

Statement of Principles on Estate Tax Legislation

Our nation desperately needs revenue to invest in education, health, nutrition, and other priorities to promote a competitive workforce and ensure opportunity for every American. Only one-third of working adults have a college degree. One out of three Americans lacked health insurance at least once over the last couple years. Poverty, joblessness, and home foreclosures are harsh realities for millions of Americans.

We are told over and over again that increased investments in the American people are not affordable because the federal budget deficit is too great. And yet, Congress has gradually eliminated an important revenue source that can help fund these priorities and reduce the budget deficit.

Through a period of war, natural disaster, and now the worst economic downturn since the Great Depression, the Bush Administration and Congress set in place the gradual elimination of the federal estate tax. Since 2001, the tax was cut to exempt more and more estates so that in 2009, only one-quarter of one percent of all estates in the U.S. were expected to pay the tax. In 2009, only individuals with estates worth more than \$3.5 million (\$7 million for married couples) were subject to the tax. In January 2010, the estate tax was completely eliminated for one year.

The federal estate tax has been repealed for 2010 and under current law will reappear in 2011. Congress must permanently reinstate the estate tax for 2010 and subsequent years because it serves these crucial purposes:

- **The estate tax raises revenue that we need to invest in the American people.** When Congress enacted the gradual repeal of the estate tax in 2001, it did not want to own up to the enormous cost of full repeal, which would exceed **\$800 billion** over ten years. Therefore, after a year of outright repeal in 2010, the legislation calls for the estate tax to return to its old levels starting in 2011. Supporters of the Bush estate tax repeal assumed in 2001 that Congress would not allow the tax to be reinstated. Now that repeal has taken effect, Congress must take a hard look at the damage it is inflicting. Continuing the repeal will deepen the budget deficit by about \$800 billion between 2012 and 2021. Keeping the estate tax at its 2009 level will cost about \$400 billion over ten years.
- **The estate tax ensures that families who have benefited the most from public goods pay their fair share to maintain them.** Families that have accumulated massive fortunes in America could not have done so without the infrastructure, educated workforce, stability and other public benefits that taxes make possible. Society only works when *everyone* contributes to the common good.
- **The federal estate tax provides a check on the concentration of power in the hands of those born into great wealth.** Such a concentration of power is contrary to American values and democratic principles. This is a growing problem today, as

hard-working Americans are finding fewer opportunities for success because education and other paths to advancement are increasingly out of reach. The United States now has the greatest concentration of wealth in the hands of the rich in nearly a century. As billionaire Warren Buffett reminds us, “Without the estate tax, you in effect will have an aristocracy of wealth, which means you pass down the ability to command the resources of the nation based on heredity rather than merit.”

- **The estate tax corrects a feature of our tax system that would otherwise allow certain income to escape taxation entirely.** Over half the value of inherited estates is capital gains income that has *never* been taxed. Most large estates include assets such as real estate, stocks or bonds. Any increase in the value of these assets is capital gain income that would be subject to the income tax if they were sold during the owner’s lifetime. However, this income is not subject to the income tax if the owner dies and leaves it to an heir.
- **The estate tax encourages charitable giving.** The estate tax is not imposed on assets bequeathed to charity. Many wealthy individuals take advantage of this unlimited deduction for charitable giving. In 2004, the Congressional Budget Office estimated that if the estate tax had not existed in 2000, charitable donations would have been \$13-\$25 billion lower that year.

Despite claims to the contrary, the estate tax does NOT affect the vast majority of small businesses and family farms. The Brookings/Urban Institute Tax Policy Center estimates that in 2009, only eighty small business and small farm estates *nationwide* owed *any* estate tax, and these estates paid an average tax of only 14 percent. This has not stopped estate tax opponents from spending millions in lobbying and advertising claiming that the estate tax hurts small businesses and family farms. This is simply a ruse to convince average Americans to support another massive tax cut for the wealthy that they would otherwise reject.

We call on Congress and the President to take the following steps when addressing the estate tax:

- 1. Exempt no more than the first \$2 million (\$4 million for married couples) of assets in an estate.**

A \$2 million per-spouse exemption for the estate tax was in effect from 2006 through 2008. This shielded over 99 percent of the estates of people who died during those years from taxation. A \$2 million per-spouse exemption is also twice as large as the exemption that takes effect in 2011 under current law.

- 2. Set a tax rate of no less than 45 percent for the taxable portion of estates, with an additional 10 percent tax on the taxable portion exceeding \$10 million.**

The taxable portion of an estate includes assets in excess of the exemption, and it excludes any assets bequeathed to a spouse or charity. Therefore, even if the taxable portion of an

estate is taxed at a statutory rate of 45 percent, the *effective* tax rate on the entire estate, i.e. how much is actually paid, is much lower.

A fundamental tenet of a fair tax system is that those who have the greatest ability to pay should pay a larger share. Great wealth is the best indicator of ability to pay. The estate tax should continue to target the very wealthy, and the largest estates should be taxed at a higher rate.

3. Restore a credit for state estate and inheritance taxes.

The credit for state estate and inheritance taxes was gradually repealed under the tax cut legislation enacted in 2001, but will reappear in 2011. This credit allows states to share in estate tax revenues without having to administer a separate state tax.

Before the 2001 estate tax cuts were enacted, all 50 states had a tax on estates or inheritances. Many of these taxes have since disappeared because they were tied to the credit in the federal estate tax. Currently, only 20 states have such taxes. This is particularly problematic now, as this loss of tax revenue contributes to the severe budget shortfalls that many states are facing.

4. Simplify the estate tax.

The estate tax should be simplified in two ways. First, the gift tax, estate tax, and generation-skipping transfer taxes should be “reunified,” so that transfers made during the lifetime or at death are subject to the same rules, exemptions, and tax rates. This will ensure tax fairness and reduce the need, and incentive, for complicated tax planning.

Second, the estate tax should allow for the “portability” of any unused estate tax exemption from one spouse to another. If one spouse dies without using his or her entire \$2 million exemption, the unused portion should automatically transfer to the surviving spouse. This would greatly simplify estate tax planning for many Americans and avoid the need to split up and re-title assets or set up complicated trusts. It also would eliminate situations in which some families have to pay the estate tax just because they failed to plan for it.

Initial Organizational Signatories

- AFL-CIO
- AFSCME
- Chicago Political Economy Group
- Citizens for Tax Justice
- Coalition on Human Needs
- Friends Committee on National Legislation
- Institute for Policy Studies’ Program on Inequality and the Common Good
- National Community Tax Coalition
- National Women’s Law Center
- NETWORK: A National Catholic Social Justice Lobby
- OMB Watch
- Public Citizen
- Responsible Wealth
- RESULTS
- Tax Fairness Oregon
- U.S. PIRG
- United for a Fair Economy
- USAction
- Wealth for the Common Good