

99.8 PERCENT OF ESTATES DO NOT PAY THE ESTATE TAX

Nothing is more morally repugnant in Washington than lawmakers and lobbyists battling to prevent multi-million dollar estates from having to pay a modest amount in taxes, even as the very rich propose to reduce the deficit on the backs of the most vulnerable Americans. The estate tax, which only affects the super-wealthy, is an important source of federal revenue, encourages billions of dollars in charitable donations each year, and is a means to make the tax system modestly progressive so that the wealthy pay a fairer share of taxes.

Congress faces a critical choice with respect to the estate tax in 2013. If it does nothing the current estate tax, which assesses a 35 percent tax on the value of estates *over* \$10.2 million per couple (\$5.1 million per individual), is repealed. It then reverts to the Clinton-era level, which would tax the value of estates *over* \$2 million per couple (\$1 million per individual) at a 55 percent rate.¹

President Obama has proposed a modest increase in the current estate tax by returning it to the 2009 level, which would tax the value of estates *over* \$7 million per couple (\$3.5 million per individual) at a 45 percent rate. This would generate \$120 billion in new revenue over 10 years (and another \$20 billion in interest savings) compared to the current estate tax.²

Americans for Tax Fairness supports a more robust estate tax than the 2009 level. But, given political realities in Congress, at a minimum the 2009 estate tax rules proposed by Obama should be adopted for the following reasons:

- 1. 99.8 percent of estates do not pay the current estate tax. Just 0.15 percent of estates less than 2 out of 1,000, or 3,300 estates total will pay the estate tax in 2012, according to the Tax Policy Center (TPC).³ Under Obama's plan just 3 out of 1,000 estates 0.25 percent of estates, or 6,400 estates total would owe any estate tax.⁴
- 2. No tax is paid today on estates worth up to \$10.2 million per couple. Before any tax is calculated, \$10.2 million per couple (\$5.1 million per individual) is excluded, and all amounts bequeathed to a spouse or a charity is excluded. Under Obama's plan, an estate worth up to \$7 million from a couple (\$3.5 million from an individual) could be passed to heirs tax free. For those few estates that would be taxed under Obama's plan, the effective rate (after deducting for exemptions) would be 19.1 percent, 5 up from 14.5 percent in 2012., according to TPC6
- 3. Obama's slightly higher estate tax will raise \$120 billion for deficit reduction and to protect the middle class. Lawmakers are struggling to find ways to reduce the deficit and fund new priorities in the fairest way possible while causing the least amount of pain. At the 2009 level, the estate tax would raise \$120 billion over 10 years (\$141 billion counting interest savings), which could be used for deficit reduction or to prevent harmful budget cuts. For example, House Speaker John Boehner wants to adopt a less-generous inflation adjustment for Social Security, called the "chained CPI," which would cut benefits by \$112 billion over 10 years. In

effect, Congress can provide heiresses like Paris Hilton with a wealthier retirement, or it can protect the retirement benefits of millions of low-income seniors.

- 4. Few family farms or small businesses pay the estate tax. Just 30 small, family-owned farms or businesses (with assets valued at no more than \$5 million) will pay the estate tax in 2013, according to the TPC. And just 60 would be subject to the estate tax under President Obama's plan. (Based on some different assumptions, the Joint Committee on Taxation puts the numbers at 300 under current law and 700 under Obama's plan, in 2013 respectively. (Because there are special rules allowing small, family-owned farms and businesses to spread estate tax payments over 15 years if they do not have sufficient liquid assets to pay what they owe, few or none would need to be sold because of the estate tax.
- 5. The estate tax encourages charitable giving. Because donations to charity are not subject to the estate tax, it encourages wealthy individuals to donate large sums through charitable bequests in their wills. Repealing the estate tax would reduce such bequests by 16-28 percent, according to the Congressional Budget Office. Returning to higher estate tax levels would increase charitable giving.
- 6. It's time for super-wealthy families to pay their fair share. Today, the richest 1 percent holds 35 percent of the nation's wealth and the bottom 90 percent owns just 23 percent. America has not seen such an accumulation of wealth by so few since the Gilded Age. Continuing the current low estate tax will only worsen the inequities. A modestly higher estate tax would still honor a parent's desire to pass along most of their estate to the next generation while contributing their fair share to the common good.

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¹ Center on Budget and Policy Priorities (CBPP), "Senate and House GOP Leaders' Tax Proposals Would Provide Windfall for Heirs of Largest Estates," July 24, 2012. http://www.cbpp.org/cms/index.cfm?fa=view&id=3810

² CBPP, "Myths and Realities About the Estate Tax," Nov. 5, 2012, p. 2. Of the \$141 billion, \$119 billion is from the higher estate tax and \$22 billion is from savings from reduced interest costs on the debt. http://www.cbpp.org/files/estatetaxmyths.pdf
³ Based on Urban-Brookings Tax Policy Center (TPC), Table T11-0156 June 2, 2011. Calculation is 3,300 taxable returns out of 2,636,000 deaths = 0.13%. http://www.taxpolicycenter.org/numbers/displayatab.cfm?DocID=3037

⁴ Ibid. Calculation is 6,400 taxable returns out of 2,636,000 deaths = 0.25%.

⁵ TPC, Table T11-0161, June 2, 2011. See Taxable Returns (All) – Average Tax Rate. http://www.taxpolicycenter.org/numbers/displayatab.cfm?DocID=3042

⁶ TPC, Table T11-0164 June 6, 2011. See Extending 2011 Law – Average Estate Tax Rate for Taxable Returns. http://taxpolicycenter.org/numbers/displayatab.cfm?Docid=3045

The Washington Post, Dec. 3, 2012. http://www.washingtonpost.com/politics/2012/12/03/694dbc1e-3d84-11e2-a2d9-822f58ac9fd5 story.html

⁸ Congressional Budget Office (CBO), Reducing the Deficit: Spending and Revenue Options, March 2011, p. 58.

http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/120xx/doc12085/03-10-reducingthedeficit.pdf ⁹ The figure for 30 small, family-farms and businesses is at TPC, Table T11-0160, p. 2, June 2, 2011.

http://www.taxpolicycenter.org/numbers/Content/PDF/T11-0160.pdf. The figure for 60 small-family farms and businesses is at TPC, Table T11-0161, p. 2, June 2, 2011. http://www.taxpolicycenter.org/numbers/Content/PDF/T11-0161.pdf.

¹⁰ Joint Committee on Taxation, "Modeling the Federal Revenue Effects of Changes in Estate and Gift Taxation," Table A4., Nov. 9, 2012, p. 41. https://www.jct.gov/publications.html?func=startdown&id=4492

¹¹ CBPP, "Myths and Realities About the Estate Tax," http://www.cbpp.org/files/estatetaxmyths.pdf

¹² CBO, The Estate Tax and Charitable Giving, 2004, p. 8.

 $[\]underline{http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/56xx/doc5650/07-15-charitable giving.pdf.}$

¹³ Economic Policy Institute, *The State of Working America*, 12th Edition, 2012, (Table 6.1), p. 379. http://stateofworkingamerica.org/subjects/wealth/?reader