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CONTACT: Mike Owen (319) 338-0773, ipp@Lcom.net

Estate Tax: Impacts Big and Small Report Shows Fiscal Importance, But Minimal Household Effects

IOWA CITY, Iowa (Dec. 3, 2008) – For the fourth year in a row, fewer than 1 percent of estates in Iowa were affected by the federal estate tax in 2007, according to a new analysis.

A new report from the nonpartisan Citizens for Tax Justice (CTJ) shows state-by-state impacts of the estate tax, which has dropped steadily over this decade and is the target of several “reform” efforts. Debate is expected in 2009 in Congress on the tax, which applies to large transfers of wealth between generations of a family, largely income that has never been taxed.

“Cuts in the estate tax benefit only the extremely wealthy, while leaving everyone else with mountains of debt,” said Peter Fisher, research director for the Iowa Policy Project (IPP). “The wealthy who pay estate tax are benefiting from enormous exemptions that shield millions of dollars from tax, even if that income has not been taxed before.”

In Iowa, according to the study, the percentage of Iowa estates owing tax fell from 0.9 percent in 2004 to 0.6 percent in 2005, moving back to 0.9 percent in 2006 and dropping again to 0.6 percent in 2007. This translates to 158 affected estates in 2007, down from 237 the year before.

“The tax cuts since 2001 have reduced revenues significantly, a major contributor to record federal deficits and a national debt topping \$9 trillion even before recent moves to cope with the national financial crisis. This is an enormous bill to hand generations just entering the work force, and their children,” Fisher said.

The 2001 legislation resulted in a gradual phaseout of the estate tax, to one year of full repeal in 2010, before reverting to pre-cut levels of a \$1 million exemption (\$2 million per couple), and a top rate of 55 percent. The current tax exempts the first \$2 million (\$4 million per couple), at a top rate of 45 percent.

In 2009, the exemption is scheduled to rise to \$3.5 million (\$7 million per couple), with a top rate remaining at 45 percent. Some reform proposals call for freezing the 2009 law in place permanently, which some view as a compromise to the one-year repeal and the restoration of pre-2001 law.

According to the report, few estates were affected in Iowa even before the tax cuts took effect. CTJ’s data, from the IRS and the Centers for Disease Control and Prevention, indicate that only 2 percent of Iowa estates in 2000 were affected, and only 2.2 percent in 2002.

The report is available on the CTJ website at www.ctj.org/pdf/estatetax20081203.pdf.

The Iowa Policy Project (IPP) is a nonpartisan, nonprofit policy research and analysis organization. IPP reports on environmental and energy policy, job and economic opportunity trends, and budget and tax issues, are available at www.iowapolicyproject.org.