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Revised August 3, 2006

COMPARING THE HOUSE MINIMUM WAGE AND ESTATE TAX PROPOSALS

Who Benefits and By How Much?

By Joel Friedman and Aviva Aron-Dine

House leaders are following a legislative strategy that involves marrying an increase in the minimum wage to a sharp reduction in the estate tax. This approach juxtaposes policies that are aimed at two groups at opposite ends of the economic spectrum: minimum-wage workers for whom full-time work currently pays $10,700 a year, and individuals who have amassed estates worth millions of dollars over the course of their lives.

- Increasing the minimum wage would directly boost the earnings of 5.6 million workers, according to estimates by the Economic Policy Institute.[1] These are workers (covered by minimum wage law) who EPI projects will make less than $7.25 per hour in 2009 if the minimum wage is not increased. (EPI estimates that an additional 7.3 million workers would benefit indirectly from a minimum wage increase; these workers earn close to $7.25 an hour and would likely see a pay increase if the minimum wage were boosted.)

- In contrast to the millions of workers who would benefit from a minimum wage increase, the House proposal to sharply reduce the estate tax would benefit only about 8,200 estates in 2011, according to the Urban Institute-Brookings Institution Tax Policy Center. These are the 8,200 estates that would owe any estate tax in 2011 if the 2009 estate tax exemption level ($7 million for a couple, or $3.5 million for an individual) were made permanent.[2] They are the only estates that would benefit from reducing the tax below its 2009 levels, as proposed in the House bill.

Minimum Wage Increase Versus Estate Tax Cuts

	House Minimum Wage Proposal	House Estate Tax Proposal
Number of Beneficiaries	5.6 million	8,200
Average Dollar Benefit	$1,200	$1.3 million

Source: Economic Policy Institute for minimum wage data; Tax Policy Center for estate tax estimates

The $2.10 increase in the minimum wage included in the House legislation has the potential to meaningfully increase the earnings of low-income households. For individuals currently working year-round at the minimum wage, it would mean an increase of nearly $4,400 over the year, as their annual earnings would rise from $10,700 to $15,100. For the average beneficiary of the minimum wage increase, the benefit would be somewhat less, given that many of the workers benefiting earn less than $7.25 an hour, but more than $5.15

(the current minimum wage). EPI estimates that the average yearly wage increase for the 5.6 million workers who would benefit directly from the minimum wage change would total about $1,200.

While these income gains could be critical to the well-being of a low-income family, the *dollar* amount of the gain pales in comparison to the dollar gains for estates benefiting from the House estate tax proposal. The Tax Policy Center estimates that, if the House proposal were fully in effect in 2011, it would yield an average tax cut of $1.3 million for the 8,200 beneficiaries, relative to making the 2009 estate-tax parameters permanent.[3] Thus, the average tax benefit for these estates would be more than 1,000 times the average yearly income gain for workers who would benefit from the minimum wage change. Moreover, the benefit of the estate tax reduction would grow with the size of the estate — for example, the Tax Policy Center analysis shows that the 800 to 900 estates worth more than $20 million would receive an average tax cut of $5.4 million in 2011.

Estate Tax Reductions Once Paid For Will Ultimately Make Most Americans Worse Off

Finally, these comparisons ignore the fact that costly estate tax reductions must at some point be paid for. The Administration itself has recently acknowledged that, if its tax cuts are made permanent, their cost eventually will need to be offset.[4]

- If the costs are eventually financed partly through cuts in federal programs, such as Medicare, Medicaid, food stamps, veterans programs, and unemployment insurance, then the same low-wage workers who benefit from the minimum wage change included in the House bill will have to foot part of the bill for the estate tax cuts.

- Further, there are millions of middle-income Americans who will not benefit from the minimum wage increase but who will never accumulate multi-million dollar estates. These individuals will almost certainly lose from the House bill, when the measures ultimately needed to pay for the bill's sharp cuts in the estate tax are taken into account.[5]

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[1] These updated EPI estimates reflect the specifics of the House proposal.

[2] Under current law, the estate tax in 2011 would revert to its pre-2001 law parameters, with an exemption level of $2 million per couple (or $1 million per individual) and a top rate of 55 percent. There is no Congressional support for returning to pre-2001 law, however, so a more reasonable benchmark for assessing the House proposal is continuation of the exemption levels and rates that will be in effect in 2009, before the estate tax is repealed for one year in 2010. Even if current law is used as the point of comparison in 2011 however, the number of estates benefiting from the House estate-tax proposal would be 50,500 in that year, still a very small percentage of the millions of workers benefiting from the minimum wage increase.

[3] For more details on the House estate tax proposal, see Joel Friedman and Aviva-Aron Dine, "House Estate Tax Proposal Has Essentially The Same Large Long-Term Cost as Earlier Version, " Center on Budget and Policy Priorities, July 28, 2006. The House bill would tax the value of estates below $25 million at the capital gains rate, which is currently 15 percent but is scheduled to rise to 20 percent after 2010. The Tax Policy Center estimates described above assume that the 15 percent capital gains rate is extended beyond 2010; if the rate increased to 20 percent, the average tax cut would be $1.2 million, still about 1,000 times the average yearly income gain for workers benefiting from the minimum wage proposal.

[4] "A Dynamic Analysis of Permanent Extension of the President's Tax Relief," Office of Tax Analysis, U.S. Department of the Treasury, July 25, 2006.

[5] For a related discussion of a similar estate-tax proposal, see Robert Greenstein and Richard Kogan, "Combined Effect of Bills Moving in the Senate Would Be to Finance Near-Repeal of the Estate Tax with Cuts in Medicare, Veterans Benefits, School Lunches, and other Programs," Center on Budget and Policy Priorities, June 26, 2006.