

**Estate Tax Parameters  
 Under 2001 Law**

<b>Year</b>	<b>Per-Person Exemption</b>	<b>Top Rate</b>
'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%

Policy Basics is a series of brief background reports on issues related to budgets, taxes, and government assistance programs.

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A longstanding feature of the tax system, the estate tax is a tax on property (such as cash, real estate, stock, or other assets) that is transferred from deceased persons to their heirs.

**Only a Few, Large Estates Owe Any Estate Tax**

Fewer than 3 in 1,000 estates are expected to be subject to the tax in 2009. This is because only estates worth more than a specified amount of money, known as the “exemption level,” must pay any estate tax. In 2009 the exemption level is \$3.5 million (or \$7 million for a couple), so heirs to an estate worth less than this amount will owe no tax.

**Taxable Estates Are Not Taxed at a Very High Rate**

In 2009, estates that are large enough to owe any estate tax are expected to owe less than 20 percent of their value in tax, on average.

This “effective rate” of under 20 percent is much less than the top marginal estate tax rate (45 percent) for two reasons:

- 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.

**The Tax’s Future Form Is Uncertain**

Legislation enacted in 2001 law gradually phased out the estate tax by raising the exemption level and reducing the tax rate; the tax is scheduled to disappear entirely in 2010. But the 2001 tax law is set to expire at the end of 2010. This means that in 2011 the estate tax will go back to what it would have been if Congress had never passed the 2001 law, with a \$1 million exemption and a 55 percent top rate—unless Congress acts.

Most policymakers agree that a more permanent estate tax solution must be found before the temporary repeal takes effect in 2010. Congress has repeatedly rejected proposals to repeal the estate tax permanently, which would cost about \$800 billion over the first ten years in which the effect of repeal is fully felt. Many policymakers may feel that retaining a significant estate tax is critical in order to support public services without imposing onerous burdens on middle-income Americans, particularly given the current fiscal situation. One option would be to retain the tax in its 2009 form, with a \$3.5 million per-person exemption and a 45 percent rate.