

REALITY: DEATH & TAXES — III **'Reform' Doesn't Always Mean 'Reform'** **(or *The Funny Language of the Estate Tax*)**

In the language of Washington, “reform” has lots of different meanings. For the estate tax, many proponents of fully repealing the tax know they can get substantially the same thing by making cosmetic changes in their plan and slapping on the magic label of “reform.” In the words of one “reformer”:

“A lot of people in the business community are still very desirous of having permanent repeal. But if they see that the votes aren't there, realistically they would see that certain types of compromise would be almost as good as full repeal.”

— Sen. John Kyl, Arizona, CongressDaily, Jan. 18, 2006.

WHY 'REFORM' LARGELY MEANS 'REPEAL'

REALITY: Full repeal of the estate tax would add trillions of dollars to future deficits — and so would the Kyl “reform” package.

- Permanently repealing the estate tax would cost roughly \$1 trillion over just the first 10 years of extension, 2012-2021. This cost includes \$776 billion in lost revenue and \$213 billion in increased interest payments on the national debt.¹
- The Kyl package would provide a \$5 million exemption per person (\$10 million per couple) from the estate tax, plus it would reduce the estate tax rate from 45 percent to 15 percent.
- The Kyl proposal differs little from full repeal. Based on estimates from the Joint Committee on Taxation, the Kyl proposal would lose about 85 percent of the revenue that would be lost under full repeal.

WHY '15 PERCENT' DOESN'T MEAN '15 PERCENT'

REALITY: With a 15 percent estate tax rate, estates would be paying only about 5 or 6 percent of their estate in tax.

- The estate tax is applied to only the part of the estate above the exempted amount. This means the effective tax rate on taxable estates would be only 5 percent or 6 percent — not the 15 percent suggested — or about one-third of the capital gains rate and less than what most workers pay in income and payroll taxes.
- There are noteworthy differences between capital gains and estate taxes. The capital gains rate is typically applied to all capital gains income. For the estate tax to have an effective rate of 15 percent (equal to the capital gains rate), then a top estate-tax rate of 35 percent to 40 percent would be needed.

¹ Center on Budget and Policy Priorities, “The Estate Tax: Myths and Realities,” Revised April 28, 2006. Accessed at www.cbpp.org/pubs/estatetax.htm.