

About the Estate Tax

REPEALING THE ESTATE TAX WOULD CREATE A MASSIVE WINDFALL FOR THE COUNTRY'S WEALTHIEST FAMILIES

- Only the largest estates are subject to the tax: An estate must exceed \$1 million in 2002 for an individual (\$2 million for couples). That amount rises to \$3.5 million (\$7 million for couples) by 2009.
- Ninety-eight of every 100 people who die face no estate tax whatsoever. Only the super-wealthy – the richest 2% of Americans -- are subject to the estate tax. By 2009, it is estimated that less than ½ of one percent of Americans will be subject to the estate tax, due to the changes Congress approved last year.
- Half of all estate taxes are paid by the wealthiest of the super-wealthy – the richest 0.1% of Americans.

INSTEAD OF MORE TAX BREAKS FOR MULTI-MILLIONAIRES, WE SHOULD ADDRESS PRESSING NEEDS OF AMERICANS

- The congressional Joint Committee on Taxation says that repeal of the estate tax will cost the federal government \$56 billion in 2010 when the estate tax is scheduled for repeal.
- Under the current proposal for repeal, we'd lose \$100 billion over the next 10 years and \$850 billion over the next 20 years. Working people will pay for this tax cut through either cuts in services or an increased tax burden.
- Repealing the tax means less funding available to help meet the growing costs of Social Security, Medicare, as well as our other priorities such as improving educational opportunities, reducing child poverty, and addressing the war on terrorism.

FARMS AND SMALL BUSINESSES CAN BE PROTECTED WITHOUT REPEALING THE ESTATE TAX

- The USDA's Economic Research Service recently reported that the average farm household net worth ranged from \$576,400 for small farms to \$1.5 million for very large family farms. The estate tax already exempts \$1 million and rises to \$3.5 million (double for couples) and The New York Times has reported no evidence of family farmers having to pay the estate tax in Iowa. Nonetheless, the tax can easily be reformed to ensure that families can pass their farms from one generation to the next without being unfairly taxed.
- A recent Federal Reserve Survey of Small Business Finances indicates that the average net worth of small businesses is \$702,566. Only 4% of small businesses have a net worth of more than \$3.5 million, which is the amount that will be exempt from taxation before the tax is scheduled to be repealed for one year in 2010. Yet the National Federation of Independent Business has a different image of a "Mom and Pop" shop. They claim companies worth \$27 million are small businesses and should be exempt from the tax.
- Family farms and small businesses can be protected against unfair estate taxation through common sense reform and simplification. But let's not allow super-wealthy individuals who own large businesses to skip the estate tax by using family farms and small businesses as a cover.

THE ESTATE TAX IS ONE OF THE MOST PROGRESSIVE TAXES WE HAVE

- The estate tax is the federal government's only tax on accumulated wealth. It helps reduce concentrations of wealth and power. Repealing this tax will greatly widen economic inequality.
- Unrealized capital gains constitute the bulk of the largest wealth accumulations. These unrealized gains have never been taxed and without the estate tax, they would remain untaxed forever.

- The estate tax raises a good deal of money without affecting 98 percent of us, encourages charitable giving and promotes America's core economic and democratic values.
- Since appreciated wealth is only taxed by an estate tax upon inheritance or by capital gains taxes upon sale, wealth that appreciates and is passed down from generation to generation is NEVER taxed until it is sold. To avoid this result, during the year of repeal the capital gains tax law is changed to apply to appreciated wealth when it is inherited. This method was attempted before and proved so difficult (because people had to figure out the worth of the asset when it was first purchased) that it was rescinded. Ironically, the capital gains tax may cause some people to have to pay MORE than they would have under the estate tax. The estate tax is the best way to tax appreciated wealth.

ESTATE TAX RATES ARE NOT AS HIGH AS SOME BELIEVE BUT PLANNING WILL BE IMPOSSIBLE UNLESS THE TAX IS REFORMED

- A combination of permitted exemptions, deductions, and credits, together with estate planning strategies reduced in 1997 the effective tax rate, on average, to 24% of the gross value of the estate. Because of changes to the estate tax last summer, the effective rate will decline until 2009.
- Between now and 2009, there are changes made to the estate tax. In 2010 it is repealed. In 2011 it is reinstated to what it was before last summer's changes. This on-again, off-again legislating makes it impossible to do proper estate planning. Permanent reform that simplifies the tax once and for all and keeps more than 98% of taxpayers exempt is what is needed.

REPEAL JEOPARDIZES BILLIONS IN CHARITABLE GIVING THROUGH BEQUESTS AND EVEN ANNUAL DONATIONS

- Charities should be deeply concerned with the effects of repeal of the estate tax, for all of the above reasons, but also because repeal will have a significant adverse effect on the ability of nonprofits and foundations—most of which depend on charitable bequests to do their work—to raise money. Total charitable bequests of all estates amounted to more than \$16 billion in 2000.
- The deduction for charitable bequests is the second largest type of deduction taken for estate tax purposes. Only the deduction for a surviving spouse – in which an unlimited amount of money can be given – is larger. While experts differ on the exact amount, almost all of them predict that a repeal of the estate tax would significantly impact donors' willingness to make charitable bequests, potentially resulting in losses of 40% to 60% of annual bequests, as much as \$6 or \$7 billion a year.
- According to surveys, donors consistently cite tax benefits as important reasons for their charitable giving, and tax benefits are the number one reason estate planning advisors raise philanthropic giving as an issue with their clients. The original framers of the estate tax envisioned that the tax would be an incentive for wealthy individuals to plan for charitable bequests. Donors have many reasons for their charitable giving, but the estate tax is a significant incentive for giving to charities, as well as establishing foundations.
- In addition to the loss of charitable bequests, the changes to the estate tax that were passed last summer have had a substantial negative impact on state revenue. Most state treasuries benefit directly from the estate tax by "picking up" a portion of the federal estate taxes paid by estates in their state. That state tax credit is quickly being phased out, further worsening the fiscal crisis that many states are experiencing.

Americans for a Fair Estate Tax

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