News from the
Fiscal Policy Institute

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Sorting Estate Tax Fact From Fiction:
New Data from IRS Shows that Only 1.6% of New York Estates (and Only 1.2% of All Estates Nationally) were Subject to Taxation in 2004

As the United States Senate prepares to vote this week on the repeal of the federal Estate Tax, new data released by the Internal Revenue Service on Friday confirms that the increasing exemption enacted in 2001 is shielding all but a very small number of very large estates from taxation.

"The new data from the IRS shows that only 1.6% of New York estates, and only 1.2% of all estates nationally, were subject to federal estate taxation in 2004," said Frank Mauro of the Fiscal Policy Institute. "The number of estates subject to taxation has declined steadily as the size of the exemption has gone up."

The exemption has been increased from $675,000 for an individual and $1,350,000 for a couple in 2001 to $2 million and $4 million this year. These exemption levels are scheduled to increase again (to $3.5 billion and $7 billion) in 2009.

Year	Estate Tax Exemption	Estate Tax Exemption for a Couple
2000	675,000	1,350,000
2001	675,000	1,350,000
2002	1,000,000	2,000,000
2003	1,000,000	2,000,000
2004	1,500,000	3,000,000
2005	1,500,000	3,000,000
2006	2,000,000	4,000,000
2007	2,000,000	4,000,000
2008	2,000,000	4,000,000
2009	3,500,000	7,000,000

The number of estates nationally subject to estate taxation declined from 51,854 in 2000 to 30,276 in 2004. In New York, the decline over this period was from 3,438 to 2,535.

This week, Senate Majority Leader Bill Frist (R-TN) is bringing the issue of estate tax repeal to the floor of the United States Senate. Frist had previously scheduled a vote on estate tax repeal for the week after Labor Day 2005 but he changed his plans in the wake of the Hurricane Katrina disaster. At that time, Senate Finance Committee Chairman Charles Grassley said then it would be "a little unseemly" to eliminate the tax "at a time when people are suffering."

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Though many people affected by the Gulf Coast hurricanes are still suffering today, and large budget deficits are forecast as far as the eye can see, it appears that Senator Frist will be bringing estate tax repeal to a vote on the Senate floor this week.

Permanent repeal would cost nearly $1 trillion between 2012 and 2021, the first decade in which its costs would be fully felt. In light of the controversy last week over $80 million in cuts in homeland security funding for New York City, it also is worth noting that the annual revenue loss from repealing the estate tax is about the same as total federal spending on homeland security nationwide.

Besides considering estate tax repeal, the U.S. Senate is also likely to vote on a similar measure being sold as "reform." But, according to FPI Senior economist Trudi Renwick, "this 'reform' alternative would cost almost as much as full repeal." This alternative would raise exemptions to $5 million per person and $10 million for a couple, and lower the tax rate on the rest of the estate from about 45 percent to 15 percent. "The effect would be to tax the incomes of many working families more heavily than billion-dollar estates, further driving us from a tax system based on ability to pay," said Renwick.

It is estimated that in 2006, with the $2 million and $4 million exemptions, only 0.5 percent of people who die -- or 5 out of 1,000 -- will face the estate tax. By 2009, this number is estimated to fall to 3 out of 1,000.

To get more facts behind the estate tax debate, visit the websites of the Urban-Brookings Tax Policy Center (www.taxpolicycenter.org), the Center on Budget and Policy Priorities (www.cbpp.org), and Citizens for tax Justice (www.ctj.org). A CTJ fact sheet on the new IRS data is attached.

CTJ

Citizens for Tax Justice

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How the Federal Estate Tax Affects New York

Republican Senate leaders are pushing to enact permanent repeal of the federal estate tax, a move that would cost nearly $1 trillion over the first full decade. Meanwhile, other Senators are seeking a "compromise" that would cost nearly as much as full repeal. But new data from the Internal Revenue Service show that more than ever, the estate tax is virtually irrelevant for most New Yorkers—raising the question of why Congress is so intent on repealing a tax that affects so few estates.

Few New York Estates Were Taxable in 2004

In 2003, 155,877 New Yorkers died. Newly released IRS data show that in 2004 (when estate tax returns for 2003 deaths were generally due), only 2,535 New Yorkers owed any estate tax— just 1.6 percent of all New York estates. The IRS data also show that (due to tax cuts enacted since 1997) the number of New Yorkers paying the estate tax has declined dramatically: in 1998, 3,559 New Yorkers owed estate tax. This is a larger, but still quite low 2.2 percent of all deaths in that year.

Who Pays the Estate Tax in New York: 1998-2004

# of Estates Owing Tax				% of Estates Owing Tax			
1998	2000	2002	2004	1998	2000	2002	2004
3,559	3,963	3,438	2,535	2.2%	2.5%	2.2%	1.6%

Recent Estate Tax Cuts Exempt Even More New Yorkers

The new IRS data shows the impact of the $3 million (for married couples) estate tax exemption that was in place for 2004. But in 2006, the federal estate tax exemption has increased to $4 million—a change which leaves just 0.5 percent of all estates taxable nationwide. This suggests that the number of New Yorkers owing estate tax will be even lower in 2006 than in the 2004 IRS data.

This trend is especially disturbing in the wake of revelations that the distribution of wealth in the United States has become even more unequal in recent years. A recent Federal Reserve Bank report shows that the richest 1 percent of Americans now own more than 33 percent of the wealth nationwide—more than the poorest 90 percent of Americans put together.

The federal estate tax was enacted in 1916 to prevent an unhealthy concentration of economic and political power in the hands of a super-wealthy elite. Repealing the tax —or paring it back through "compromise" legislation—would remove this important backstop and open the floodgates to a new wave of wealth inequality.