

TALK OF 'REFORM' Estate Tax Debate Should Recognize Big Breaks

WHERE WE ARE

Already, significant and growing exemptions from the estate tax are on the books. Some in Congress are pushing to permanently repeal the estate tax, and others are pushing for “reforms” that are tantamount to repeal. Breaks put in place so far have targeted estates that, while sizeable, are smaller relative to the wealthiest affected by the estate tax. These exemptions are scheduled to expand — and are proposed to expand even further — in ways that will exclusively help the extremely rich at the same time the national debt is climbing.

HOW WE GOT HERE

Current law is the result of changes that were passed in 2001 and are set to expire in 2011. Before the changes, the exemption for estate tax was \$675,000, with a top rate of 55 percent.¹

- In 2002 – exemption rose to \$1 million (\$2 million/couple); top rate of 50 percent (49 percent in 2003).
- In 2004 – exemption rose to \$1.5 million (\$3 million/couple); top rate of 48 percent (47 percent in 2005).
- In 2006 – exemption is now at \$2 million (\$4 million/couple); top rate of 46 percent (45 percent in 2007).
- In 2009 – exemption will rise to \$3.5 million (\$7 million/couple); top rate of 45 percent.
- In 2010 – the estate tax will be temporarily repealed.
- In 2011 – current law expires, reverting to pre-2001 law – exemption of \$1 million; top rate of 55 percent.

WHAT'S BEING PROPOSED

There are two proposals expected to receive consideration in the U.S. Senate the week of June 5.

- ***Full repeal of the federal estate tax***

This would extend repeal scheduled for 2010. The cost: \$1 trillion over the first 10 years (2012-2021). This includes \$776 billion in revenue loss and \$213 billion in interest payments on the debt.²

- ***A “reform” proposal that is much like repeal***

This proposal, by Sen. John Kyl of Arizona, would drop the estate tax rate from 45 percent to 15 percent, and raise the exemption to \$5 million (\$10 million for a couple). The cost: 84 percent as much as repeal.³

A DOSE OF PERSPECTIVE ON COSTS AND BENEFICIARIES

- ***Revenues:*** If the estate tax were made permanent at its scheduled exemption of \$3.5 million in 2009, it would lose only 40 percent of the cost of full repeal — less than half of the revenue loss of the Kyl proposal.⁴
- ***Benefits:*** Ninety-seven percent of the benefits of moving from the 2009 law to the Kyl “reform” proposal would go to the wealthiest estates — those valued at \$5 million or above.⁵

WHY IS THIS COMING UP NOW?

- Neither the repeal nor “reform” proposals would change the law until 2011. If there is concern about what will happen in 2011, there is no policy urgency for a vote in 2006 and there is plenty of time for careful consideration of alternatives to those two plans.

¹ Joint Committee on Taxation. See Congressional Budget Office, <<http://www.cbo.gov/ftpdocs.cfm?index=5650&type=1>>.

² Friedman, Joel. Center on Budget and Policy Priorities (CBPP), May 31, 2006. <<http://www.cbpp.org/5-31-06tax.htm>>

³ Joint Committee on Taxation. See CBPP, <<http://www.cbpp.org/5-31-06tax.htm>>.

⁴ Cost here is defined as the difference between the revenues expected with the larger exemptions and revenues expected without the 2001 changes.

⁵ Urban-Brookings Tax Policy Center. See CBPP <<http://www.cbpp.org/5-31-06tax.htm>>.