

Estate Tax Talking Points

Last September, the Senate was supposed to hold a vote on the House-passed bill to permanently repeal the estate tax, but ended up holding off on the vote in the wake of Hurricane Katrina. Now Senate GOP leaders are interested in bringing the House repeal bill to floor again; however they will first need to invoke cloture on the bill, which requires 60 votes. If GOP leaders cannot get 60 votes on a repeal vote, which is a likely scenario, it will pave the way for a vote on an estate tax reform proposal being pushed by Senator Jon Kyl (R-AZ). Both repeal as well as Senator Kyl's reform plan would be a step in the wrong direction, impacting revenue levels, charitable giving, and the level of progressivity in the tax code. It is important to continue to put pressure on Senators through calls and emails, urging them to vote no on repeal and irresponsible reform when the issue arises.

Now is the time to make calls to your Senators and urge them to:

- 1. Vote NO on cloture; and**
- 2. Oppose any reform effort, such as linking the estate tax rate to the capital gains rate, that does not preserve a major portion of the estate tax revenue.**

The following are key talking points to explain this position.

Estate Tax Repeal or Bad Reform is Unaffordable

Every time the Senate voted on this issue in the past, the federal budget was projected to be in surplus. Now we are facing deficits as far as the eye can see, and Congress will vote this year on cuts in important programs, ranging from Medicaid to food stamps to education. The first ten years of repeal would cost nearly \$1 trillion, and bad reforms would cost almost as much. Such costly changes to the estate tax would put even more pressure on the rest of the budget – and pile up more debt that will be passed on to future generations.

Senator Kyl's Reform is Unacceptable, Costing Nearly as Much as Repeal

Senator Kyl's latest reform proposal would change the estate tax to exempt the first \$5 million of an estate from tax and lower the estate tax rate to the capital gains rate, currently set at 15 percent. (Ultimately Kyl and others want to repeal the capital gains tax.) This proposal would cost over 80 percent of the cost of full repeal -- which is estimated to be \$1 trillion over ten years -- largely because it would impose such a low tax rate. Further, most of the benefit of this low rate would flow to the largest estate valued at over \$20 million. In addition, such a low rate would cause a sharp reduction in charitable giving, depriving the charitable sector of needed funds. This is an unacceptable compromise, especially because the proposal will worsen when a final agreement with the House is reached.

A Vote for Cloture is a Vote For Repeal: vote NO on cloture

When the Senate considers the estate tax this year, it is possible they will vote on what is known as "cloture." In this case, they would be voting on cloture on a motion to proceed to consideration of H.R. 8, the House-passed estate tax repeal bill. The vote on cloture requires 60 votes to pass. If it passes, it would be much more difficult

to prevent the repeal of the estate tax or a bad reform option to the estate tax from occurring. A vote on cloture is usually a party-line vote, because it is viewed as a vote on procedure rather than on substance; so the cloture vote would most likely garner the support of all 55 Republicans – even though some Republicans oppose repeal of the estate tax. We need to let Republicans know that a vote for cloture, which ultimately allows proceeding with debate on H.R. 8, is the equivalent of a vote for repeal. It is also important that Democrats understand the importance of this vote as either leading to repeal or bad reform.

Fed Chairman Alan Greenspan Opposes Estate Tax Changes That are not Paid-For

In testimony before the Senate Banking, Housing and Urban Affairs Committee in 2005, Federal Reserve Chairman Alan Greenspan reiterated his opposition to tax-cut proposals that increase the deficit and made clear that this opposition applies to proposals that repeal or drastically reduce the estate tax without fully offsetting the costs. Greenspan has strongly advocated a return to pay-as-you-go (PAYGO) rules that require any tax cut not increase the deficit. Republican proposals for repeal or “reform” of the estate tax do not have offsets to pay for them.

Family Farm Rhetoric Overblown: Hardly any family farms impacted by estate tax

*According to a report last year from the nonpartisan Congressional Budget Office, an incredibly tiny number of family farms are actually impacted by the estate tax. If the current \$2 million threshold existed in 2000, as many reform proposals would have allowed, only 123 farms per year in the entire country would have owed estate taxes. The report further estimated that the number of family farms impacted would have dropped to a mere **65 farms nationwide** with an exemption of \$3.5 million (\$7 million per couple), the level the exemption will be in 2009. (Yes, the first \$3.5 million of an estate – double it if married – will be tax free in 2009.) This is yet another piece of evidence that the rhetoric concerning the impact of the estate tax on family farms is just a myth.*

Repeal or Bad Reform Would Cripple Many Charities

Repeal or bad reform of the estate tax would have a damaging effect on the nation's charities. The Congressional Budget Office has estimated full repeal would cost charities and nonprofits \$20 billion per year in charitable donations if the tax had been repealed in 2000. Other studies have shown that the most significant incentive for charitable contributions from estates is the top tax rate. When the top estate tax rate was reduced in 2003 from 55% to 49%, the IRS found an 18.2% decline in charitable bequests compared to the previous year. This makes proposals from Senator Kyl even more dangerous.

A Fair Estate Tax is Reflective of Core American Values

A fair estate tax supports the underlying values of the American dream; that hard work, ingenuity, and persistence will be rewarded with success rather than what family you were born into. Repeal of the estate tax would benefit a very few heirs of inherited wealth who were lucky enough to be born into the right family, not hardworking, everyday Americans working one or more jobs to earn a paycheck. Repeal would continue a troubling trend in America away from valuing workers and towards rewarding the wealthy super-elite. The estate tax is the most progressive way available to raise revenue our nation desperately needs to meet its commitments. Any other way we raise revenue will place a higher burden on lower and middle income families.