

## Estate Tax: Fact Sheet

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“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

"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

### Did you know...

- Currently, only about the wealthiest 2% of estates pay any tax at all, and the first \$1 million per individual (\$2 million per couple) is tax-free. Of those that pay, the average tax payment is only 20% of the estate.
- If repealed, there would be billions in lost federal tax revenues.
  - Over \$900 billion in lost revenue over 20 years.
  - The deficit is already projected to be a record \$400 billion in 2003 – someone must pay for this addition to the debt.
  - There are vital national priorities that will require funding in the near future – including prescription drug benefits, social security reform, education priorities, and many others.
- The estate tax includes an unlimited deduction for charitable giving, thus providing a valuable incentive to donate to charity.
  - Best estimates say that a repeal would cost charities \$10 billion per year in lost charitable giving – this would be potentially devastating to the charity community.
- Much of the wealth taxed by the estate tax is from capital appreciation – money that has escaped the current tax system (so it’s not “double taxation”).
- 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. (That’s 0.06% !)
- Democrats have offered reform options that would exempt all but 99.65% of estates from taxation.
  - The changes would take place next year rather than in 8 years.

## Legislative Background

- The estate tax is currently scheduled to slowly phase-out over the next 7 years. The exemption level – the amount under which an estate owes no tax - is currently \$1 million per individual, and is scheduled to rise to \$3.5 million in 2009, before being repealed in 2010, and then reinstated in 2011.
- The House of Representative recently passed a permanent extension of the repeal (for 2011 and beyond). The Senate will likely vote on this issue soon.
- Democrats have offered reform options that would exempt all but 99.65% of estates from taxation. Yet most Republicans will not vote for reform, and insist on full repeal.

## Arguments to preserve the estate tax

1. Basic fairness – the estate tax is an important part of a fair and equitable tax system. It is not too much to ask the super-wealthy to pay their fair share.
2. Democratic values – a permanent “wealth class” is not good for the American system where everyone is supposed to have equal opportunity.
3. Revenue – the repeal would cost over \$60 billion a year, and over \$900 billion over the next 20 years! And this comes at a time when the national deficit is a record \$400 billion, and we are looking to fund vital national priorities such as prescription drug benefits, social security reform, education, and many others.
4. Charitable giving – the estate tax allows unlimited deductions for charitable giving. Repealing the estate tax would cost charities \$10 billion per year.

## Argument for repeal

The primary argument used by Congressional Republicans in favor of a repeal is that small farmers and small business owners are overly burdened by the tax and are forced to sell their assets as a result of the tax and the death of the owner. Given the high exemption rate and special provisions for farms and businesses, only a very small number of business owners or farmers are forced to sell because of the tax.

Henry Aaron of the Brookings Institution put it well: “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.”

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.