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What's rush on estate tax?

By Peter Fisher

Sen. Chuck Grassley, R-Iowa, set the bar in September for a discussion of repealing the estate tax.

In the wake of the devastation of Hurricane Katrina, he remarked, "It's a little unseemly to be talking about eliminating the estate tax at a time when people are suffering."

What really has changed since then? The Gulf Coast is far from being rebuilt, and the nation is split as much as ever into the haves and have-nots. How, we may ask, will repealing or gutting the estate tax improve this situation? How many of the haves are really asking for this "help," on top of the pile of tax cuts already granted them in recent years?

This week brought evidence that Iowans are rarely affected by the estate tax and few would receive any benefit from plans being offered in the Senate this week to repeal the estate tax — at a cost of \$1 trillion over 10 years — or to nearly eliminate it. A Citizens for Tax Justice report showed only 263 Iowa estates in 2004, or 0.9 percent of all Iowa estates, owed any estate tax because of a \$1.5 million exemption (\$3 million per couple). This exemption grew to \$2 million (\$4 million per couple) in 2006 and will rise to \$3.5 million in 2009 (\$7 million per couple).

With current exemptions and rates, 99.5 percent of estates nationally owe no estate tax whatsoever; this is projected to rise to 99.7 percent in 2009.

The only alternative to repeal that is being seriously considered in the Senate is a proposal by Sen. John Kyl, R-Ariz. The Kyl plan, mislabeled "reform," would amount to virtual repeal of the estate tax. It would raise the exemption to \$5 million and reduce the top tax rate from 45 percent to 15 percent — and cost 84 percent of full repeal.

Other alternatives could be considered. One plan, proposed by former Social Security administrator Robert Ball, would make permanent the exemptions and rates scheduled to take effect in 2009: a \$3.5 million exemption per person and a 45 percent top rate. The revenues would be dedicated to reducing the Social Security shortfall. It's just one idea, but it shows that some creative alternatives can be found. (See www.cbpp.org/6-5-06tax.htm for more information.)

Many of us are waiting to hear why repeal or near-repeal is a good idea. Perhaps this week proponents will explain how we can afford the \$1 trillion hit at a time when we face a mounting national debt and why a relative few should inherit millions or even billions in family fortune tax-free and work-free while others scraping by in an increasingly difficult work environment inherit many thousands apiece in national debt.

We have not had that debate, not in any serious measure, and there is no urgency for a vote. Yet today the Senate is expected to take the first vote on consideration of repeal or “reform.”

Rising exemptions and lower tax rates are built into the law through 2010, exemptions that will eliminate any remaining impact on farms and small businesses (very few of which pay any estate tax even with the \$2 million exemption in place now). There is plenty of time to consider options for true reform.

Is the rush to enact a windfall giveaway to the wealthiest of the wealthy less unseemly than it was in the fall?

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