

## REALITY: DEATH & TAXES — II

### Facts for the Estate Tax Debate

Myths surrounding the application of the estate tax are so prolific that they can overshadow reality. These backgrounders focus on what we know is true, or offers the best understanding, about the estate tax. Many opinions about the estate tax result from a misunderstanding of whom it would affect.

#### TYPICAL ESTATE IMPACTS

**REALITY: Current law holds generous exemptions for inherited wealth, so very few estates pay any estate tax.**

- In 2006, roughly 99.5 percent of estates pay no estate tax at all, because the first \$2.0 million of the value of any estate (\$4.0 million for a couple) is totally exempt from the tax. (Urban Institute-Brookings Institution Tax Policy Center) That means estate tax will be owed by the estates of only 5 out of every 1,000 people who die.
- Further, the exemption level is scheduled to rise to \$3.5 million (\$7 million for a couple) in 2009 under current law. At this level, tax is only owed by the estates of only 3 of every 1,000 people who die.

**REALITY: Even estates that owe tax keep multimillion-dollar exemptions.**

- Estate taxes only apply above the exemption level for an estate, not on the entire estate. For example, at today's \$2.0 million exemption level, a \$2.5 million estate would owe estate taxes on \$500,000 at most. Other deductions, such as those for charitable bequests and state estate taxes paid, can shield much of the estate's remaining value from taxation.

**REALITY: Those that pay generally pay less than 20 percent of the estate value in taxes.**

- Although the top estate tax rate today is 46 percent, the "effective" rate — the percentage of the estate actually paid in taxes — is much lower, because of the high exemption level and other deductions. In 2006, the average effective rate will be about 18 percent, according to the Tax Policy Center.

**REALITY: Very few small, family-owned farms and businesses owe estate tax.**

- The Congressional Budget Office (CBO) has confirmed that exceedingly few family farms and small businesses face the estate tax ([www.cbpp.org/7-11-05tax.htm](http://www.cbpp.org/7-11-05tax.htm), [www.cbo.gov/ftpdocs/65xx/doc6512/07-06-EstateTax.pdf](http://www.cbo.gov/ftpdocs/65xx/doc6512/07-06-EstateTax.pdf)).
- The CBO report found that if the current exemption of \$2 million were in effect in 2000, only 123 farm estates and 135 family-owned businesses nationwide in 2000 would have owed any estate tax.
- The number of taxable farm estates would have dropped to 65 nationwide at a \$3.5 million exemption level, the level that takes effect in 2009. The number of taxable family-owned business estates would have fallen to 94.
- The Tax Policy Center also has found that few small businesses and farms are subject to the estate tax ([www.cbpp.org/3-16-05tax.htm](http://www.cbpp.org/3-16-05tax.htm)).

#### Taxable U.S. Farm Estates in 2000 Under Different Exemption Levels

Exemption Level	All Taxable Farm Estates	With Liquidity Constraints*
\$1.5 million	300	27
\$2.0 million	123	15
\$3.5 million	65	13

Source: Congressional Budget Office, July 2005.

\* The CBO report found that of the very few farm estates that owe estate tax, the vast majority have sufficient liquid assets (bank accounts, stocks, bonds, insurance) to pay estate tax owed without having to touch the farm.

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