



Fair Economy Backgrounder

United for a Fair Economy is a national, independent, nonpartisan, nonprofit organization.

UFE raises awareness that concentrated wealth and power undermine the economy, corrupt democracy, deepen the racial divide, and tear communities apart. We support and help build social movements for greater equality.

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Share of Estates Taxed Falls to Fraction of One Percent

Just over one in 370 of all estates (0.27 percent) will pay the federal estate tax in 2006, down from 2.18 percent in 2000.* By 2009, only one in 600 estates will owe the tax.

When someone dies, his or her assets (estate) are distributed to heirs. If the total value of the estate is large enough, an estate tax is paid before the remaining assets are distributed. In 2006, all assets under \$2 million for individuals

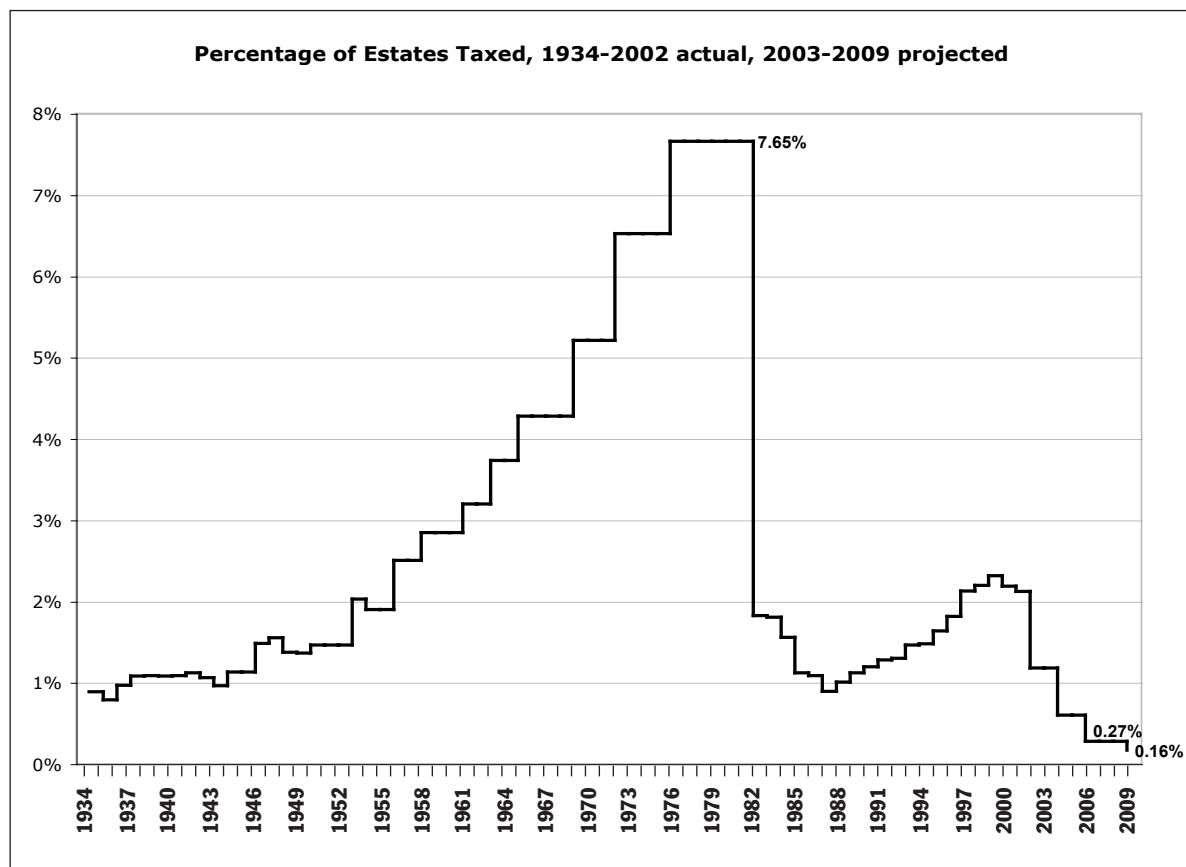
(and double that amount for couples) are exempted from the estate tax. The exemption for individuals will increase to \$3.5 million in 2009. Because of the higher exemptions, the proportion of estates that pay the estate tax will decrease to 0.16 percent in 2009.

Number of Estates Taxed is Very Small

An estimated 6,343 estates will pay the estate tax in 2006, out of a projected 2.3 million people in the U.S. expected to die. That's 0.27 percent of the number of deaths in 2000.

In contrast, a little more than 51,000 estates (or 2.18 percent of estates) paid the estate

*The number of deaths in the year 2000 is used for all projections -- 2003 to 2009 -- of the share of estates paying the estate tax.



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tax in 2000, before the exemption level was raised. If today we taxed the same percentage of estates as we did in 1980 (7.65 percent), then 180,000 estates would pay the estate tax this year.

Estate Tax Gradually Reduced throughout this Decade

Under current law, the estate tax will be phased out entirely in the year 2010. Then, in 2011, the estate tax repeal “sunsets,” which means that the estate tax returns, with a \$1 million exemption. This convoluted “sunset” process was a political maneuver to artificially limit the total cost of the estate tax repeal. Pro-repeal forces assumed they could come back and permanently repeal the estate tax later, which is exactly what they tried to do in 2002, 2003 and 2005. Fortunately, supporters of estate tax reform rallied to defeat repeal.

The estate tax raised an estimated \$23.4 billion in 2004. If the 2010 estate tax repeal were made permanent, the expected loss in federal revenue is \$1 trillion over the first ten years.

Congress is Poised to Repeal the Estate Tax

On April 13, 2005, the House passed a bill to permanently repeal the estate tax. The Senate had

planned to vote on repeal on September 6, 2005, but cancelled the vote because of fears it would look “unseemly” to consider giving multi-millionaires a trillion dollar tax cut at the same time that millions of lives were harmed by Hurricane Katrina.

Also in the wings is a “virtual repeal” bill that would gut the estate tax by reducing the tax rate so much that most of the revenue disappears.

The Senate leadership plans to hold the permanent repeal vote in early 2006, but the bill is unlikely to get the 60 votes needed to pass. It is not clear yet if the Senate leadership plans to schedule a vote on the virtual repeal bill.

Family Farms and Small Businesses Safe from Estate Tax

The estate tax affects very few family farms and small businesses because their net value is almost always less than the exemption level. The estate tax only applied to 300 farm estates in 2004, and all but 27 farm estates had enough liquid assets to pay the estate tax without selling property, equipment, or the farm itself. Farms and small businesses are eligible for several types of special consideration in the estate tax code.

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