

**Estate Tax Parameters  
 Under 2001 Law**

Year	Per-Person Exemption	Top Rate
'01	\$675,000	55%
'02	\$1 million	50%
'03	\$1 million	49%
'04	\$1.5 million	48%
'05	\$1.5 million	47%
'06	\$2 million	46%
'07	\$2 million	45%
'08	\$2 million	45%
'09	\$3.5 million	45%
'10	<i>Repeal</i>	
'11	\$1 million	55%

Revised June 14, 2010

A long-standing part of the tax system, the estate tax is a tax on property (cash, real estate, stock, or other assets) transferred from deceased persons to their heirs. It is levied not on the full estate but rather on the portion of the estate's value that exceeds a specified amount of money, called the "exemption level," minus deductions, such as for charitable giving.

In 2009, for example, the exemption level was \$3.5 million for an individual (effectively \$7 million for a couple), meaning that estates worth less than that amount owed no estate tax. As a result, only the wealthiest 1 of every 400 estates paid any estate tax under the 2009 rules.

Legislation enacted in 2001 gradually phased out the estate tax by raising the exemption level and reducing the tax rate, culminating in complete repeal of the tax in 2010. However, the tax is set to return next year as if the 2001 law had never been passed — with a \$1 million per-person exemption and a 55 percent top rate — unless Congress acts.

**Tax's Future Form Is Uncertain**

Repealing the tax permanently, as some policymakers favor, would increase the deficit by \$698 billion over the next ten years (2011 to 2020) compared to letting the tax return in its pre-2001 form. At least in part because of the cost, Congress has repeatedly rejected repeal proposals. President Obama has proposed reinstating the tax in its 2009 form, with a \$3.5 million per-person exemption and a 45 percent rate. Members of Congress have proposed continuing the tax at higher or lower levels, with exemptions ranging from \$2 million to \$5 million per person and top rates ranging from 35 to 55 percent.

**Effective Tax Rate Modest Under 2009 Rules**

If Congress restores the estate tax at its 2009 levels, the relatively few estates that are large enough to owe the tax would owe less than 20 percent of their value in tax, on average. This "effective rate" would be much less than the top marginal rate for two reasons:

- As noted, the tax is applied only to the value of the estate that exceeds the exemption level. For example, at an exemption level of \$3.5 million, an heir of an estate worth \$4 million would owe taxes on at most \$500,000.
- The tax contains a number of provisions to reduce heirs' tax liability, many of them designed to protect farmers and small businesses. Most taxable estates have high proportions of liquid assets, so the vast majority of heirs owing estate tax can pay it without selling any property.

Supporters argue that a significant estate tax is critical to supporting public services without imposing onerous burdens on middle-income Americans, particularly given our severe long-term budget problems.

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