

Preserving the Estate Tax

The federal estate tax is one of our most progressive sources of revenue and a critical tool in the fight against rising wealth inequality. Congressional legislation has significantly eroded the tax over the years, and now it is levied on only the wealthiest 0.2% of estates, meaning that 99.8% of estates will have no federal estate tax liability. The estate tax should be not only preserved but restored to a historical level to increase revenues and ensure more progressivity in the tax system.

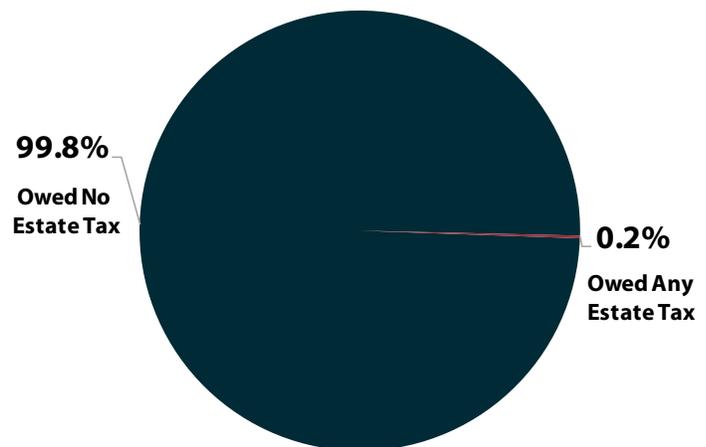
Current Estate Tax Parameters

- For 2016, the first \$5.45 million of an estate is exempted. For married couples, the exemption is \$10.9 million. These levels are indexed to inflation.
- Deductions are allowed for funeral expenses, charitable donations, transfers to surviving spouses, and state inheritance or estate taxes paid.
- The tax rate is set at 40 percent.
- Special rules are in place to minimize hardship for family-owned businesses and farms, including the ability to make payments over 14 years and the option to value a property according to its current use rather than its market value.

Estate Tax Facts

- The number of estates currently subject to the tax today has shrunk to 0.2 percent; 2.2% were affected in 2000; and in 1970, 5.2% of estates were affected.
- In 2015, the effective federal estate tax rate was 20.5%, far lower than the 40% statutory rate.
- In 2013, only an estimated 20 small farms and businesses (valued between \$5 million and \$10 million) were subject to the tax.
- Without the estate tax, capital gains income on assets held until death would go completely untaxed due to the “stepped-up basis” loophole in the income tax code.

Barely Any Estates Paid a Penny of Estate Taxes in 2015



Source: IRS SOI and Center for Disease Control Data

Recommendations

- Oppose the repeal of the estate tax.
- Support efforts to broaden the base by lowering exemptions, such as restoring the \$3.5 million exemption in effect in 2009, as in President Obama’s 2017 budget proposal and Senator Bernie Sanders’ Responsible Estate Tax Act.
- Support the elimination of stepped-up basis and other loopholes.

For more information, see ITEP’s full report on the estate tax at: http://www.itep.org/itep_reports/2016/12/the-federal-estate-tax-a-critical-and-highly-progressive-revenue-source.php