



## **OMB Watch Statement for Senate Finance Committee Hearing on the Uncertainty of Planning under Estate Tax Law**

**November 13, 2007**

OMB Watch is a nonpartisan watchdog organization that has been advocating for the past 25 years for federal fiscal policies that are fair, responsible, and meet our nation's needs and priorities. We thank the Senate Finance Committee for holding this hearing on uncertainties encountered in planning for the estate tax under current law and for the opportunity to submit our views on the issues.

The federal estate tax has long been and remains an important source of revenue for the federal government. It is also among the fairest and most progressive of the taxes in the code, paid by a small fraction of one percent of the wealthiest estates in the country. The estate tax also provides a significant incentive for charitable giving in this country, as 100 percent of charitable bequests are exempt from the tax. Recent studies have shown nearly \$10 billion in charitable giving would be lost annually should the tax be repealed. Finally, and perhaps most importantly, it represents a bulwark against the kind of concentrations of wealth among a small number of the very richest families in our country and the formation of oligarchies that would threaten the nation's deeply held commitment to social and economic mobility and equality of opportunity.

The current schedule of rates and exemptions under estate tax law includes an anomaly that was created when the Bush tax cuts of 2001 were passed into law. The law slowly phased in gradual decreases in the estate tax rate and gradual increases in the deduction through 2009 – and then suddenly eliminated the tax entirely in 2010. In 2011, estate tax law reverts to pre-2001 levels.

We will no doubt hear today about some of the frustrations relating to planning around this anomalous schedule. We share taxpayers' and tax preparer's dismay about this schedule, which may have reflected a cynical effort at the time this reform was adopted to force Congress and the nation into the position of having to consider abandoning the estate tax for good. Yet these small frustrations are fixable, and do not necessitate the abandonment of the estate tax, or drastic reform that would deplete its revenues.

Repeal or drastic reform of the estate tax is unacceptable both from a tax equity perspective and also from a fiscal perspective. Making permanent the repeal of the estate tax after 2010 would add more than \$1.1 trillion to the deficit between fiscal years 2012 and 2021, according to the Center on Budget and Policy Priorities. Such a major disruption in resources would create havoc for federal fiscal planners, putting increased pressure on an already strapped federal budget. Such a large

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increase in deficits and debt is unacceptable considering less than one percent of all Americans ever pay any estate taxes.

Because of the unusual estate tax law passed in 2001, we believe Congress should take action to enact a steady, consistent estate tax schedule sometime in advance of 2010. This would do two important things: one, it would resolve the planning difficulties faced under current law by parties on all sides; two, it would obviate the need to consider the future of the estate tax at the last minute, before the law reverts back to pre-2001 levels.

OMB Watch favors an estate tax regime without any of the anomalies, gimmicks, and trap doors embedded in the current law. We strongly believe estate tax reform must not exacerbate the national deficit or force otherwise unnecessary and less progressive tax increases – there are certainly ways to structure a reform that is revenue neutral. We also believe it is crucial for any reform to maintain the important incentive for charitable giving present in the estate tax and honor the national commitment to social and economic mobility and equality of opportunity.

While we have strong views on the issue of the estate tax, we also believe there are more immediately serious tax and budget issues this Congress and the succeeding one must come to grips with, starting with the simple enactment of a federal budget for the current fiscal year. Thereafter, addressing the problems caused by a growing Alternative Minimum Tax, expanding both the Child Tax Credit and Earned Income Tax Credit for working families, providing health care for uninsured children, and closing corporate tax loopholes and offshore tax havens would all be more crucial to address than the estate tax, both in terms of the number of citizens who would be impacted under those policies as well as from a revenue perspective.

We hope the Finance Committee and entire Senate will not lose sight of the fact the estate tax impacts a tiny minority of Americans, yet provides a multitude of benefits for our country. While we agree a more permanent reform is required because of the structure of the 2001 law, this action is necessary only sometime before 2010. With that in mind, we want to reiterate that any reasonable estate tax reform must be fiscally responsible, contain incentives for charity, and continue our country's commitment to social and economic mobility and equality of opportunity. It is possible to make small changes to estate tax law that would not significantly impact revenues or eliminate charitable incentives that could alleviate many of the concerns the 2001-law has created – many of the concerns likely to be heard at this hearing. We believe a rush to pass a reform quickly without proper consideration for and adherence to these important factors would be a mistake.