

REALITY: DEATH & TAXES — I 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.

Repeal of the tax unquestionably would have impacts on revenues and services. No replacement of revenues is suggested in the estate-tax proposals being discussed in Washington.

REVENUE/DEFICIT IMPACTS

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

- In the first 10 years alone, 2012-2021, permanent repeal of the estate tax would cost roughly \$1 trillion. This cost includes \$776 billion in lost revenue and \$213 billion in increased interest payments on the national debt if the tax were repealed, just for those first 10 years. See www.cbpp.org/pubs/estatetax.htm.

REALITY: The estate tax has been an important source of revenue for nearly a century.

- The estate tax has been in place since 1916. Repealing the tax would result in a substantial loss of revenue each year, an amount that is equal (in today's terms) to what we spend on homeland security, and is more than we spend on federal aid to K-12 education.

REALITY: Already, current deficits are growing and will continue to grow.

- Budgetary challenges loom with the baby boomers' retirement. See www.cbpp.org/4-12-05tax.htm.

REALITY: The estate tax encourages billions of dollars in charitable donations annually.

- The estate tax creates important incentives for charitable giving, because donations reduce estate tax liability for large estates. Repeal of the estate tax would remove this incentive and would result in sharply lower contributions, according to a study by the Congressional Budget Office. Repealing the estate tax thus will hurt charities, undermining their crucial role in helping the nation meet its future challenges. See www.cbpp.org/8-3-04tax.htm.

ESTATE TAX & TAX PRINCIPLES

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

- In a progressive tax system, a high-income family pays a larger share of its income in tax than a low- or moderate-income family. The estate tax is the most progressive component of the U.S. tax code. Its role in the overall tax system is important, particularly to balance regressive state and local taxes.

REALITY: It raises funds to support a range of programs that benefit the nation.

- The estate tax funds essential programs, from health care to education to defending the nation. If the estate tax were repealed for the wealthiest, other taxpayers who are less well-off would have to pay more of the bill, face service cuts or bear the burden of a higher national debt.

REALITY: It was created to back up the income tax, to tax income *NOT* taxed before.

- Tax on income can be deferred. Large estates have substantial amounts of "unrealized" capital gains that have never been taxed; the estate tax is the only means of taxing this income. See www.cbpp.org/6-17-05tax.htm.

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