federal revenue is required. This chapter serves such a purpose. Certified public accountants were polled as to the effect an increase tax repeal and credit increase would have on federal revenue.

Student T-Distribution Analysis

Table Three shows sample means and 90 percent confidence intervals for survey questions pertaining to the estate tax effects on federal revenue. As previously mentioned, certified public accountants were polled. For details of the methodology used to construct this table, refer to Appendix E.

Question	Number of Responses	Sample Mean	90% Confidence Interval Minimum of Population Mean	90% Confidence Interval Maximum of Population Mean
The estate tax is a just means of generating federal revenue.	34	4.971	4.379	5.562
More efficient means of generating federal revenue than imposing a federal estate tax.	34	5.176	4.669	5.684
Abolishing the estate tax *permanently* significantly jeopardizes federal revenue.	34	3.147	2.575	3.719
Progressively increasing the estate tax credit significantly jeopardizes federal revenue.	33	2.788	2.366	3.210

Table 3: Sample Mean and Confidence Intervals for Estate Tax Effects on Federal Revenue

The vast majority of the confidence interval for the question of whether the estate tax is a just means of generating federal revenue lies above the neutral range of 3.5 through 4.5. Therefore, although it may not be claimed statistically with 90 percent confidence that CPAs find the estate tax is a just means of generating federal revenue, the research suggests that this is the case. However, it may also be claimed to 90 percent confidence that more CPAs feel that a more efficient means of generating federal revenue exist than imposing an estate tax than those who do not due to the entire confidence interval lying above the neutral interval.

Although the majority of CPAs may in general find the estate tax a just, albeit an inefficient, means of generating revenue, the research indicates from the standpoint of CPAs that the abolishment of the estate tax or the increase in the estate tax credit would not have an adverse effect in federal revenue. The sample means indicate that permanently abolishing the estate tax would more greatly jeopardize federal revenue than progressively increasing the estate tax credit. The confidence interval for the effects of permanently abolishing the estate tax on federal revenue is larger than the confidence interval for the effects of progressively increasing the estate tax credit due to the larger variation in responses to the effects of permanently abolishing the estate tax. At 90 percent confidence, a small portion of the confidence interval for the effects of permanently abolishing the estate tax on federal revenue lies in the neutral range while the entire confidence interval for the effects of progressively increasing the estate tax on federal revenue lies entirely outside the neutral range. This is due to a combination of the higher sample mean and sample variance of respondents concerning the abolishment of the estate tax. As a result, the research shows to 90 percent confidence that progressively increasing the estate tax credit, as currently enforced by the Economic Growth and Tax Relief Reconciliation Act of 2001, is a more effective means of providing tax relief without significantly jeopardizing federal revenue than permanently abolishing the estate tax. The research suggests that neither option would significantly jeopardize federal revenue according to the research, but more strongly indicates progressively increasing the estate tax credit would not significantly jeopardize federal revenue.

Chi-Squared Distribution Analysis

Table Four shows confidence intervals for standard deviations for each of the four questions concerning the effects of the estate tax on federal revenue. Refer to Appendix E for details as to how this table was constructed.

Question	Number of Responses	Sample Standard Deviation	90% Confidence Interval Minimum of Population Standard Deviation	90% Confidence Interval Maximum of Population Standard Deviation
The estate tax is a just means of generating federal revenue.	34	2.037	1.700	2.562
More efficient means of generating federal revenue than imposing a federal estate tax.	34	1.749	1.459	2.199
Abolishing the estate tax *permanently* significantly jeopardizes federal revenue.	34	1.971	1.645	2.479
Progressively increasing the estate tax credit significantly jeopardizes federal revenue.	33	1.431	1.191	1.807

Table 4: Sample Standard Deviation and Confidence Intervals for Estate Tax Effects on Federal Revenue

The research shows that there is a relatively large variation in opinion as to the fairness of the estate tax with respect to generating federal revenue. Referring to appendices

C and D, the question regarding the fairness of the estate tax in generating revenue had the fifth largest sample standard deviation of the 25 questions asked. The wide variation may be due to a number of reasons. First, questions pertaining to fairness tend to be more subjective than objective and subjective questions tend to have a wider variation. Second, the sample set consisted of CPAs which are not legislators. CPAs conduct their business in accordance with tax laws, but do not themselves create or enforce tax laws. Consequently, one would expect a wider variation when polling CPAs on the fairness of tax laws.

The hypothesis that subjective questions tend to have a higher variance in response is consistent with the relatively high variance to the question of whether more efficient means of generating federal revenue exist than imposing an estate tax. Although not as high as the variance of the question regarding the fairness of the estate tax, the question regarding the efficiency of the estate tax for generating federal revenue still exhibits a large variation relative to many of the other survey questions asked. Another reason for the high variation in the responses with respect to the efficiency of the estate tax may be that knowledge of the efficiency of the estate tax requires knowledge of administration and litigation costs involved in the estate tax, figures more likely to be known by the Internal Revenue Service and the U.S. Tax Court than certified public accountants. The lack of knowledge may lead to wider variation in responses.

The research shows a significantly smaller variation in responses to the question of whether progressively increasing the estate tax significantly jeopardizes federal revenue than the question whether permanently abolishing the estate tax significantly jeopardizes revenue. Coupled with the small sample mean indicating that progressively increasing the estate tax credit jeopardizes federal revenue shows to 90 percent confidence that CPAs feel that the current progressive increase of the estate tax credit would not significantly jeopardize federal revenue. The larger variance in the opinion that the abolishment of the estate tax would significantly jeopardize federal revenue coupled with the higher mean of responses suggests CPA concern for the abolishment of the estate tax from the standpoint of federal revenue.

Summary

The research indicates that CPAs in general feel that the estate tax is a fair means of generating federal revenue. Still, more efficient means of driving federal revenue than imposing an estate tax exists according to the majority of survey respondents and it may be claimed to 90 percent confidence that the CPA population mean concerning the efficiency of the estate tax lies in a region indicating there are more efficient means of generating federal revenue. Although the research indicates the imposition of an estate tax is fair, it may be claimed to 90 percent confidence that progressively increasing the estate tax credit would not significantly jeopardize federal revenue from the standpoint of certified public accountants. The research also indicates that abolishing the estate tax would not significantly jeopardize federal revenue, but due to the higher mean and larger variation as compared to progressively increasing the estate tax credit, the confidence interval for the effect of abolishing the estate tax on federal revenue extends slightly into the neutrality region.

Chapter Five

Estate Tax Modification Proposals

This chapter focuses on two special aspects of the computation of the estate tax as candidates for modification of the estate tax computation. The first is the inclusion of testamentary transfers in the decedent's gross estate and the second is loosely named "deathbed" transfers, which are lifetime transfers given within three years of the decedent's date of death and are also included in the decedent's gross estate. The purpose of analyzing these two stipulations is to provide insight as to whether they are fair and whether they significantly increase the number of estates owing estate tax. The results are used to provide a recommendation whether these stipulations should be continued, modified, or repealed altogether.

Background Information

The future treatment of the estate tax has more considerations than simply to raise the available estate tax credit or to abolish the estate tax altogether. Other considerations include modifying the method by which the estate tax is computed. Indeed, when polled to rate on a scale of one to seven whether the computation of the estate tax should be modified, one indicating the computation of estate tax definitely not be modified and seven indicating the computation of the estate tax definitely should be modified, the sample mean of the 34 CPA respondents was a 5.206 with a 90 percent confidence interval for the CPA population mean of 4.767 to 5.647. This confidence interval lies entirely above the neutral interval, showing to 90 percent confidence that the computation of the estate tax should be modified from a CPA standpoint. Figure One shows the distribution of responses. Refer Appendix E for an explanation of the construction of this figure.

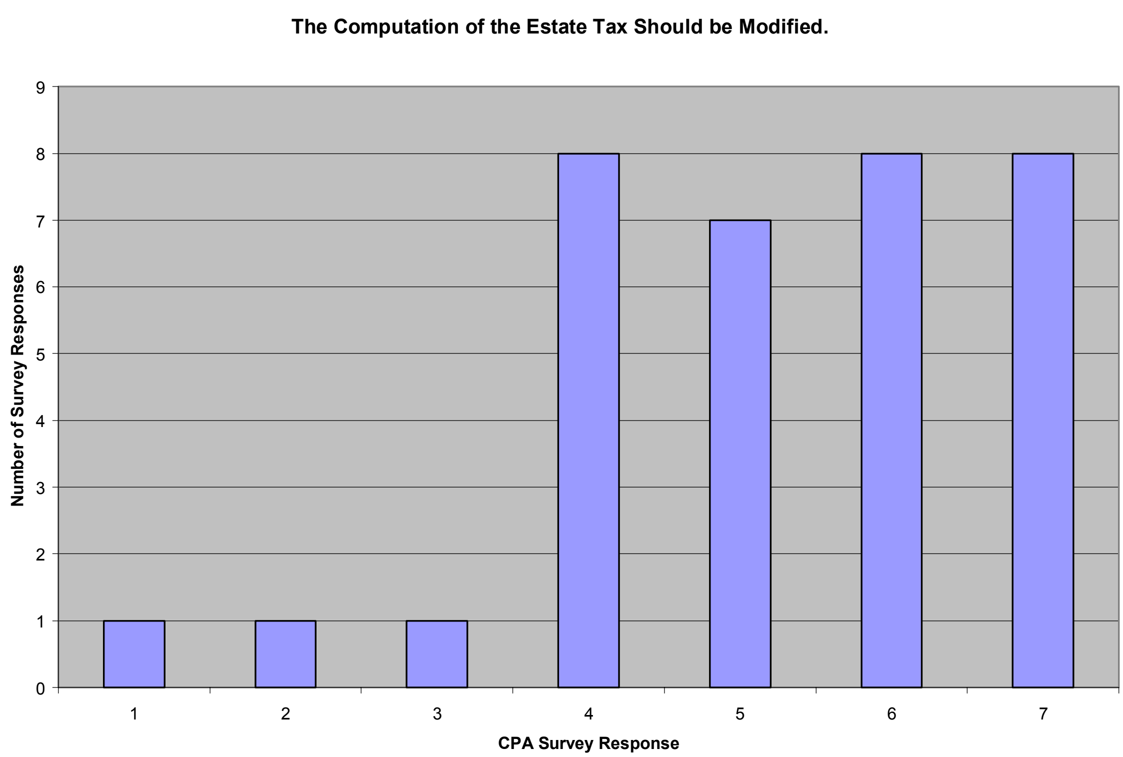

Figure 1: CPA Viewpoints for Modifying the Estate Tax

Testamentary Transfer Stipulation

When a donor makes a testamentary transfer to an irrevocable trust and remains entitled to income generated by the trust over the donor's lifetime, the *entire* value of that trust is included in the donor's estate regardless of the remainder amount received by the beneficiary (Pope, Anderson, & Kramer, 2008). CPAs were polled with two questions regarding this stipulation. The questions along with the sample means and 90 percent confidence intervals of the population means are presented in the Table Five. Refer Appendix E for an explanation of the construction of this table.

Question	Number of Responses	Sample Mean	90% Confidence Interval Minimum of Population Mean	90% Confidence Interval Maximum of Population Mean
Adding lifetime testamentary transfers to a decedent's gross estate is a fair computation of the estate tax base.	34	3.912	3.375	4.448
Adding lifetime testamentary transfers to the decedent's taxable estate to arrive at the decedent's estate tax base significantly increases the number of estates owing estate tax.	34	4.735	4.299	5.172

Table 5: Sample Mean and Confidence Intervals for CPA Opinions on Testamentary Transfers

The confidence interval of the population mean for the survey question pertaining to the fairness of the testamentary transfer stipulation of the computation of the estate tax lies almost entirely within the neutrality range and has endpoints ranging from the disagreement region to almost the agreement region. The sample mean lies almost in the middle of the neutrality range at 3.912 and the sample variance is high relative to other survey questions, consistent with previous observations that question pertaining to the fairness of a stipulation tend to yield responses with a high variance. With the confidence interval endpoints extending from the disagreement region to almost the agreement region, it cannot be claimed to 90 percent confidence that the testamentary transfer stipulation of the computation of the estate tax is fair or not from the standpoint of certified public accountants.

It may, however, be claimed to more confidence, that the testamentary transfer stipulation has had an effect on the number of estates owing estate tax since none of the confidence interval for that question lies within the disagreement interval. Although it may not be claimed with 90 percent confidence that the testamentary transfer stipulation has an effect on the number of estates owing estate tax from a CPA standpoint, since a small part of the confidence interval lies in the neutrality interval, evidence suggests that the testamentary transfer stipulation does effect the number of estates owing estate tax from the perspective of certified public accountants. Likely the estates which incur an estate tax as a direct result of these stipulations are those “on the border” between owing an estate tax and not owing an estate tax.

Chi-Squared Analysis

Table Six shows confidence intervals for the population standard deviations of CPAs with respect to the testamentary transfer provision.

Question	Number of Responses	Sample Standard Deviation	90% Confidence Interval Minimum of Population Standard Deviation	90% Confidence Interval Maximum of Population Standard Deviation
Adding lifetime testamentary transfers to a decedent’s gross estate is a fair computation of the estate tax base.	34	1.848	1.542	2.324
Adding lifetime testamentary transfers to the decedent’s taxable estate to arrive at the decedent’s estate tax base significantly increases the number of estates owing estate tax.	34	1.504	1.255	1.891

Table 6: Standard Deviation Confidence Intervals for Testamentary Transfers

The question pertaining to the fairness of the testamentary transfer stipulation is relatively high compared to the variances of other survey questions shown in Appendix D. There is a significantly smaller standard deviation for the question concerning whether the testamentary transfer stipulation in the estate tax computation leads to more estates owing an estate tax, likely due to the objectivity of the question compared to the subjective question concerning the fairness of the testamentary transfer stipulation.

Gifts Made Within Three Years of Death

A second stipulation of the computation of the estate tax researched by this study is the loosely named "deathbed tax." Section 2035(a) of the Internal Revenue Code specifies that certain lifetime transfers are includable in a gross estate if transferred within three years of death. Such transfers include life insurance policies on the decedent's life that would have been taxed had the policy not been given away, plus interest in property that would have been taxed as transfers with a retained life estate, transfers taking effect at death, or revocable transfers, had the property not been gifted (Pope, Anderson, & Kramer, 2008).

CPAs were polled as to whether the deathbed stipulation was a fair means of computing the gross estate and consequently the estate tax liability, with a one indicating the stipulation was completely unfair and a seven indicating the stipulation was completely fair. The sample mean of the 34 responses was a 3.971 with a 90 percent confidence interval for the population mean from 3.366 to 4.575. Refer to Appendix E for details as to how these statistics were computed. Unlike the testamentary transfer stipulation, the research shows the confidence interval for the deathbed transfer includes portions of the fairness and unfairness regions.

Chi-Squared Analysis

The sample standard deviation for the CPA rating of the fairness of the deathbed transfer stipulation is even larger than the standard deviation for rating of the fairness of the testamentary transfer stipulation and exhibits the third highest variance of all survey questions, referring to Appendix D. The high variances of both questions could be explained by both questions subjectively asking about the fairness of a stipulation and also that both question cover the computation of the estate tax albeit differing aspects of the computation. The wider variance in the deathbed transfer stipulation could be explained due to some CPAs serving more elderly clients who may hold different opinions regarding the appropriate treatment of the deathbed tax.

Summary

Without further research, it would be difficult to conclude whether the testamentary transfer stipulation of the estate tax or the deathbed transfer stipulation should be repealed from a CPA point of view. The sample means for the two questions are strikingly comparable, 3.912 for the fairness of the testamentary transfer stipulation versus 3.971 for the fairness of the deathbed stipulation. The higher variance of the deathbed transfer stipulation question enlarges that confidence interval to slightly include the region indicating the death bed stipulation is fair from a CPA standpoint while the confidence interval for the testamentary transfer stipulation does not include the region indicating it is fair. Solely based on this study, a repeal of the testamentary transfer stipulation would be deemed more appropriate than a repeal of the deathbed transfer stipulation from a CPA point of view.

Outside of the issue of whether these stipulations are fair, the research indicates that the stipulations do cause more estates to incur an estate tax liability. Although a small portion of this confidence interval does lie in the neutrality region, so it may not be safely concluded to 90 percent confidence that the stipulations increase the number of estates incurring an estate tax liability, the majority of the confidence interval suggests this is the case. A greater sample size may adjust this confidence interval to solely include the region indicating to 90 percent confidence the special estate tax stipulations have increased the number of estates owing estate tax.

Chapter Six

Estate Tax Burdens on CPAs and Estate Executors

This chapter explores the physical and financial burdens placed on estate executors and certified public accountants with respect to the estate tax to add another facet to the recommendation of future treatment of the estate tax. The chapter is divided into two main sections. The first section examines the physical burdens placed on CPAs settling estates on behalf of estate executor clients. The second section examines the physical and financial burdens placed on estate executors themselves who are clients of the CPAs polled. The purpose of the chapter is to provide evidence as to whether the burdens the estate tax imposes on CPAs and their clients acting as estate executors are great enough to substantiate the repeal of the estate tax.

Burdens Imposed on Certified Public Accountants

With tax laws becoming increasingly complex, more taxpayers are turning to tax professionals for tax preparation. Coupled with the Sarbanes-Oxley Act of 2002, accounting services are in high demand. Would a repeal of the estate tax relieve some demands placed on certified public accountants? Table Seven presents sample means and 90 percent confidence intervals for CPAs describing the effects the estate tax has on their daily tasks. Refer to Appendix E for a description of how this table was constructed.

Question	Number of Responses	Sample Mean	90% Confidence Interval Minimum of Population Mean	90% Confidence Interval Maximum of Population Mean
The abolishment of the estate tax would allow me to focus my job responsibilities on more important tax matters.	34	3.647	3.033	4.261
The abolishment of the estate tax would decrease my client base and more of my clients would settle estates on their own.	34	2.794	2.338	3.325
Without an estate tax, I would be empowered to serve more clients and spend less time serving a particular client.	34	3.559	3.179	3.938

Table 7: Mean Confidence Intervals for Estate Tax Effect on CPA Daily Tasks

It may be stated with 90 percent confidence that the abolishment of the estate tax would not significantly decrease the client base of CPAs since that confidence interval lies entirely outside of the neutrality range. Therefore, one may conclude with 90 percent confidence that a repeal of the estate tax would not relieve the labor demands placed on CPAs. A possible explanation for this observation is that estate tax return preparation may only comprise a small fraction of the workload placed on certified public accountants.

The sample mean for the question regarding whether the abolishment of the estate tax would allow CPAs to focus responsibilities on more important tax matters lies in the neutral interval at 3.647. The considerably high variance extends this confidence interval over half way through the neutrality interval and almost to the agreement interval. This question exhibited the second highest variance of all survey questions, meaning it remains uncertain whether a repeal of estate tax would allow the CPA population to focus on more pressing tax matters. The question regarding whether CPAs would be empowered to serve more clients in the absence of the estate tax yield very similar results as the question whether the absence of the estate tax would allow CPAs to focus attention on more important tax matters. The similarity in question results is likely due to the similarity in the questions themselves, which demonstrates consistency among survey respondents.

Chi-Squared Analysis

The following table shows 90 percent confidence intervals for variations the effects the estate tax has on CPA daily tasks.

Question	Number of Responses	Sample Standard Deviation	90% Confidence Interval Minimum of Population Standard Deviation	90% Confidence Interval Maximum of Population Standard Deviation
The abolishment of the estate tax would allow me to focus my job responsibilities on more important tax matters.	34	2.116	1.766	2.661
The abolishment of the estate tax would decrease my client base and more of my clients would settle estates on their own.	34	1.572	1.312	1.977
Without an estate tax, I would be empowered to serve more clients and spend less time serving a particular client.	34	1.307	1.091	1.644

Table 8: Standard Deviation Confidence Intervals for Estate Tax Effects on CPA Daily Tasks

The above table demonstrates a wide difference in variation of the sample responses. Compared to the variances of all the questions listed in Appendix D, the question pertaining to whether CPAs can focus attention on more important matters in the absence of the estate tax has an exceptionally high variance. The question whether the abolishment of the estate tax would decrease the CPA client base had approximately an average variance. The question whether the abolishment of the estate tax would empower the CPA to serve more clients resulted in a low variance and sample deviation. Interestingly, while the questions regarding whether the abolishment of the estate tax would allow the CPA to focus attention on more important tax matters and to empower the CPA to serve more clients showed similar confidence intervals for the mean, they show quite different confidence intervals for the standard deviation. The question pertaining to whether the absence of the estate tax would allow CPAs to focus attention on more important tax matters has a much higher sample variance. A possible explanation for the low variance for the question regarding an estate tax abolishment effect on the CPA's capacity to serve clients is that a typical CPA's client base and work load may be relatively inelastic with respect to changes in the estate tax.

Burdens Placed On Estate Executors

The discussion shifts from physical burdens placed on CPAs to physical and financial burdens placed on estate executors. Financial burdens are introduced in this section since the context of the problem highlights an instance where an estate had incurred an estate tax liability, but funds had not yet been transferred from the decedent's bank account to the estate account, leaving the estate executor financially responsible for payment of the estate tax to be refunded later by the estate. The primary research explores the commonality of this occurrence. To simplify and expedite the data collecting process, at the same time CPAs were polled regarding their personal experiences with the estate tax, they were also polled on behalf of their estate executor clients.

Table Nine shows sample means and confidence intervals for questions regarding the estate tax effect on estate executors. Refer to Appendix E for a description of the construction of this table.

Question	Number of Responses	Sample Mean	90% Confidence Interval Minimum of Population Mean	90% Confidence Interval Maximum of Population Mean
My clients must choose between using my services to settle an estate and taking time off work to settle an estate on their own.	33	3.545	3.040	4.051
In general, my clients must pay the federal estate tax and/or other taxes from personal funds and later be reimbursed by the estate as a result of insufficient estate funds at the time taxes were due.	34	3.147	2.700	3.594
The estate tax causes *undue* hardship on estate executors who must also pay other taxes on the estate (e.g. estate property taxes) and then be reimbursed by the estate.	33	3.545	3.056	4.035

Table 9: Sample Means and Confidence Intervals for Estate Tax Burdens on Estate Executors

The research suggests that the account described in the introduction to this study where estate executor, Lynne Elander, reports, “It took some time to get cash out of my dad’s account and into an estate account [but] in the meantime there were bills due – including a $7,000 property-tax bill” (Opdyke, 2008, p. A12) and the situation forced Elander to pay the taxes personally and be later reimbursed by the estate (Opdyke, 2008) tends to be more of the exception than the norm. Even though the confidence interval of whether estate executors are personally responsible for an estate tax suggests that more often than not estate executor clients do not have the same experience as Ms. Elander and the 90 percent confidence interval does not extend to the region where estate executors are financially responsible, Figure Two shows that a considerable number of executor clients have been forced to personally pay estate taxes and be reimbursed later. Refer to Appendix E for an explanation of the construction of this figure.

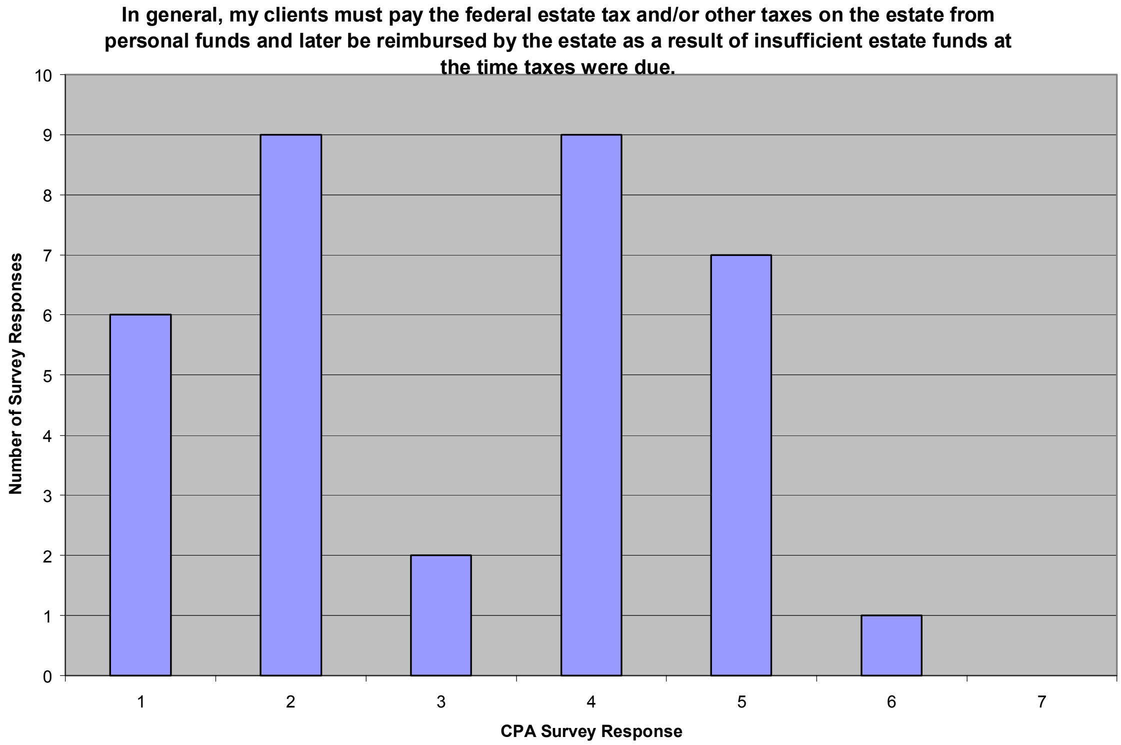

Figure 2: Estate Executors Required to Personally Pay Estate Tax and Later Be Refunded by the Estate.

The case could be made that for this question, the mean confidence interval need not be examined as much as the outliners. An advocate for estate executors not to be personally subject to an estate tax may argue that although the histogram shown in Figure Two is skewed to the left, the histogram is not far enough skewed to the left and that fewer executors should be personally subject to the estate tax. CPAs polled were asked if executors asked to pay estate taxes and then be reimbursed by the estate created undue hardship on the estate executor. The resulting 90 percent confidence interval covers either the disagreement or neutrality regions indicating to 90 percent confidence the population mean either feels that subjecting estate executors to the estate tax does not incur an undue hardship or the population mean is indifferent to the stipulation.

CPAs were also polled as to the level of agreement whether clients serving as estate executors must choose between taking time off of work to settle an estate and employing a certified public accountant. While the sample mean lies the neutrality interval close to the disagreement-neutral boundary, Figure Three shows that ten of the 34 CPA respondents at least moderately agreed with the statement. These responses bring the upper end of the 90 percent confidence interval to approximately the midpoint of the neutrality interval.

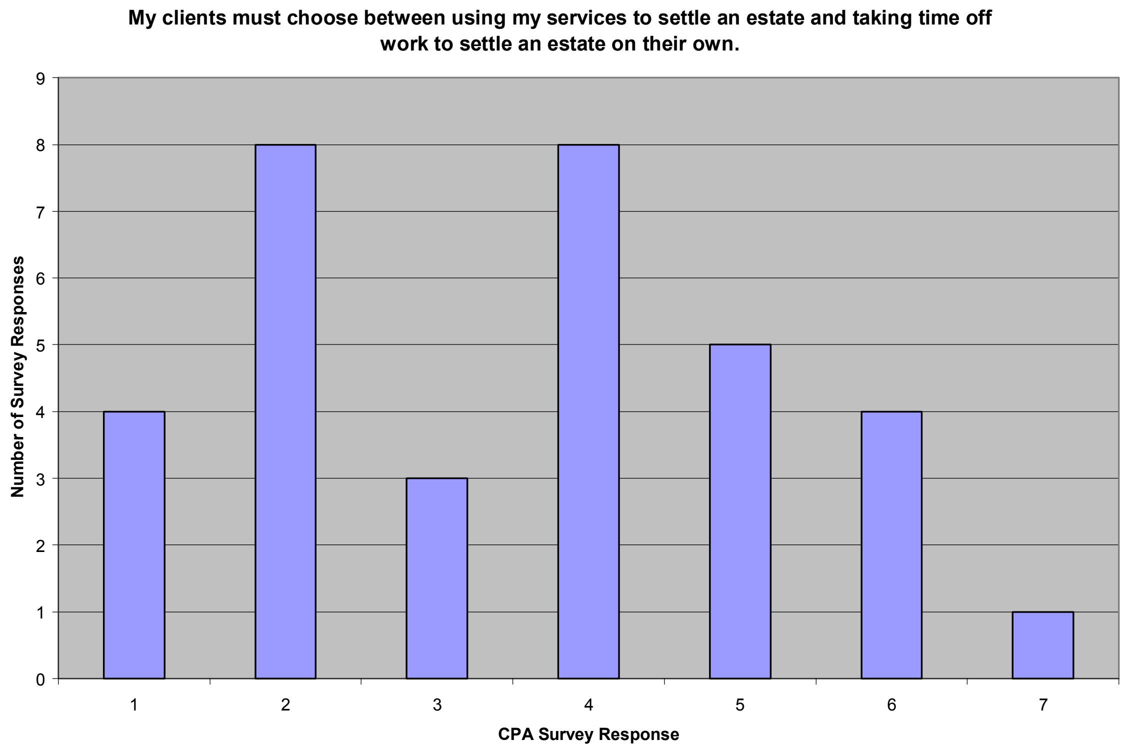

Figure 3: CPA Viewpoints That Clients Must Choose Between Taking Time off Work and Employing a CPA.

Chi-Squared Analysis

Table Ten shows sample standard deviations and 90 percent confidence intervals for the population standard deviation for questions pertaining to burdens placed on estate executors.

Question	Number of Responses	Sample Standard Deviation	90% Confidence Interval Minimum of Population Standard Deviation	90% Confidence Interval Maximum of Population Standard Deviation
My clients must choose between using my services to settle an estate and taking time off work to settle an estate on their own.	33	1.716	1.428	2.166
In general, my clients must pay the federal estate tax and/or other taxes from personal funds and later be reimbursed by the estate as a result of insufficient estate funds at the time taxes were due.	34	1.540	1.285	1.937
The estate tax causes *undue* hardship on estate executors who must also pay other taxes on the estate (e.g. estate property taxes) and then be reimbursed by the estate.	33	1.660	1.382	2.096

Table 10: Standard Deviation Confidence Intervals Estate Tax Burdens Placed on Estate Executors

Relative to sample variances for the other survey questions listed in Appendix D, the only question pertaining to burdens placed on executors having exhibited a noticeably high average is the question pertaining to whether estate executors must take time off work to settle an estate or employ CPA services. The high variance for that question may be explained from the lack of knowledge from CPA respondents as to the proportion of estate executors who settle estates on their own versus employ a CPA. A possible explanation for the relative stable variances in the remaining questions pertaining to estate executor burdens may be due to the increased objectivity of the questions as opposed to other more subjective questions regarding the fairness of estate tax stipulations. The nature of these questions allow for more objective responses from CPAs which leads to more stable variances.

Summary

It may be claimed to 90 percent confidence that the population means pertaining to the burdens the estate tax imposes on CPAs does not lie in the region indicating that the abolishment of the estate tax would allow CPAs to focus attention on more important tax matters, would decrease a CPA client base from clients settling estates on their own, or would empower CPAs to serve more clients. Although without more sample data it may not be claimed to 90 percent confidence that the population mean is in the region indicating that the opposite is true, since all three confidence intervals extend into the neutrality region, the research suggests that the abolishment of the estate tax would not have a significant effect on the daily tasks of CPAs. A possible explanation for this conclusion may be due to the small ratio of estate tax returns to income tax returns, creating an insignificant effect on CPA daily tasks if the estate tax were abolished.

Similarly, it may be claimed to 90 percent confidence that the population means pertaining to estate executors acting as CPA clients does not fall in a region indicating that executors must choose between missing work to settle an estate or employ a CPA. Further, it may be claimed to 90 percent confidence that the population mean of estate executors acting as CPA clients does not fall into a region indicating that executors are personally subject to taxes imposed on the estate, suggesting that the experience of estate executor Ms. Lynne Elander tends to be the exception and not the norm. In sum, the research does not show that the estate tax imposes a significant financial or physical burden on either CPAs or estate executors.

Chapter Seven

Summary and Conclusions

This study examined the effects of the estate tax and the estate tax credit incentives of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001 from the standpoint of workers saving for retirement, certified public accountants, estate executors acting as clients of certified public accountants, and federal revenue. The purpose was to provide an unbiased recommendation as to the future treatment of the estate tax after the EGTRRA expires and Congress may execute a sunset provision to revert estate tax rates and credits levels prior to EGTRRA enactment.

Research Questions

To facilitate the development of a recommendation for the future treatment of the estate tax, four sub-questions were researched. First, the effects of the increased tax credit on retirement savings offered insights whether the EGTRRA estate tax incentives aided in finding a solution to the mounting problem of Americans insufficiently saving for retirement. Second, the effects the estate tax and the corresponding estate tax credit have had on federal revenue were examined to provide insight as to whether a repeal of the estate tax would significantly jeopardize governmental capacity to provide services. Third, specific stipulations of the computation of the estate tax liability were examined to evaluate whether these stipulations should be modified. This evaluation provided more options to provide a recommendation than simply to increase the tax credit, decrease the tax credit, or repeal the estate tax altogether. Fourth, the physical and financial burdens the estate tax has imposed on certified public accountants and their clients were examined to provide insight whether the existence of the estate tax may be substantiated by the burdens it imposes.

Research Methodology and Design

Research for this study was conducted through a combination of primary and secondary research, both types focusing on the four sub questions presented. Secondary research was conducted through a literary review of editorials, journals, textbooks, and online commentaries. Primary research was conducted by randomly polling 155 certified public accountants and analyzing the results of the 34 respondents. In the interest of time, the CPA respondents were asked to respond on behalf of government agencies, including the Internal Revenue Service, and the clients served by the respondents. More extensive research could have been conducted by polling these parties directly. Survey participants were presented with 25 statements and were asked to respond using a Likert scale corresponding to their level of agreement with each statement. For details as to how surveys were conducted and results analyzed, refer to Appendix E. The results from each of the primary and secondary research were compared to examine the consistency of the results.

Summary

The primary research showed convincing evidence that the estate tax credit increase as part of the Economic Growth and Tax Relief Reconciliation Act of 2001 has provided tax savings to CPA clients. The 90 percent confidence interval of the population mean of CPAs in the level of agreement to the question "In general, Americans have benefited financially from the increase of the estate tax credit," ranges from 5.009 to 5.991, entirely above the neutral interval. To complement this statistic and to provide an unbiased recommendation of future treatment of the estate tax, a summary of results for the four sub-research questions are presented in the following paragraphs.

Estate Tax Incentive Effects on Retirement Savings

Neither the primary nor secondary research provided convincing evidence that the estate tax incentives provided in the Economic Growth and Tax Relief Reconciliation Act have influenced Americans to save more for retirement. Of the 34 CPA respondents, four moderately agree, three agree, and only one strongly agrees that the abolishment of the estate tax would spawn increased saving activity. The remaining respondents were either neutral or expressed some level of disagreement with the statement.

Estate Tax Effects on Federal Revenue

Although the primary research tended to support findings in the literature review that estate taxes are not a significant source of federal revenue, the primary research did not support the bold statement found in the literature by CPA Martin Spencer, “The estate-gift tax collects next to nothing” (Spencer 2004, p. 11). Figure Four shows nine of the 34 CPA respondents moderately agree, agree, or strongly agree that a permanent abolishment could significantly jeopardize federal revenue. Refer to Appendix E for details of the construction of this figure. As opposed to permanently abolishing the estate tax, the primary research showed that progressively increasing the available estate tax credit would not jeopardize federal revenue so much as permanently abolishing the estate tax.

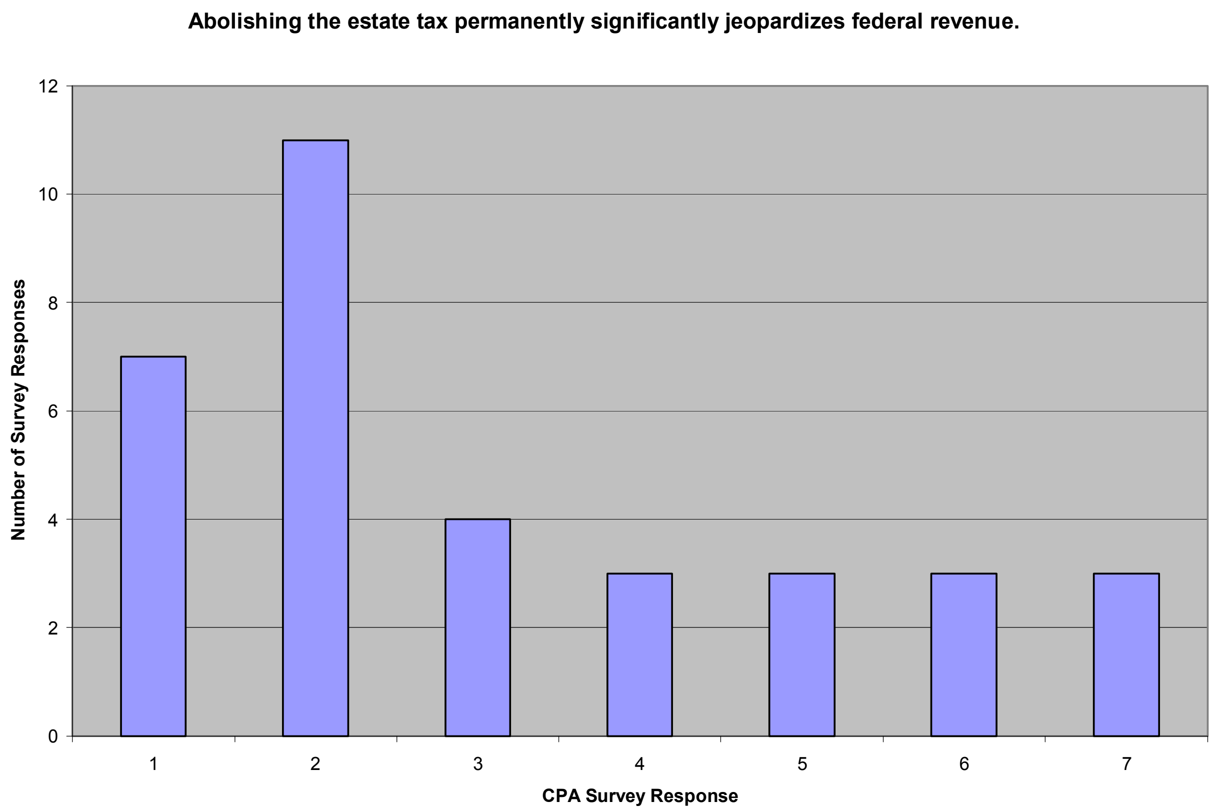

Figure 4: Estate Tax Abolishment Effects on Federal Revenue

Considerations to Modify the Computation of the Estate Tax

Stipulations in the computation of the estate tax examined in this study included the testamentary transfer stipulation that property that the decedent had maintained interest in until death is included in the gross estate, and "deathbed transfers", or lifetime transfers of certain types of property that are included in the gross estate. Ninety percent confidence intervals for the fairness of both the testamentary transfer stipulation and the deathbed transfer stipulation were strikingly similar, both showing the population tends to be neutral with respect to each with some respondents stating both stipulations are fair and some stating both stipulations are unfair. Aside from the fairness of the stipulations, the sample tended to agree that the stipulations have significantly increased the number of estates owing tax.

Burdens Imposed by the Estate Tax

The primary research suggested that the existence of the estate tax does not create physical and financial burdens to the extent that the media portrays. According to the primary research, the existence of an estate tax did not significantly influence the daily tasks of CPAs. Further, in general, the research showed that estate executors acting as CPA clients are not overly burdened by the estate tax and are not personally subject to estate tax liability to be reimbursed by the estate later. There were exceptions to these findings, however, and some CPA respondents indicated otherwise.

Over-Arching Survey Results

In addition to survey questions specifically addressing the four sub-questions posed in this study, some over-arching survey questions regarding the estate tax were presented to respondents. One of the more striking aspects of the primary research was that by far the survey question with the greatest variation was the final, overall question, “The estate tax should be permanently abolished." The standard deviation for that question from 34 responses was 2.532 and the next highest standard deviation for a survey question was 2.116. Of the 34 responses, only 13 did *not* either strongly agree or strongly disagree that the estate tax should be permanently abolished. The exceptionally wide variation is displayed graphically in Figure Five and shows indecisiveness from a CPA standpoint on the most appropriate treatment of the estate tax.

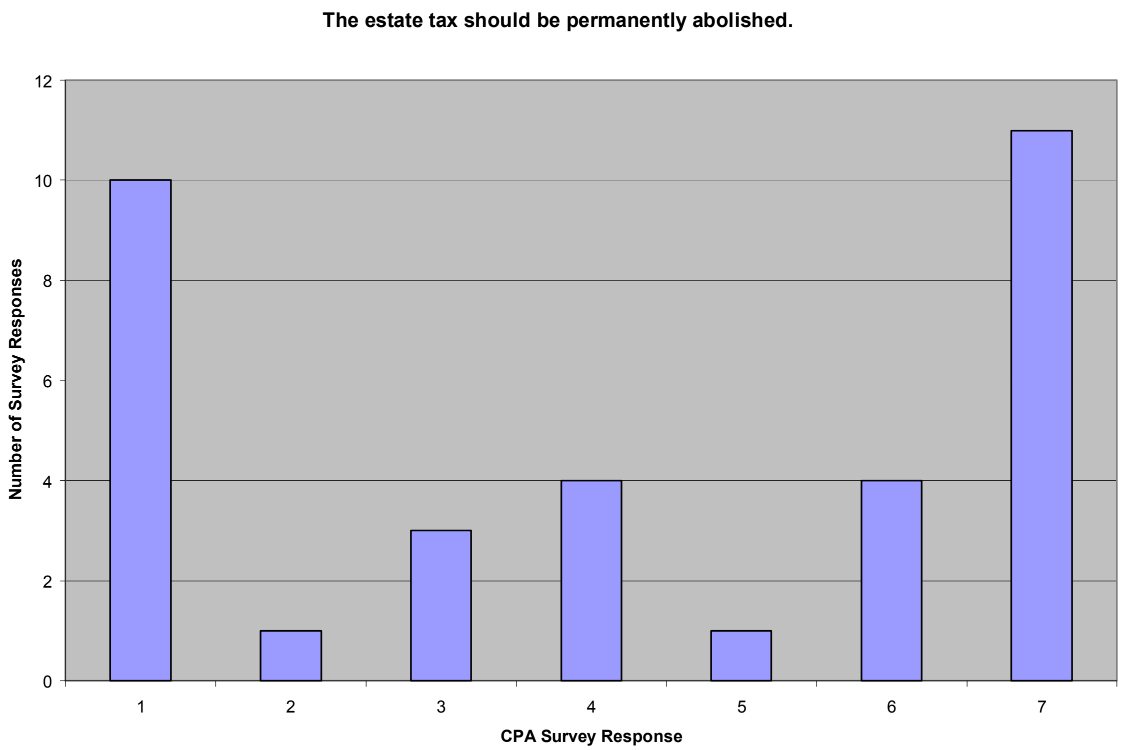

Figure 5: CPA Opinions to Repeal Estate Tax.

A second overreaching question was the level of agreement that the primary purpose of the estate tax phase-out is to favor the wealthy, since President Clinton's primary reason for vetoing the EGTRRA was that the incentives favored the wealthy (Vandehei, 2000, p. A20), and a sharp criticism of the estate tax incentives is that without an estate tax, the government would be run by the wealthy (Buffett, 2007, p. C8). The primary research, however, showed that the population of CPAs does not share this opinion, with the 90 percent confidence interval for the population mean response to the level of agreement to the survey question ranging from 2.664 to 3.882. Refer to Appendix E for details of the construction of this confidence interval.

Conclusion

This study has presented evidence supporting the revocation of the estate tax, the execution of the sunset provision of the estate tax incentives of the EGTRRA in 2011, and proposals to modify the existing estate tax. This section fulfills the underlying propose of the study and weighs evidence presented to provide a recommendation for the future treatment of the estate tax. A recommendation will be made based on each of the sub questions, followed by an overall recommendation.

The increase in the available estate tax credit could be seen as an incentive to save for retirement. Workers would be permitted to save more for retirement with a lesser concern that upon an earlier than expected date of death the government would collect a substantial portion of the retirement savings in the form of an estate tax. If the research showed that Americans are not taking advantage of this incentive, however, then the estate tax incentives would not be serving this purpose. Therefore, from the standpoint of retirement saving behavior, it is recommended that the increase in the estate tax credit be discontinued and the 2011 sunset provision of the EGTRRA be enforced.

No stage of the research process revealed compelling evidence that the estate tax has served a significant source of federal revenue. The researcher does not, however, simply conclude that the estate tax should be permanently abolished. Concern that the abolishment of the estate tax would create a federal revenue shortage is significant enough to consider other options. Indeed, Congress is currently planning to compensate for revenue loss in 2010 when the estate tax is repealed for that year by collecting more from lifetime transfer taxes. Progressively increasing the estate tax credit serves as an appropriate compromise between tax relief and federal funding since it allows Congress to make incremental adjustments to changes in revenue and the wealthiest of Americans are still liable to the estate tax.

Providing a recommendation for estate tax modification based on evidence concerning the fairness of the methodology used to compute the estate tax presented in this study is uncertain. Neither the primary nor secondary research indicated convincingly that the testamentary transfer and deathbed transfer estate tax stipulations are either fair or unfair. That said, the primary research does show to 90 percent confidence that these stipulations increase the number of estates incurring an estate tax liability. Since the estate tax has always been a tax imposed on estates of wealthy decedents, the removal of these stipulations according to the research would decrease the number of estates incurring an estate tax liability, likely relieving more middle class Americans from incurring an estate tax. Therefore, it is recommended that the testamentary transfer and deathbed transfers in the computation of the estate tax be removed.

Neither the primary nor secondary research provided sufficient evidence that the estate tax imposes a physical and financial burden on certified public accountants and estate executors to substantiate the abolishment of the estate tax. The research did cite instances where individuals may have been inconvenienced, but not to the degree that the abolishment of the estate tax would be warranted. In sum, the estate tax should continue its existence after its repeal in 2010, but the sunset provision of the EGTRRA should not be enforced by

Congress in full, and the estate tax treatment should not be reverted to 2001 specifications. Rather, the estate tax credit should continue to progressively increase and certain stipulations in the estate tax computation such as the testamentary transfer and the deathbed transfer should be revoked in order to provide tax relief to Americans who need it most while still maintaining a federal tax schedule where wealthier Americans provide a higher percentage of federal funding.

Statements for Further Research

As mentioned in the primary research, a possible reason for the high variation in responses concerning the fairness and efficiency of the estate tax may be due to the sample population being certified public accountants. Future research may poll the same questions to legislators, judges, lawyers, and Internal Revenue Service agents in order to compare responses. The researcher hypothesizes that a smaller variation in responses concerning the fairness and efficiency of the estate tax would result if legislators and Internal Revenue Service agents were polled instead of CPAs, since legislators actually enact the tax laws and Internal Service Agents enforce the tax laws. A second way research could be extended is to collect additional data from CPAs on the fairness and efficiency of the estate tax in an effort to shrink the confidence intervals so that they lie outside of the neutrality range.

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Appendix A – Student Survey Cover Letter

Strayer University

926 Dacian Ave Apt 105
Durham, NC 27701

June 16, 2008

Richard Haynes
184 Fountain St
Ashland, MA 01721

Dear Mr. Haynes:

I am a graduate student at Strayer University, pursuing a Masters Degree in Professional Accounting with an aspiration to become a tax professional like yourself. As part of my degree requirements, I am to conduct a statistical data analysis on responses from thirty tax professionals to solve a current problem in Accounting. Your professional opinion would be a great help to me. A letter from my Dean, Dr. Donald Ray West, is enclosed, along with Dr. West's contact information in case you wish to verify the authenticity of this study.

My research involves studying the effects of the increased estate tax credit and its future repeal in 2010 as part of the Economic Growth and Tax Relief Reconciliation Act of 2001. My effort is to provide a recommendation as to whether the 2011 sunset provision of the increased estate tax credit and the decreased estate tax rate should be enforced. Specifically, I am examining the effects the increased estate tax credit has on retirement savings, federal revenue, and the time and financial burdens placed on estate executors and administrators. Lastly, I am examining whether the procedure for computing the estate tax should be modified.

Your response to the attached survey would be most appreciated. The survey consists of twenty-five statements and for each statement I ask that you indicate your level of agreement with the statement from strongly disagree (indicated by circling "1") through strongly agree (indicated by circling "7"). For your convenience, a self-addressed stamped envelope is enclosed. If you wish to receive a summary of my research via e-mail, please indicate your e-mail address at the top of the survey. If not, or if you wish to remain anonymous, simply leave that field blank.

I offer my sincere thanks for your consideration and time in assisting me in this study. Best wishes in your professional career and thank you for your public service.

Sincerely,

Matthew Ervin DesVoigne
Graduate Student, Strayer University

Appendix B – Campus Dean Cover Letter

Strayer University

4 Copley Parkway
Morrisville, NC 27560
919-466-4413

June 16, 2008

Richard Haynes
184 Fountain St
Ashland, MA 01721

Dear Mr. Haynes:

This letter is to inform you that Matthew E. DesVoigne is a current graduate student of Strayer University. At this point the student is working on the masters thesis. A portion of this thesis is the collection of information about a chosen business topic.

All Strayer graduate students must complete this research paper to graduate. Sharing your time and talents to the completion of this data gathering will be instrumental in Matthew’s success.

Allow me to thank you in advance for your assistance to Matthew.

If you have questions about this activity, please feel free to call me at the listed number.

Sincerely,

Dr. Donald Ray West
Dean, RTP Campus, Strayer University

Appendix C - Study Survey

Thank you for filling out my survey for my Directed Research Project. Please note that there are **two sides** to this survey[1]. For each statement, please circle the choice reflecting your level of agreement or disagreement with the statement. A response of "1" indicates you strongly disagree while a response of "7" indicates you strongly agree. If you desire a summary of my research via e-mail, please indicate your e-mail address:

____

	Strongly Disagree	Disagree	Moderately Disagree	Neutral	Moderately Agree	Agree	Strongly Agree
1. The estate tax is a just means of generating federal revenue.	1	2	3	4	5	6	7
2. In general, my clients have saved on estate tax due to the increase in the estate tax credit.	1	2	3	4	5	6	7
3. In general, Americans have benefited financially from the increase in the estate tax credit.	1	2	3	4	5	6	7
4. The primary purpose of the estate tax phase-out is to favor the wealthy.	1	2	3	4	5	6	7
5. The increase in the estate tax credit has caused many of my clients to save more for retirement.	1	2	3	4	5	6	7
6. The increase in the estate tax has in general caused more Americans to save for retirement.	1	2	3	4	5	6	7
7. Adding lifetime testamentary transfers to a gross estate is a fair computation of the estate tax base.	1	2	3	4	5	6	7
8. Adding lifetime testamentary transfers to the decedent's taxable estate to arrive at the decedent's estate tax base significantly increases the number of estates owing estate tax.	1	2	3	4	5	6	7
9. My clients must choose between using my services to settle an estate and taking time off work to settle an estate on their own.	1	2	3	4	5	6	7
10. The abolishment of the estate tax would allow me to focus my job responsibilities on more important tax matters.	1	2	3	4	5	6	7
11. Including gifts made within three years of the decedent's death in his or her gross estate is a fair means of computing the estate tax.	1	2	3	4	5	6	7
12. Without an estate tax, more Americans would save for retirement.	1	2	3	4	5	6	7

[1] PLEASE CONTINUE ON THE REVERSE SIDE.

13. More efficient means of generating federal revenue exist than imposing a federal estate tax.	1	2	3	4	5	6	7
14. Abolishing the estate tax *permanently* significantly jeopardizes federal revenue.	1	2	3	4	5	6	7
15. The abolishment of the estate tax would decrease my client base and more of my clients would settle estates on their own.	1	2	3	4	5	6	7
16. In general, my clients must pay the federal estate tax and/or other taxes on the estate from personal funds and later be reimbursed by the estate as a result of insufficient estate funds at the time taxes were due.	1	2	3	4	5	6	7
17. Since the estate tax credit has been increased in 2002, fewer estates I personally have administered have owed estate tax.	1	2	3	4	5	6	7
18. Since the estate tax credit has been increased in 2002, fewer estates in this country have owed estate tax.	1	2	3	4	5	6	7
19. *Progressively* increasing the estate tax credit significantly jeopardizes federal revenue.	1	2	3	4	5	6	7
20. My clients seek my services in estate planning (if applicable) due to the existence of the estate tax. (Please respond "Neutral" if not applicable.)	1	2	3	4	5	6	7
21. Without an estate tax, I would be empowered to serve more clients and spend less time serving a particular client.	1	2	3	4	5	6	7
22. The estate tax causes *undue* hardship on estate executors who must also pay other taxes on the estate (e.g. estate property taxes) and then be reimbursed by the estate.	1	2	3	4	5	6	7
23. The estate tax generates sufficient federal revenue to substantiate its existence and the financial and physical burdens it creates.	1	2	3	4	5	6	7
24. The computation of the estate tax should be modified.	1	2	3	4	5	6	7
25. The estate tax should be permanently abolished.	1	2	3	4	5	6	7

Appendix D – Raw Data and Confidence Intervals

Raw Survey Data

Survey No.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34
Question No.																																		
1	3	7	6	3	7	6	2	2	1	4	7	6	7	5	7	6	7	5	3	3	6	7	5	1	7	6	7	2	2	7	6	5	4	7
2		7	6	6	7	5	7	4	6	7	7	5	7	7	7	6	7	4	7	6	7	7	6	4	7	5	4	7	6	7	5	7	6	6
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6	1	4	4	1	1	2	5	4	6	3	1	3	4	2	4	6	4	2	3	2	3	2	4	4	7	4	4	2	2	2	3	4	2	2
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15	1	2	2	1	5	2	5	2	2	2	1	2	4	2	5	2	6	2	2	5	1	2	2	4	7	4	4	2	2	2	1	3	4	2
16	1	2	5	2	2	2	5	2	6	2	1	4	4	3	5	4	5	3	4	1	5	1	4	4	1	5	4	2	2	5	4	1	2	4
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18		6	6	3	5	7	7	5	6	1	4	5	7	7	5	4	6	4	6	4	7	7	5	5	7	5	5	6	6	6	6	7	6	4
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21	4	2	5	5	2	4	5	4	4	2	1	4	2	2	2	5	5	2	5	4	2	2	3	4	2	5	4	4	4	5	6	4	3	4
22		2	5	3	1	1	4	6	6	2	1	5	2	3	5	5	2	3	4	2	7	2	4	4	7	4	5	2	2	4	4	3	3	4
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25	6	1	7	1	1	1	7	7	7	1	7	4	7	1	6	4	1	3	5	1	3	1	2	7	7	7	7	4	6	7	1	4	3	6

Table 11: Raw Survey Data

Mean Confidence Intervals

		Sample	Sample	Sample					
Question No.	N responses	Mean	Std Dev	Variance	$t_{\alpha/2}$ at 90%	E_mean at 90%	Mean - E	Mean + E	
1	34	4.971	2.037	4.151	1.692	0.591	4.379	5.562	
2	33	6.121	1.053	1.110	1.694	0.311	5.811	6.432	
3	34	5.500	1.692	2.864	1.692	0.491	5.009	5.991	
4	33	3.273	2.066	4.267	1.694	0.609	2.664	3.882	
5	34	3.441	1.691	2.860	1.692	0.491	2.950	3.932	
6	34	3.147	1.500	2.250	1.692	0.435	2.712	3.582	
7	34	3.912	1.848	3.416	1.692	0.536	3.375	4.448	
8	34	4.735	1.504	2.261	1.692	0.436	4.299	5.172	
9	33	3.545	1.716	2.943	1.694	0.506	3.040	4.051	
10	34	3.647	2.116	4.478	1.692	0.614	3.033	4.261	
11	34	3.971	2.081	4.332	1.692	0.604	3.366	4.575	
12	34	3.088	1.782	3.174	1.692	0.517	2.571	3.605	
13	34	5.176	1.749	3.059	1.692	0.508	4.669	5.684	
14	34	3.147	1.971	3.887	1.692	0.572	2.575	3.719	
15	34	2.794	1.572	2.471	1.692	0.456	2.338	3.250	
16	34	3.147	1.540	2.372	1.692	0.447	2.700	3.594	
17	33	5.121	1.364	1.860	1.694	0.402	4.719	5.523	
18	33	5.455	1.371	1.881	1.694	0.404	5.050	5.859	
19	33	2.788	1.431	2.047	1.694	0.422	2.366	3.210	
20	34	4.971	1.058	1.120	1.692	0.307	4.663	5.278	
21	34	3.559	1.307	1.709	1.692	0.379	3.179	3.938	
22	33	3.545	1.660	2.756	1.694	0.489	3.056	4.035	
23	33	3.818	1.722	2.966	1.694	0.508	3.310	4.326	
24	34	5.206	1.513	2.290	1.692	0.439	4.767	5.645	
25	34	4.206	2.532	6.411	1.692	0.735	3.471	4.941	

Table 12: Calculations of Mean Confidence Intervals

Standard Deviation Confidence Intervals

		Sample	Sample				
Question No.	N responses	Std Dev	Variance	X_L^2 at 90%	X_R^2 at 90%	σ confidence intrvl at 90%	
1	34	2.037	4.151	20.867	47.400	1.700	2.562
2	33	1.053	1.110	20.072	46.194	0.877	1.330
3	34	1.692	2.864	20.867	47.400	1.412	2.128
4	33	2.066	4.267	20.072	46.194	1.719	2.608
5	34	1.691	2.860	20.867	47.400	1.411	2.127
6	34	1.500	2.250	20.867	47.400	1.252	1.887
7	34	1.848	3.416	20.867	47.400	1.542	2.324
8	34	1.504	2.261	20.867	47.400	1.255	1.891
9	33	1.716	2.943	20.072	46.194	1.428	2.166
10	34	2.116	4.478	20.867	47.400	1.766	2.661
11	34	2.081	4.332	20.867	47.400	1.737	2.618
12	34	1.782	3.174	20.867	47.400	1.486	2.240
13	34	1.749	3.059	20.867	47.400	1.459	2.199
14	34	1.971	3.887	20.867	47.400	1.645	2.479
15	34	1.572	2.471	20.867	47.400	1.312	1.977
16	34	1.540	2.372	20.867	47.400	1.285	1.937
17	33	1.364	1.860	20.072	46.194	1.135	1.722
18	33	1.371	1.881	20.072	46.194	1.141	1.732
19	33	1.431	2.047	20.072	46.194	1.191	1.807
20	34	1.058	1.120	20.867	47.400	0.883	1.331
21	34	1.307	1.709	20.867	47.400	1.091	1.644
22	33	1.660	2.756	20.072	46.194	1.382	2.096
23	33	1.722	2.966	20.072	46.194	1.433	2.175
24	34	1.513	2.290	20.867	47.400	1.263	1.903
25	34	2.532	6.411	20.867	47.400	2.113	3.184

Table 13: Calculations of Standard Deviation Confidence Intervals

Appendix E – Research Methodology of Data Analysis and Presentation

Likert Scale

The opinions from certified public accountants regarding future treatment of the estate tax were sought in this study. “Rating scales were developed by Renis Likert in the 1930s to assess people’s attitudes; accordingly, they are sometimes called Likert scales” (Leedy & Ormrod, 2001, p. 197). Likert scales support a continuum of responses (Leedy & Ormrod, 2001). For each statement presented in the survey, the respondent was asked to circle a number ranging from one through seven inclusive, in accordance with the respondent’s level of agreement with the statement presented. The numerical responses map to the level of agreement using Table 14.

Numerical Response	Level of Agreement
1	Strongly Disagree
2	Disagree
3	Moderately Disagree
4	Neutral
5	Moderately Agree
6	Agree
7	Strongly Agree

Table 14: Likert Scale Employed In This Study

Interpretation of Figures

Figures, displayed as histograms in this study, show the number of respondents who reported each type of response. For example, the purpose of one of the research questions was to examine whether CPA clients serving as estate executors are required to personally pay taxes charged to the estate and later be reimbursed. Figure Six graphically depicts the data collected for this survey question.

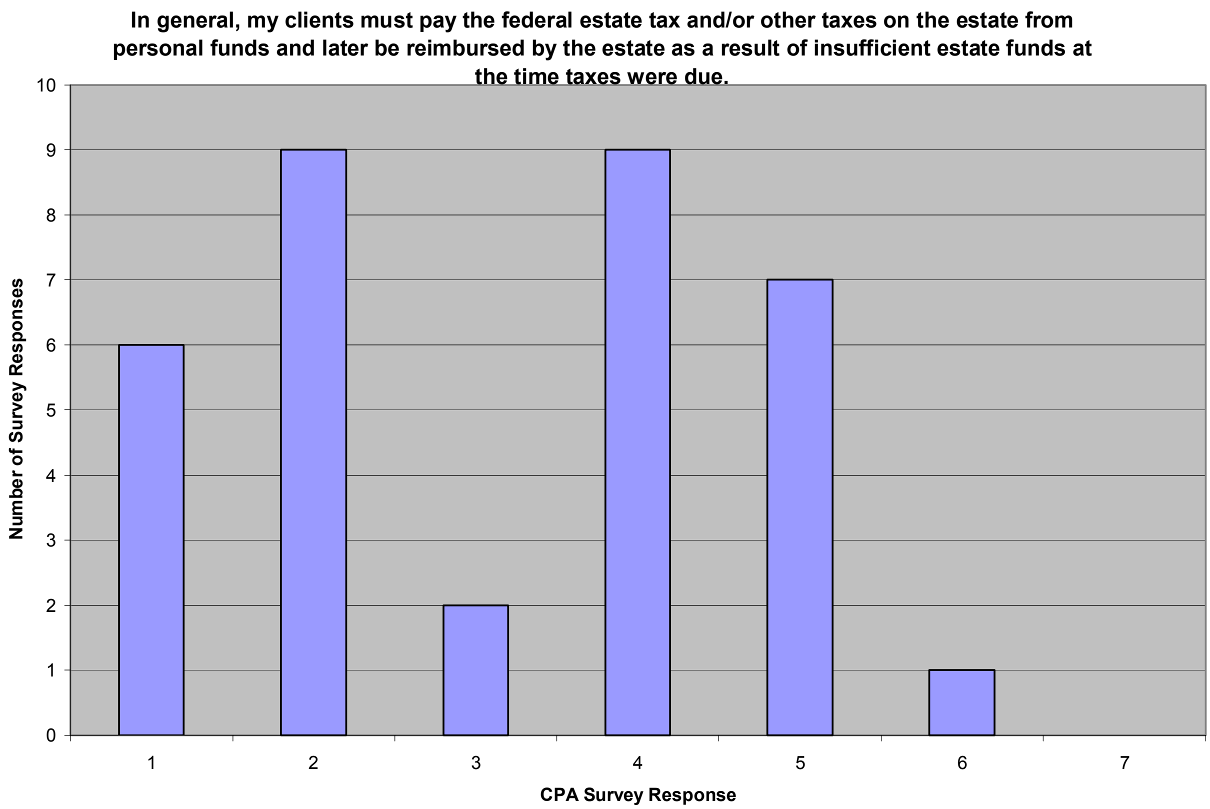

Figure 6: Figure Interpretation Illustration

Referring to the Likert scale presented in Table 14, Figure Six is interpreted in accordance with Table 15.

Number of Respondents Who Strongly Disagree That in General Their Clients Must Personally Pay the Estate Tax	6
Number of Respondents Who Disagree That in General Their Clients Must Personally Pay the Estate Tax	9
Number of Respondents Who Moderately Disagree That in General Their Clients Must Personally Pay the Estate Tax	2
Number of Respondents Who Are Neutral to Their Clients Personally Paying the Estate Tax	9
Number of Respondents Who Moderately Agree That in General Their Clients Must Personally Pay the Estate Tax	7
Number of Respondents Who Agree That in General Their Clients Must Personally Pay the Estate Tax	1
Number of Respondents Who Strongly Agree That in General Their Clients Must Personally Pay the Estate Tax	0

Table 15: Interpretation of Figures

Interpretation of Mean Confidence Interval Tables

The focus of the primary research conducted for this study is to make inferences on the population of CPAs based on sample data collected. This study constructs 90 percent confidence intervals for population means. In other words, by repeating the study, the constructed confidence intervals would encapsulate the population mean and population standard deviation 90 percent of the time (Triola, 2005). Some tables in this study show the CPA sample mean and 90 percent confidence interval for the CPA population mean for a given question. For example, the following table excerpt shows the sample mean and 90 percent confidence intervals using Student t distribution analysis for the data depicted graphically in Figure Six.

Question	Number of Responses	Sample Mean	90% Confidence Interval Minimum of Population Mean	90% Confidence Interval Maximum of Population Mean
In general, my clients must pay the federal estate tax and/or other taxes on the estate from personal funds and later be reimbursed by the estate as a result of insufficient estate funds at the time taxes were due.	34	3.147	2.700	3.594

Table 16: Interpretation of Tables Depicting Mean Confidence Intervals

Table 16 may be interpreted as follows:

- Of all the respondents, 34 of them answered this particular question.
- The sample mean of the responses is 3.147. Referring to the Likert scale presented in Table 14 and the responses given presented in Table 15, the sample mean is calculated as shown in Equation One.

$$\frac{(6*1)+(9*2)+(2*3)+(9*4)+(7*5)+(1*6)+(0*7)}{34} = 3.147$$

Equation 1: Sample Mean Calculation

- Referring to the Likert scale presented in Table 14, the interpretation of this calculation is that the sample mean of the CPAs polled lies between moderate disagreement and neutral with respect to CPAs feeling their clients acting as estate executors are personally subject to the estate tax.

- It may be claimed to 90 percent confidence that the CPA population mean for this question is between 2.700 and 3.594. The neutrality interval for this study is defined as from 3.5 to 4.5. For this question, some of the confidence interval overlaps the neutrality interval, so it may not be safely claimed to 90 percent confidence that clients of CPAs are in general not personally subject to the estate tax, although the vast majority of the confidence interval lies outside the neutrality interval in the region where CPA clients are not personally subject to the estate tax.

Interpretation of Standard Deviation Confidence Interval Tables

In addition to creating confidence intervals for the population means of opinions regarding the federal estate tax, the researcher feels it is also important to analyze the population variance of a particular opinion. After all, a confidence interval only of the mean of an opinion would not be as convincing for large variances than for small variance. Therefore, a Chi-squared statistical analysis has been conducted to produce 90 percent confidence intervals of the population variances of opinions pertaining to modifications of the estate tax (Triola, 2005). As an illustration how to interpret the tables showing standard deviation confidence intervals, Table 17 shows the sample standard deviation and 90 percent confidence intervals for the survey question pertaining to estate executor personal liability.

Question	Number of Responses	Sample Standard Deviation	90% Confidence Interval Minimum of Population Standard Deviation	90% Confidence Interval Maximum of Population Standard Deviation
In general, my clients must pay the federal estate tax and/or other taxes on the estate from personal funds and later be reimbursed by the estate as a result of insufficient estate funds at the time taxes were due.	34	1.540	1.285	1.937

Table 17: Interpretation of Tables Depicting Standard Deviation Confidence Intervals

Table 17 is interpreted as follows:

- Of all the respondents, 34 of them answered this question.
- Referring to the Likert scale presented in Table 14 and the responses given in Table 15, the sample standard deviation is 1.540, as calculated in Equation Two.
- Sample standard deviations for all survey questions are presented in Appendix D. Relative to the other survey sample questions, responses to this survey question show a fairly average variance.
- It may be claimed to 90 percent confidence that the CPA population variance for this question is between 1.285 and 1.937.

$$\sqrt{\frac{\left(6*(1-3.147)^2\right)+\left(9*(2-3.147)^2\right)+\left(2*(3-3.147)^2\right)+\left(9*(4-3.147)^2\right)+\left(7*(5-3.147)^2\right)+\left(1*(6-3.147)^2\right)+\left(0*(7-3.147)^2\right)}{34-1}}=1.540$$

Equation 2: Sample Standard Deviation Calculation

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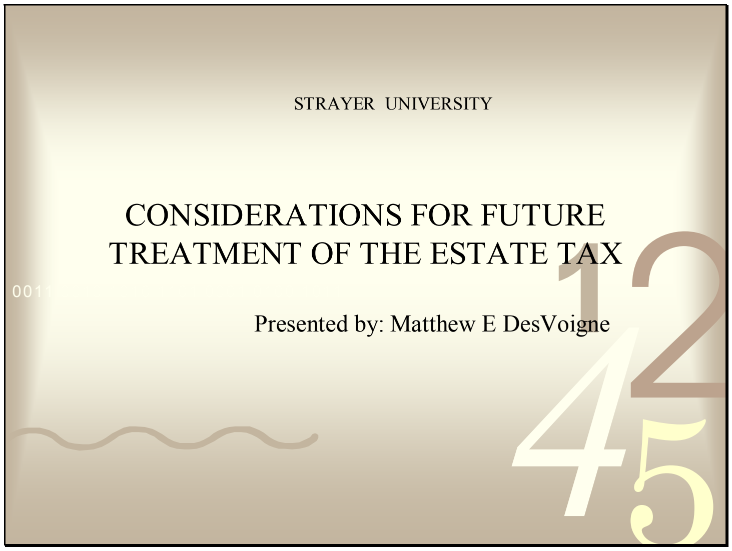

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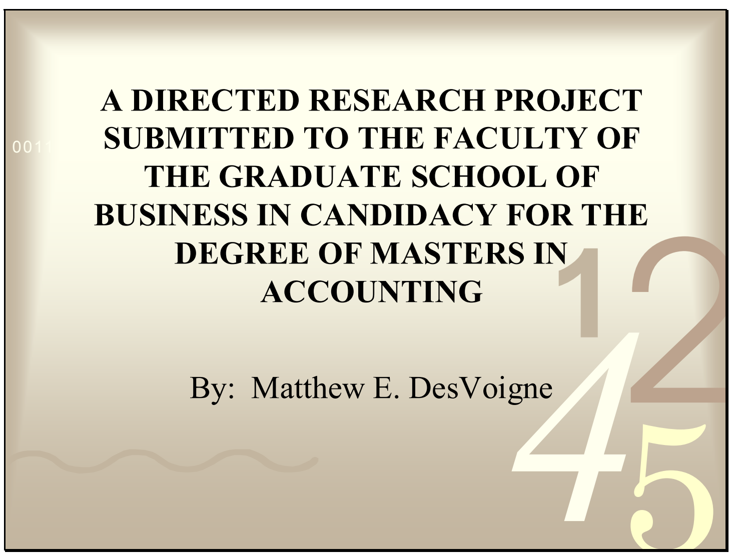

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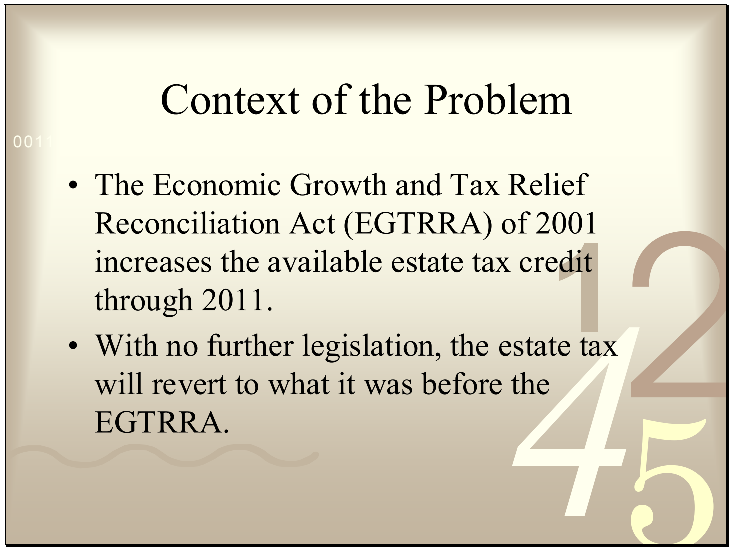

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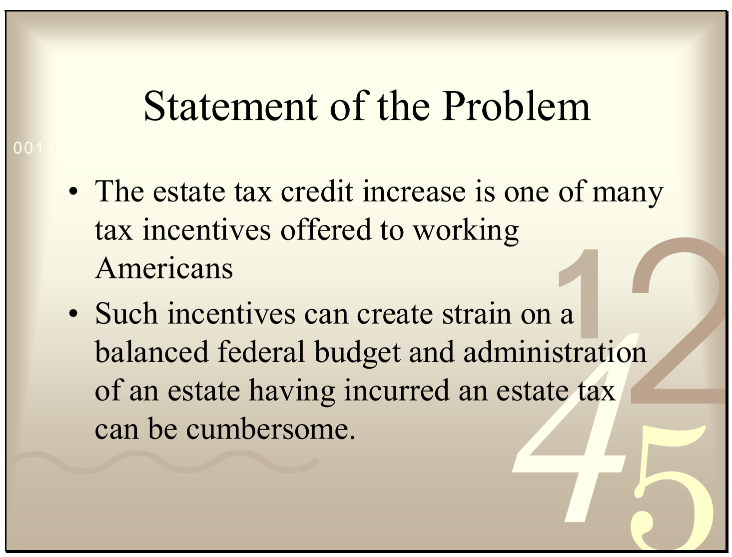

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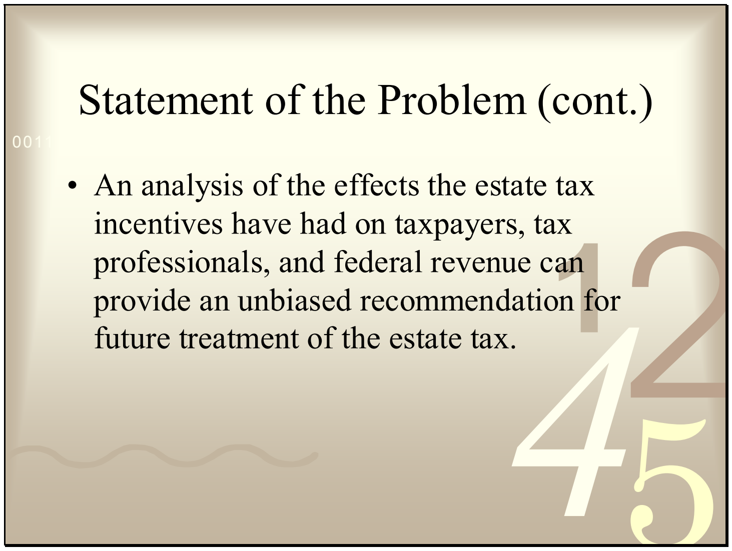

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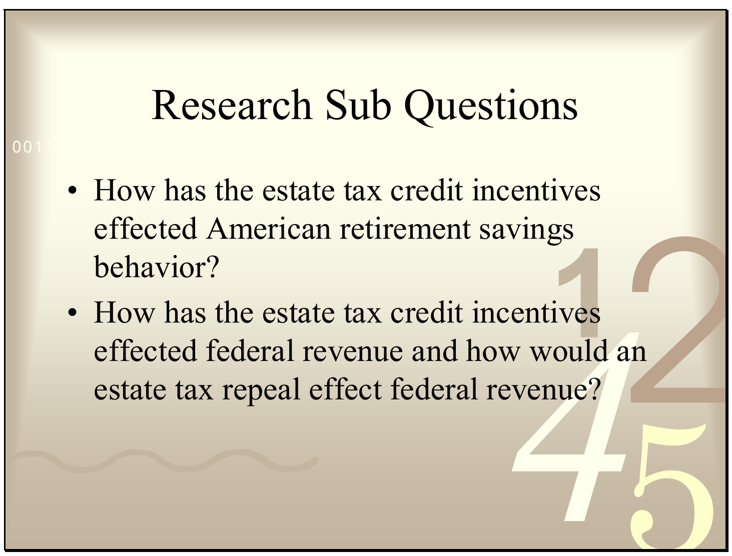

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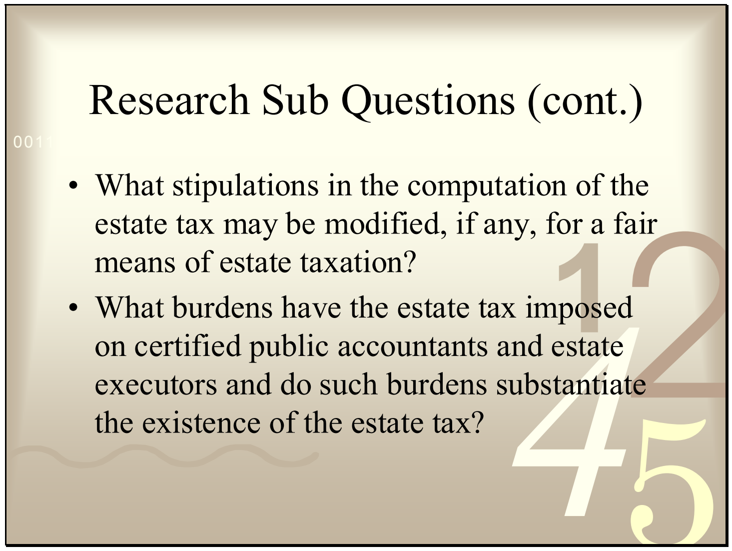

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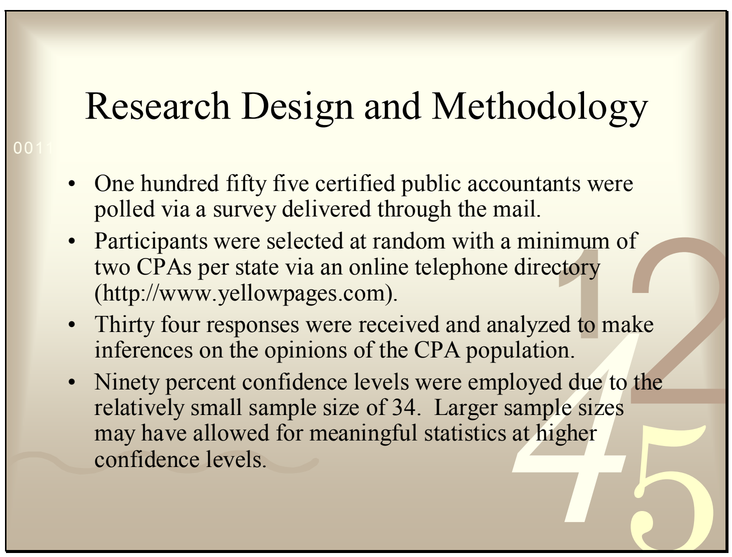

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Survey Administration - Likert Scale

- Each survey question was a statement.
- Respondent provided a numerical response according to his/her level of agreement using the table to the right.
- Sample mean gives sample level of agreement.

Numerical Response	Level of Agreement
1	Strongly Disagree
2	Disagree
3	Moderately Disagree
4	Neutral
5	Moderately Agree
6	Agree
7	Strongly Agree

Slide 10

Likert Scale Analysis

- Neutral interval by definition ranges from 3.5 to 4.5.
- It may be claimed to 90% confidence that the CPA population agrees or disagrees with the statement if the entire confidence interval lies outside the neutral interval.

Slide 11

Estate Tax and Retirement Savings - Data

Question	90% Confidence Interval Minimum of Population Mean	90% Confidence Interval Maximum of Population Mean
The increase in the estate tax credit has caused many of my clients to save for retirement.	2.950	3.932
The increase in the estate tax has in general caused more Americans to save for retirement.	2.712	3.582
Without an estate tax, more Americans would save for retirement.	2.571	3.605

Slide 12

Estate Tax and Retirement Savings - Synopsis

- All three confidence intervals have a portion lying in the neutrality range, so it may not be claimed to 90% confidence that the estate tax incentives have not initiated increased retirement behavior.
- Research suggests that the estate tax credit increase has not served as an effective incentive for retirement saving.

Slide 13

Estate Tax and Retirement Savings - Conclusion

- Alternate initiatives to increase retirement savings should be sought.
- The estate tax should continue to be imposed if the sole basis of the recommendation is on retirement savings activity.

Slide 14

Estate Tax and Federal Revenue - Data

Question	90% Confidence Interval Minimum of Population Mean	90% Confidence Interval Maximum of Population Mean
Abolishing the estate tax *permanently* significantly jeopardizes federal revenue.	2.575	3.719
Progressively increasing the estate tax credit significantly jeopardizes federal revenue.	2.366	3.210
The estate tax is a just means of generating federal revenue.	4.379	5.562

Slide 15

Estate Tax and Federal Revenue - Synopsis

- Progressively increasing the estate credit is less likely to significantly jeopardize federal revenue than an abolishment of the estate tax.
- It may be claimed to 90% confidence that the estate tax is a fair means of generating federal revenue from a CPA perspective.

Slide 16

Estate Tax and Federal Revenue – Conclusion

- A permanent abolishment of the estate tax is not recommended as it poses a more serious threat to federal revenue.
- Continuing to progressively increase the available estate tax credit provides an appropriate compromise between American tax relief and a balanced federal budget.

Slide 17

Estate Tax Computation Considerations – Background

- Testamentary Transfers – Property bequeathed by a donor on which the donor may draw income until death is included in the gross estate.
- Deathbed Transfers – Certain property, including life insurance on the donor, is included in the gross estate if given within three years of date of death.

Slide 18

Estate Tax Computation Considerations – Data

Question	90% Confidence Interval Minimum of Population Mean	90% Confidence Interval Maximum of Population Mean
Adding lifetime testamentary transfers to a decedent's gross estate is a fair computation of the estate tax base.	3.375	4.448
Including gifts made within three years of the decedent's death in his or her gross estate is a fair means of computing the estate tax.	3.366	4.575
Adding lifetime testamentary transfers to the decedent's taxable estate to arrive at the decedent's estate tax base significantly increases the number of estates owing estate tax.	4.299	5.172

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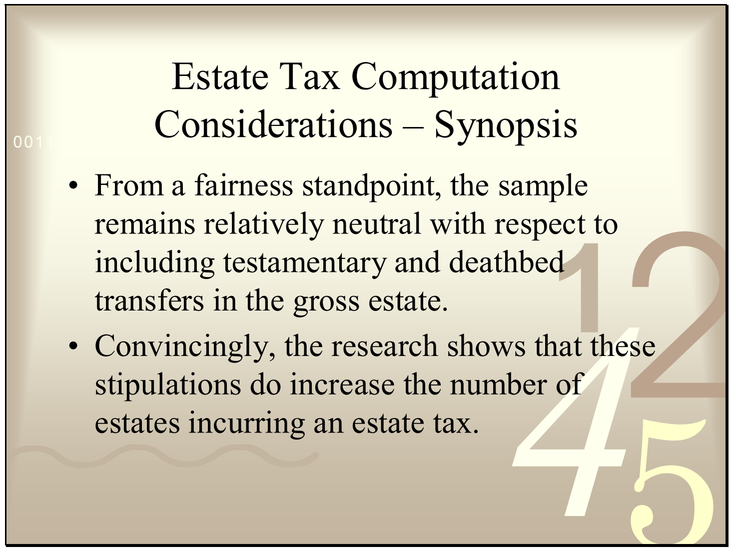

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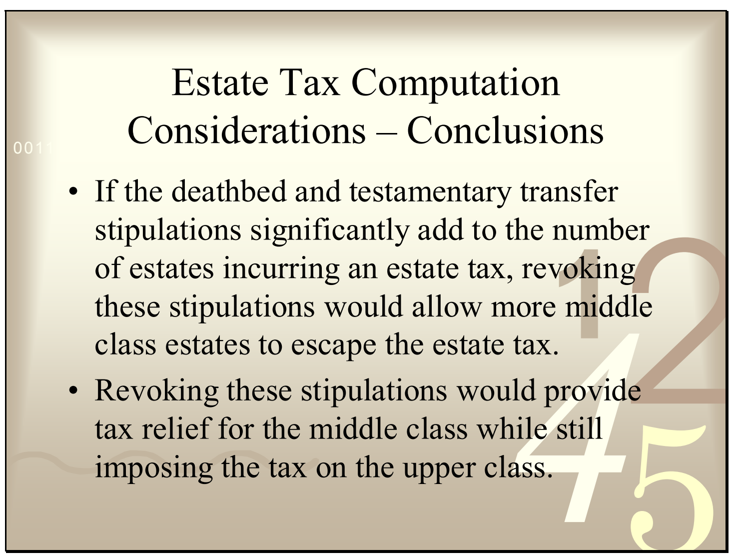

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Estate Tax Burdens – Data (CPA Perspective)

Question	90% Confidence Interval Minimum of Population Mean	90% Confidence Interval Maximum of Population Mean
The abolishment of the estate tax would allow me to focus my job responsibilities on more important tax matters.	3.033	4.261
My clients must choose between using my services to settle an estate and taking time off work to settle an estate on their own.	3.040	4.051
In general, my clients must pay the federal estate tax and/or other taxes on the estate from personal funds and later be reimbursed by the estate as a result of insufficient estate funds at the time taxes were due.	2.700	3.594

Slide 22

Estate Tax Burdens – Synopsis

- With certain exceptions, the research indicates that the estate tax does not significantly add to the workload of CPAs.
- The research indicates that periodicals portraying financial and physical hardships the estate tax imposes on estate executors tends to be the exception more than the norm.

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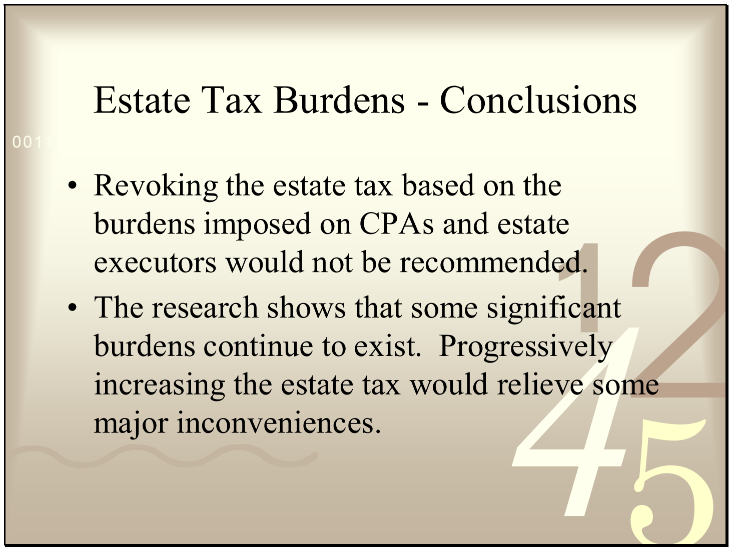

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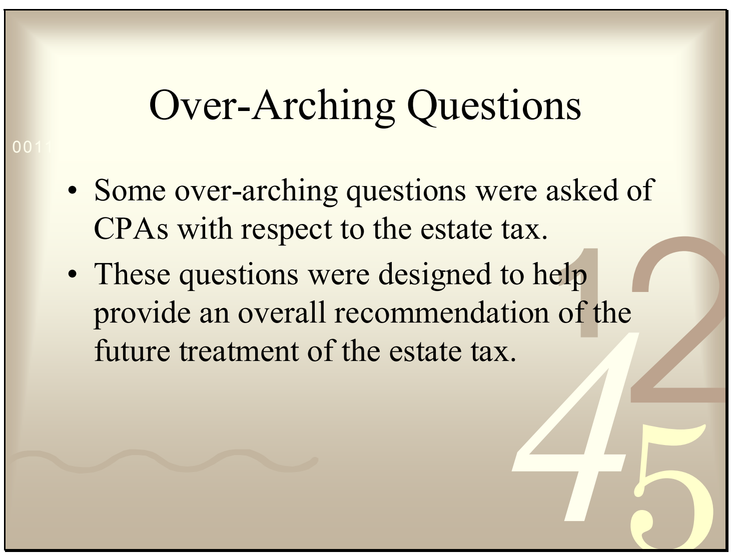

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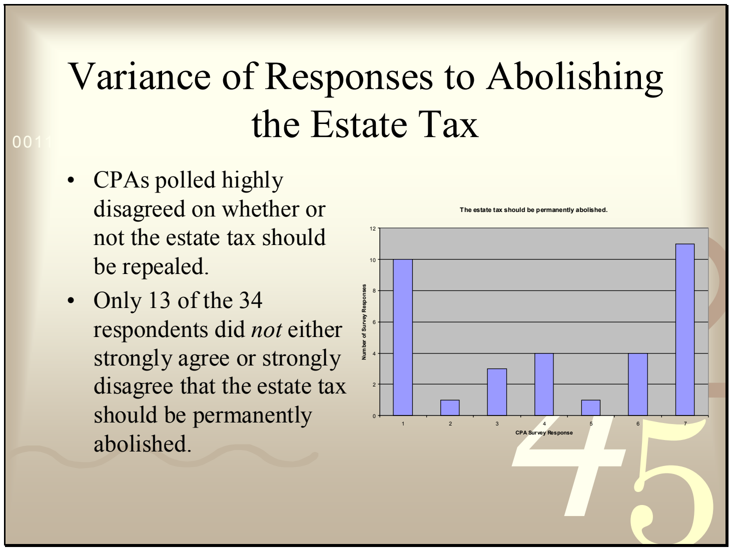

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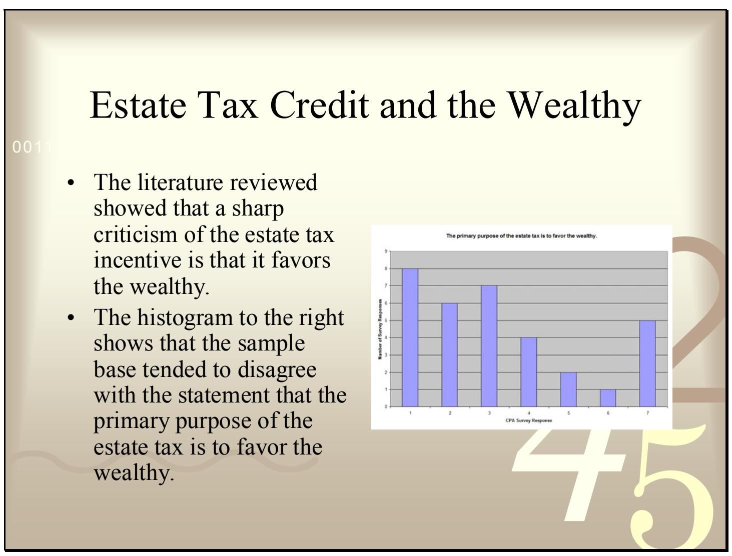

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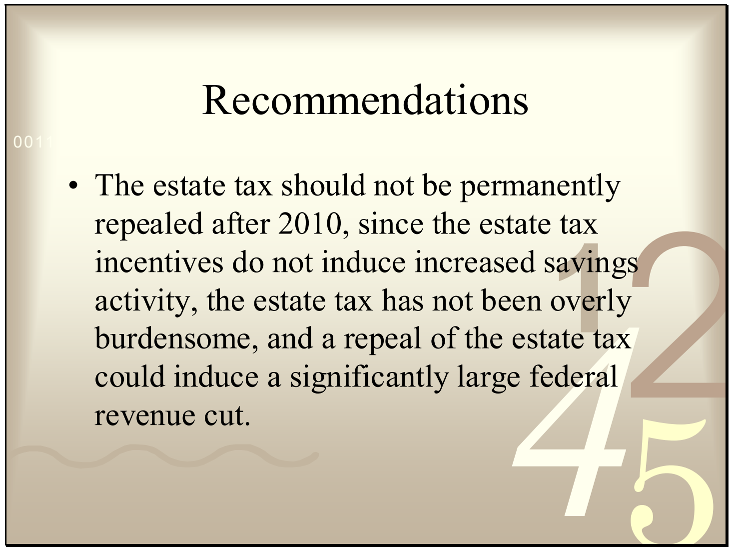

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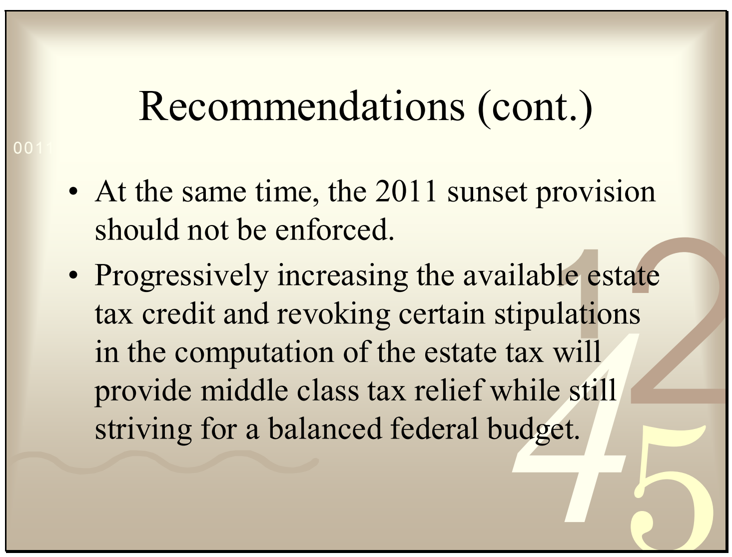

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Additional Research Opportunities

- Only CPAs who administer services in accordance with the tax law were polled in this study in the interest of time.
- Polling legislators and IRS agents, those who enact and enforce the tax law, would provide a fresh perspective on the fairness or reasons behind the enactment of certain estate tax stipulations.

Slide 30

Closing Thoughts

- The estate tax helps to provide an equitable tax system.
- The estate tax provides an alternate to income tax.
- The estate tax is easily adjustable to provide middle class tax relief where needed.