

Fair Inheritance: Tax Recipients, Not Estates

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The Sixty-Percent Problem

The US estate tax collects roughly \$20 billion per year. That sounds like a lot of money, until you learn that the effective avoidance rate is approximately 60 percent. The wealthiest families — the ones the tax is ostensibly designed to reach — are precisely the ones best equipped to avoid it. Through grantor retained annuity trusts (GRATs), charitable lead trusts (CLATs), family limited partnerships, and dynasty trusts, estate planners routinely compress a billion-dollar fortune into a taxable estate of a few million dollars.

This is not fraud. It is the predictable consequence of a system that taxes the *estate* — a legal entity that can be restructured, split, and hollowed out by an army of lawyers. The question is whether a better design exists. It does.

The Redesign: Tax the Recipient

The proposal is simple enough to fit on an index card. Stop taxing the dead person's estate. Instead, treat every dollar of inheritance as ordinary income to the person who receives it, subject to a \$12 million per-estate exemption.

That is the entire mechanism. No new bureaucracy, no special rates, no separate schedules. Inherited wealth enters the recipient's 1040 the same way a year-end bonus does. The existing income tax machinery — brackets, withholding, auditing — handles the rest.

The \$12 million exemption means the system affects only the largest estates. A family with \$10 million passes everything tax-free. But a family with \$100 million faces a choice: concentrate the inheritance among a few heirs and pay ordinary income tax rates on the excess, or spread the wealth among many recipients and reduce the tax bill.

The Zero-Tax Pathway

Here is the key design feature. Under this system, there exists a genuine path to paying *zero* inheritance tax on any fortune of any size: give it to enough people in small enough amounts that no recipient exceeds the threshold that triggers meaningful tax liability.

Consider an estate worth \$50 million. If left to two children, each receives \$25 million — a substantial tax bill. But split among 50 recipients (children, grandchildren, nieces, longtime employees, community members), each receives \$1 million, and the tax is modest or zero.

This is not a loophole. It is the point. The policy objective has always been to prevent dynastic concentration. A system where the only way to avoid tax is to *disperse* wealth accomplishes that

objective directly, regardless of whether any tax is actually collected. Under the current estate tax, estate planning is about avoiding the policy goal. Under this system, estate planning *is* the policy goal.

Trust Non-Recognition

The current system's fatal weakness is that trusts sit between wealth and the human beings who benefit from it. Dynasty trusts can hold assets for generations without triggering any transfer tax. The redesign eliminates this with a single principle: the tax follows money to its ultimate human recipient, regardless of how many legal entities it passes through.

A GRAT distributes \$5 million to a grantor's daughter? She has \$5 million of ordinary income. A dynasty trust distributes \$2 million to a great-grandchild? Ordinary income. A charitable remainder trust pays an income stream to a nephew? Each payment is ordinary income in the year received.

The trust itself is invisible to the tax system. The complexity of the current transfer tax regime — thousands of pages of regulations — collapses to a single rule: when money reaches a human being, it is income. Dynasty trusts, GRATs, CLATs, and the entire alphabet soup of estate-planning vehicles may still serve legitimate purposes, but they can no longer function as tax shelters.

The Numbers

Revenue estimates range from \$85 to \$135 billion annually, with a baseline projection of \$95 billion — roughly five times current estate tax collections (Kopczuk2013). This increase comes not from higher rates but from a dramatically broader effective base. When trusts cannot shelter wealth from taxation, and when the tax applies to every recipient rather than to a single legal estate, the avoidance rate drops from 60 percent to an estimated 10-15 percent.

The behavioral response is modest. Structural estimation yields a bequest elasticity of -0.18 : people do not stop passing wealth to the next generation, they change *how* they do it — which, under this system, means spreading it more widely. Over three generations, simulations project the wealth Gini declining from 0.85 to 0.72, and the top 0.1 percent share falling from 20 to 12 percent. The system does not confiscate wealth. It disperses it.

The Practical Limit on Zero Tax

Can a \$55 billion fortune really achieve zero tax? In theory, yes — the estate would need approximately 4,584 recipients, each receiving about \$12 million. In practice, finding that many recipients who have a genuine relationship to the decedent is difficult. The realistic maximum — extended family, friends, business associates, longtime employees — tops out at 500 to 700 people.

This means mega-fortunes face substantial taxation regardless of planning. A \$55 billion estate dispersed to 700 recipients gives each person roughly \$79 million, most of which is taxable at ordinary income rates. Moderate fortunes can achieve zero tax through realistic dispersion; the largest fortunes cannot.

This graduated structure emerges naturally from the mathematics rather than from a legislated rate schedule. No phase-outs, no surtaxes, no alternative minimum tax. The constraint is simply the number of human beings you can plausibly give money to.

Why Automation Makes This Urgent

The historical argument against inheritance taxation has always been that dynastic wealth is self-correcting. Heirs consume, invest poorly, and divide estates among children. Over three or four generations, great fortunes tend to dissipate. This argument is empirically sound for the past two centuries — and may be about to break down completely.

Under conditions of broad automation, capital returns could reach 20-30 percent annually as machines substitute for labor across an expanding range of tasks (Trammell2025). When $r \gg g$ — when the return on capital substantially exceeds the growth rate of the economy — the self-correcting mechanism reverses (Piketty2014). Inherited wealth grows *faster* than heirs can consume it. Concentration accelerates rather than dissipating.

The welfare gains from inheritance taxation increase accordingly. Under current economic conditions, the general equilibrium model estimates welfare gains equivalent to 1.4 percent of lifetime consumption — meaningful but modest. Under full automation scenarios, those gains rise to 4-8 percent of lifetime consumption, making inheritance reform one of the highest-value policy interventions available.

The CES Connection

The CES framework provides the structural economics behind these dynamics. The elasticity of substitution σ between capital and labor determines how capital deepening affects income distribution.

When $\sigma > 1$ (substitutes), capital deepening reduces labor’s share. Concentrated capital ownership translates directly into concentrated income, and dispersion limits this by spreading ownership. When $\sigma < 1$ (complements), dispersing ownership preserves the *superadditivity bonus* — heterogeneous deployment by many independent owners generates more output than the same capital under a single strategy, because the CES curvature parameter K ensures diversity is productive.

In either regime, dispersion dominates concentration. This system produces that outcome not by confiscating wealth, but by making dispersion the path of least resistance (Saez2019).

A Tax That Wants to Disappear

The most unusual feature of this proposal is that its ideal outcome is zero revenue. If every estate holder responds to the incentive by dispersing wealth widely enough to eliminate tax liability, the system collects nothing — and succeeds completely. The policy goal is not revenue. It is dispersion.

In practice, behavioral inertia, family preferences, and the sheer size of the largest fortunes guarantee substantial revenue for the foreseeable future. But the system’s normative justification does not depend on revenue. It depends on creating an institutional structure where the tax-minimizing behavior and the socially optimal behavior are the same thing.

That alignment — between private incentive and public good — is what makes recipient-based inheritance taxation not just an improvement over the current estate tax, but a fundamentally different kind of policy instrument.

References