



Estate Tax

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Legislation: Current Law

- ◆ The estate tax currently (2003) exempts the first \$1 million of estates per individual. This exemption level is scheduled to increase to \$3.5 million in 2009, before being fully repealed in 2010 and then reinstated in 2011.
- ◆ Currently, only about the wealthiest 2% of estates pay any tax. In 2009, the last year before repeal, less than 0.5% of estates will pay any tax, and the first \$3.5 million will be tax-free.

Pending Legislation

- Current legislative attempts for repeal aim to make permanent the 2010 repeal. Last year, the repeal passed the House, but failed to get the required 60 votes in the Senate.
- On June 18, the house passed H.R. 8 - a bill to make permanent the full repeal in 2011 and beyond - by a vote of 264 to 163.
- The Senate is expected to take up the issue later in the summer.
- In recent speeches, members of the current administration have indicated that repeal is a top priority.

Estate Tax – Arguments Against Repeal

- ◆ Fairness/Equity
- ◆ Revenue
- ◆ Charitable giving incentive
- ◆ Part of an overall fair and efficient tax system
 - Wealth
 - Catches income missed by the system
- ◆ Democratic values

Fairness

- ◆ Only about 2% of decedents pay any estate tax
- ◆ Only estates worth \$1 million pay any tax at all.
 - \$2 million for couples,
 - First \$1 million (\$2 million) is tax free,
 - Of those that do pay, average tax is only 20%.
- ◆ So, by definition, only the very wealthiest pay any tax at all...

Revenue

- ◆ Over the next decade, the repeal of the estate tax is expected to cost \$161.8 billion in lost federal revenues.
 - Total cost of a fully phased in repeal is about \$70 billion per year.
- ◆ Over the next two decades, from 2003 to 2023, the repeal of the estate tax is expected to cost nearly **\$1 trillion** in lost federal revenues.
- ◆ This is real money that would be diverted from government programs or deficit reduction.
 - Data from a National Priorities Project study shows the tradeoff in terms of foregone services.

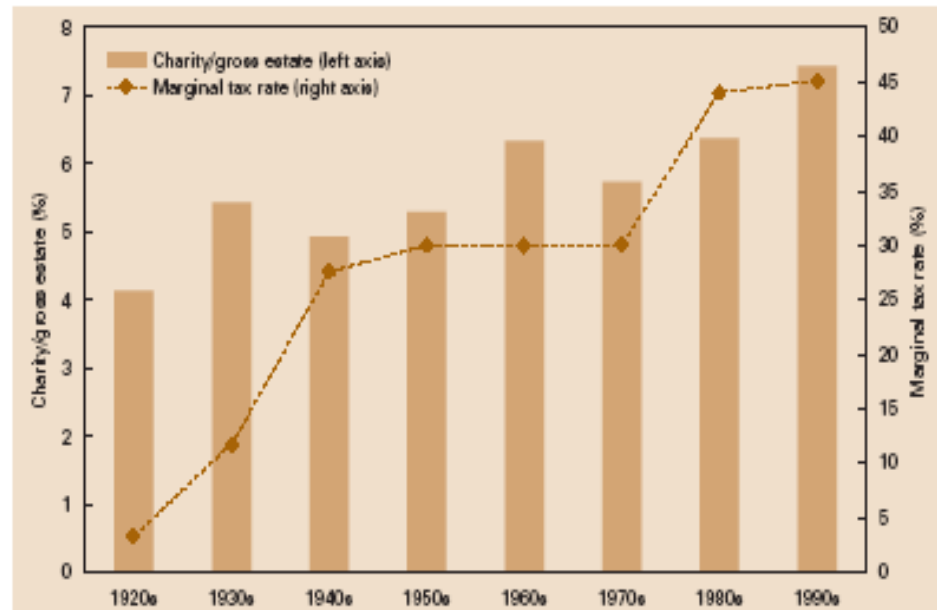
Charitable Giving (I)

- ◆ In 2001, tax records showed \$16.1 billion in charitable bequests.
- ◆ Evidence shows that people are aware of the charitable giving incentives – and that charitable giving responds to these incentives.
 - In theory, giving might increase or decrease.
 - More after-tax wealth means more giving (“wealth effect”);
 - Removal of tax incentive means less giving (“price effect”).
 - Empirical evidence derived from past changes in estate tax law shows that
 - The price effect is stronger; and hence.
 - Estate tax elimination would decrease charitable giving.

Charity / Estate tax rates

- ◆ As the estate tax rate increases, so too does the percentage of charitable giving
- ◆ Bakija/Gale uses the variation across states and across time to estimate the impact of the estate tax on charitable giving.

FIGURE 1. Charitable Bequests As a Percentage of Gross Estates versus Marginal Estate Tax Rate on Average Gross Estate, All Filers, by Decade



Source: Authors' calculations based on data from IRS Statistics of Income.

Notes: Marginal estate tax rate is a decade average of annual rates calculated at mean gross estate among all filers. Decade averages from 1950s through 1980s are based on a subset of years for which data was available.

Charitable Giving (II)

- ◆ Bakija and Gale (2003) shows the nationwide impact is substantial:
 - **\$10 billion** per year in lost charitable giving if there were no estate tax in 2001.
 - About ½ is due to lost bequest giving,
 - About ½ is due to reductions in annual giving by those likely to be subject to the tax.
 - Equivalent to the total combined giving of the top 110 US foundations – every year!

Charitable Giving (III)

- ◆ Irons (2003, OMB Watch) shows the state-level impacts of this reduction.
 - \$187 billion per state on average.
 - Larger states would lose significantly more.

State-by-State Impact

- New York would have lost the most from an estate tax repeal in 2001 – nearly \$1.5 billion – and Wyoming would have lost the least at just \$5 million.

Table 1. State-by-State Impact of the Estate Tax Repeal on Charitable Bequests (2001, Dollars in Millions)

State	Number of Organizations (filing IRS Form 990 in 2000) ⁶	Total Bequests ⁷	Loss in Bequest Giving (Range) ⁸	Total Loss (Annual Giving plus Bequest Giving) ⁹
US Totals	246,112	\$16,200.0	\$3,564 - \$5,994	\$9,558
Alaska	1,021	27.8	6.1 - 10.3	16.4
Alabama	2,839	118.3	26.0 - 43.8	69.8
Arizona	3,307	168.4	37.0 - 62.3	99.3
Arkansas	1,914	103.4	22.7 - 38.2	61.0
California	28,499	1,732.4	381.1 - 641.0	1,022.1
Colorado	4,780	162.5	35.8 - 60.1	95.9
Connecticut	4,100	325.7	71.6 - 120.5	192.1
DC	3,285	290.3	63.9 - 107.4	171.3
Delaware	921	45.7	10.1 - 16.9	27.0
Florida	10,040	566.3	124.6 - 209.5	334.1
Georgia	5,182	359.3	79.0 - 132.9	212.0
Hawaii	1,223	82.6	18.2 - 30.6	48.7
Idaho	942	23.4	5.1 - 8.7	13.8
Illinois	10,058	759.7	167.1 - 281.1	448.2
Indiana	5,324	369.6	81.3 - 136.7	218.1
Iowa	3,095	137.3	30.2 - 50.8	81.0
Kansas	2,631	104.2	22.9 - 38.6	61.5
Kentucky	2,914	163.7	36 - 60.6	96.6
Louisiana	2,668	133.9	29.5 - 49.5	79.0
Maine	1,787	92.1	20.3 - 34.1	54.4
Maryland	5,425	367.1	80.8 - 135.8	216.6
Massachusetts	8,347	847.0	186.3 - 313.4	499.7
Michigan	7,498	551.8	121.4 - 204.2	325.5
Minnesota	5,834	333.3	73.3 - 123.3	196.7
Missouri	4,883	345.0	75.9 - 127.7	203.6
Mississippi	1,480	68.8	15.1 - 25.5	40.6
Montana	1,347	41.0	9.0 - 15.2	24.2
Nebraska	1,941	107.2	23.6 - 39.7	63.3
Nevada	950	23.2	5.1 - 8.6	13.7
New Hampshire	1,584	86.6	19.1 - 32.0	51.1
New Jersey	6,847	507.5	111.6 - 187.8	299.4
New Mexico	1,792	49.6	10.9 - 18.3	29.2
New York	18,985	2,470.9	543.6 - 914.2	1,457.8
North Carolina	6,676	357.2	78.6 - 132.2	210.7
North Dakota	902	63.7	14.0 - 23.6	37.6
Ohio	10,926	626.6	137.9 - 231.8	369.7
Oklahoma	2,665	117.1	25.8 - 43.3	69.1
Oregon	3,966	131.2	28.9 - 48.5	77.4
Pennsylvania	12,322	999.6	219.9 - 369.9	589.8
Rhode Island	1,414	99.3	21.8 - 36.7	58.6
South Carolina	2,562	107.6	23.7 - 39.8	63.5
South Dakota	932	51.5	11.3 - 19.1	30.4
Tennessee	4,141	252.3	55.5 - 93.4	148.9
Texas	13,622	641.0	141.0 - 237.2	378.2
Utah	1,188	58.6	12.9 - 21.7	34.6
Virginia	6,783	394.5	86.8 - 146	232.7
Vermont	1,244	52.9	11.6 - 19.6	31.2
Washington	5,719	286.7	63.1 - 106.1	169.2
West Virginia	1,585	85.9	18.9 - 31.8	50.7
Wisconsin	5,358	301.3	66.3 - 111.5	177.8
Wyoming	664	7.7	1.7 - 2.8	4.5

Charitable Giving (IV)

- ◆ Demands for services are increasing
- ◆ Revenues are decreasing
 - Stock market weakness
- ◆ At a time when the nation is relying even more heavily on charities, the impact from an estate tax repeal would place yet another burden on the charitable organizations that serve us so well.

Charitable Giving (V)

- ◆ In addition, eliminating the estate tax would
 - Convey the message that charitable giving at death is no longer encouraged.
 - Remove the incentive for estate planning – a point at which many donors are “introduced” to charities.
 - Eliminate a major “selling point” for charities.

Fair Tax System (I)

- ◆ The tax system ought to observe basic principles of fairness
 - Those that can pay more, should pay more
 - Wealth is a good indicator (in addition to income) of who can afford to pay taxes – the estate tax is the only major wealth tax at the federal level.
 - Those that benefit more, should pay more
 - The super-wealthy, in particular, have benefited from American capitalism and the protections/services of the US government.
 - "The man of great wealth owes a peculiar obligation to the State because he derives special advantages from the mere existence of government." – Teddy Roosevelt

Fair Tax System (II)

- ◆ Some wealth accumulation has escaped taxation...
 - Much of wealth is in the form of unrealized capital gains, and has thus avoided taxation.
 - Tax loopholes, accounting gimmicks, etc., exempts some income from taxation.
- ◆ Far from a “double tax” the estate tax is often the first and only tax on some income.

Democratic Values

- ◆ “Such inherited economic power is as inconsistent with the ideals of this generation as inherited political power was inconsistent with the ideals of the generation which established our government.”
- Franklin D. Roosevelt
- ◆ With the increasing importance of money the political system, inherited economic power often translates into inherited political power – an idea explicitly rejected by our country’s founders.

Farms/Small Businesses (I)

- ◆ The most common argument for repeal is that family farms and small businesses are forced into sale because of the tax.
 - Given the high exemption rate and special provisions for farms and businesses, only a very, very small number of business owners or farmers are forced to sell because of the tax.
 - “In 1998, family-owned businesses or farms formed the majority of the estate in just 1,418 taxable estates out of the approximately 2.3 million people who died that year — or six out of every 10,000 people who died.” (CBPP)
 - Estate planning (life insurance) minimizes the burden
 - Business and farms are sold for many reasons
 - Most family farms/small business are not worth \$1 million!
 - Special Provisions for (e.g. payments made over 14 years, special valuation, etc.)

Farms/Small Businesses (II)

- ◆ No one wants to force the sale of viable farms and businesses, but reasonable reform can accomplish the goal of protecting farms and small businesses while maintaining the ideals of the estate tax. The National Farmers Union, for example, has spoken out against repeal and for reasonable reform.
- ◆ “To use the easily handled problems of family farmers and small-business owners as justification for repealing the entire tax, thereby giving an enormous tax cut to a few extremely wealthy households, is simply dishonest demagoguery.” Henry Aaron, Brookings Institution.

Reform, Not Repeal

- ◆ At various times, options for reform have been proposed. The most common element of reform is an increase in the exemption level.
- ◆ One reform option - the Pomeroy amendment, which would raise the exemption level to \$3 million and thus exempt 99.7% of all estates from the tax – was defeated this year.



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Estate Tax Resources

- ◆ FairEstateTax.org
 - Clearinghouse: Nonprofit organizations letters to congress and policy statements
- ◆ UFE/Responsible Wealth
- ◆ National Priorities Project (Trade-offs)
- ◆ OMB Watch
 - Email lists
 - Also, other non-profit resources (NPAction.org)