

The Estate Tax Debate: Truth and Consequences

Truth: Very few estates pay any estate tax.

The Tax Policy Center estimates roughly 99.5 percent estates will pay no estate tax in 2006 – the first \$2 Million of the value of every estate (\$4 Million for couples' estates) is totally exempt from tax. The estate tax will only be owed by the estates of 5 out of every 1,000 people who die. In 2009, the exemption rises to \$3.5 Million (\$7 million for couples).

Truth: The effective rate of the estate tax is less than 20 percent.

While the top marginal rate of the estate is 46 percent, the “effective rate,” or the rate at which the tax is actually paid, is much lower due to exemptions and other deductions. The Tax Policy Center estimates that the effective rate will be only 18 percent in 2006.

Truth: The estate tax affects only those most able to pay.

The United States has a progressive tax system based on the ability to pay: higher income families pay a larger percentage of their income in taxes than do low- or moderate-income families. The estate tax helps balance the regressive tax burden imposed by many states (including Arkansas) through reliance on sales taxes.

Truth: The estate tax raises funds to support a range of programs that benefit all of us.

The estate tax funds health care, education, defense, and many programs in between. If it were repealed, only the wealthiest would benefit while those who are less well off would be left to make up the deficit or bear the brunt of a higher national debt.

Truth: The estate tax was created as a back-stop to the income tax, to tax income that has NOT been previously taxed.

Income is income: whether it is earned in the workplace or from an increase in the worth of stocks as a capital gain, it should be taxable. The estate tax is the only way to tax estates that include large “unrealized” capital gains that have NEVER been taxed.

Consequence: Repealing the estate tax would add trillions to future deficits.

In the first ten years alone, 2012-2021, permanent repeal of the estate tax would cost almost \$1 Trillion, including \$776 Billion in lost revenue and \$213 Billion in increased interest payments on the national debt.

Consequence: Repealing the estate tax would substantially reduce charitable giving.

The estate tax creates important incentives for charitable giving as donations reduce tax liability for large estates. Without these incentives, the Congressional Budget Office predicts a sharp decrease in charitable giving, undermining non-profit organizations' crucial role in helping Arkansas meet future challenges.



Arkansas Advocates for Children & Families
Union Station, Ste. 306
1400 West Markham
Little Rock, AR 72201
(501) 371-9678 * www.aradvocates.org