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4,500 VERY LARGE ESTATES WOULD RECEIVE AS MUCH IN ANNUAL TAX REDUCTIONS UNDER BUSH PLAN AS 140 MILLION AMERICANS

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The Joint Committee on Taxation has estimated that the estate tax repeal provision of the Bush tax plan would reduce revenues by \$55 billion in 2010. Only two percent of the individuals who die leave an estate large enough to be subject to the estate tax. As a result, a relatively small number of estates would share this \$55 billion tax cut. Specifically, an estimated 64,000 estates would be subject to the estate tax in 2010 under current law and would share the benefits of this \$55 billion tax reduction.

Most of the estate tax is paid by a very small number of those estates that are taxable. IRS data show that the 2,900 largest estates paid *half* of the estate tax in 1998, the latest year for which these data are available. In 2010, we estimate that approximately 4,500 estates would pay half of the estate tax. Consequently, these 4,500 estates would receive tax reductions totaling nearly \$28 billion in 2010, half of the \$55 billion in tax reductions the Joint Tax Committee estimates estate tax repeal would produce that year.

This analysis compares the size of the tax cuts for these large estates with the size of the tax cuts that other family and individual taxpayers (hereafter referred to simply as families) would secure as a result of all of the tax reduction provisions in the Bush plan, including the expansion of the child credit and the rate reductions. The analysis finds that in 2010:

- The 64,000 estates that otherwise would be subject to the estate tax would receive a tax cut of \$55 billion in 2010 as a result of the repeal of the estate tax. This is equal to the total tax cut from all of the provisions of the Bush plan that would be shared by some 103 million families — the bottom 74 percent of U.S. families when all families are ranked by income.

Approximately 192 million people — those who live in these 103 million families — would share total tax cuts equal to the amount of tax reductions that the 64,000 estates would receive.

- The \$28 billion tax reduction for the 4,500 largest estates is equal to the total tax reduction, from all provisions of the Bush plan, that would be received by 81 million families.

These 4,500 estates would receive as much in tax relief as the approximately 142 million people who live in the 81 million families.

- These 4,500 very large estates would receive an average tax cut of \$6 million each.

The Cost of Repealing the Estate Tax and the Number of Estates Affected

The Bush tax plan calls for full repeal of the estate tax in 2009. According to the cost estimate of the Bush plan that the Joint Committee on Taxation issued last May, estate tax repeal would account for \$55.3 billion of the plan's \$232.9 billion cost in 2010.¹ Thus estate tax repeal would account for nearly one-quarter of the cost of the tax cut when the Bush proposal is fully in effect.

In 2010, an estimated 64,000 estates would receive the \$55 billion in tax-cut benefits that the Joint Tax Committee estimates would result that year from estate tax repeal.² These estates would all contain assets of more than \$1 million; under current law, estates worth less than that amount are exempt from the estate tax starting in 2006. Thus, by 2010, the relatively few estates that would be taxable — the estates of approximately two of every 100 people who die — would receive nearly one-quarter of the tax cut benefits the Bush plan would provide.³

The 4,500 Calculation

Six percent of all taxable estates — or 2,900 estates — paid about half of the estate tax in 1998. These six percent of estates consisted of estates valued at more than \$5 million.

Of the 47,500 estates that were taxable in 1998, some 27,000 — or 57 percent — were valued at less than \$1 million. Under current law, all estates valued at less than \$1 million will be exempt from taxation starting in 2006. A \$1 million exemption in 2010 is equal to \$734,000 in 1998 dollars (due to the effects of inflation). If all estates of less than \$734,000 had been exempt from taxation in 1998, the estates that were worth more than \$5 million — and that paid about half of the estate taxes that year — would have represented 7.1 percent of all taxable estates. We apply that percentage to the estimated number of estates in 2010 to project that in that year, approximately 4,500 estates would pay half of the estate tax and hence would receive half of the benefits from estate tax repeal.

Windfalls for Very Large Estates

In 1998, some 2,900 estates — the largest six percent of estates that were of sufficient size to be taxable at all that year — paid 51 percent of the estate taxes. These were estates with

¹Joint Committee on Taxation, May 3, 2000.

²The Joint Committee on Taxation has projected that under current law, there will be 56,200 taxable estates in 2008. If the growth in the number of taxable estates from 2008 to 2010 continues at the same pace as the Joint Tax Committee's estimate of the growth in the number of taxable estates between 2007 and 2008, there would be about 64,000 taxable estates in 2010.

³For a full discussion of estate tax issues, see Iris J. Lav and Joel Friedman, *Estate Tax Repeal: A Costly Windfall for the Wealthiest Americans*, Center on Budget and Policy Priorities, February 6, 2001.

assets that exceeded \$5 million. If the estate tax had been repealed, these very large estates would have received tax reductions in 1998 averaging \$3.6 million apiece.

In coming years, the estate tax will remain targeted on the estates of a very small fraction of people who die. We estimate that in 2010, the largest seven percent of all taxable estates — or 4,500 estates — will pay about half of all estate taxes. (See box.) Consequently, these 4,500 estates will receive half of the \$55 billion in tax-cut benefits the Joint Tax Committee estimates will result from estate tax repeal in 2010. These 4,500 estates would receive tax reductions totaling nearly \$28 billion as a result of repeal of the estate tax.

The Amount of Tax Cuts the Majority of the Population Would Receive

The tax reduction that estates would receive may be compared to the tax reductions that families would receive from all of the provisions of the Bush tax proposal, including the expanded child credit and the rate reductions. To estimate the total amount of the tax reductions from the Bush tax package that certain categories of families would receive in 2010, we relied on the cost estimates of the Bush proposal that the Joint Tax Committee produced, and on distributional data from the Citizens for Tax Justice, using the Institute for Taxation and Economic Policy model. The distributional analyses that Citizens for Tax Justice have prepared using the ITEP model have

Table 1. Under Bush Tax Package, Total Tax Cuts for 4,500 Estates and 142,000,000 People Would be Equivalent

(Figures for 2010, when tax cuts are fully in effect)

	Tax Reduction	Number of Beneficiaries
Effects of entire tax package		
For bottom 40 percent of families	\$10 billion	56 million families
For bottom 60 percent of families	\$30 billion	84 million families
Estimate for bottom 58 percent of families	\$27.7 billion	81 million families with 142 million people
Effects of eliminating estate tax on the very largest estates	\$27.7 billion	4,500 estates

been validated over the years by the close congruence of the results that these analyses produce with the results of analyses that the highly respected career staff at the Treasury Department have conducted.

- The CTJ analysis estimates that when the tax cut is fully in effect, 4.3 percent of the total tax cuts would go to the 40 percent of families with the lowest incomes. As noted, the Joint Committee on Taxation estimates the cost of the Bush plan in 2010 as \$233 billion. Multiplying the total cost figure by 4.3 percent yields an estimate that the bottom 40 percent of families would receive total tax reductions of \$10 billion in 2010 under the Bush plan.

- The CTJ analysis indicates that 12.7 percent of the tax-cut benefits would go to the 60 percent of families with the lowest incomes. This yields a total tax reduction of \$30 billion in 2010 for such families.
- CTJ finds that 28.9 percent of the tax cut benefits would go to the bottom 80 percent of families, producing tax cuts of \$67 billion in 2010 for this group.

The number of people in each income group of tax filers also is based on CTJ data. To estimate the total number of families and people affected in 2010, we assumed that the number of families and people CTJ calculates for 1999 will rise at the rate of the official Census projections of population growth.

Comparing the Tax Cut Benefits

We now can put these calculations together. Eliminating the estate tax in 2010 would yield tax cuts totaling nearly \$28 billion for the 4,500 largest estates. As just noted, the combined tax cuts for the bottom 60 percent of families would total \$30 billion that year. These figures indicate that under the Bush plan in 2010:

- The 4,500 estates will together receive combined tax cuts of nearly \$28 billion. This is the same amount as the tax cuts that the bottom 58 percent of families — or 81 million families — would receive.⁴ An estimated 142 million people would be living in these families. (See Table 1.)
- Approximately 64,000 estates would receive total tax reductions of \$55 billion in 2010 as a result of estate tax repeal. This equals the combined tax cuts that the

⁴We apply the widely-used method of "linear interpolation" to estimate the percentage of families that would receive combined tax cuts of \$28 billion: There are 28 million families in the 40th to 60th percentile that would, under the Bush plan, receive \$20 billion in tax cut benefits, or an average of \$714 each. From this it may be estimated that approximately 25 million of the families in the 40th to 60th percentile would share \$18 billion (\$18 billion would provide \$714 in tax cuts to each of 25 million families). When this \$18 billion amount is added to the \$10 billion that the bottom 40 percent of families would receive, the result is a total of \$28 billion in tax cuts. Thus, adding the 56 million families in the bottom 40 percent of families plus the 25 million families in the 40th to 60th percentiles of families yields a total of 81 million families that would share \$28 billion in tax-reduction benefits. Note that this method assumes that every family in an income bracket receives a tax cut of the same size, while in reality the size of the tax cut increases with income; this is a conservative method that likely leads us to understate the number of families that would receive only as much in combined tax reductions as the 4,500 largest estates.

Table 2. Under Bush Tax Package, Total Tax Cuts for 64,000 Estates and 192,000,000 People Would be Equivalent

(Figures for 2010, when estate tax repeal is fully in effect)

	Tax Reduction	Number of Beneficiaries
Effects of entire tax package		
For bottom 60 percent of families	\$30 billion	84 million families
For bottom 80 percent of families	\$67 billion	112 million families
Estimate for bottom 74 percent of families	\$55.3 billion	103 million families with 192 million people
Eliminating the estate tax	\$55.3 billion	64,000 estates

Joint Tax Committee Data Consistent with Data Used Here

In May 2000, the Joint Tax Committee released tables on the distribution of the income tax reductions in then-Governor Bush's tax plan, the same plan he has put forward as President. These tables go through 2005 and break out the distribution of the tax cuts by income ranges, with other Joint Tax Committee tables indicating the number of taxpayers in these income brackets.* These tables do not include the effects of the proposed changes in the estate tax. The Joint Tax data indicate, for example, that in 2005, taxpayers with incomes of less than \$50,000 would receive 17 percent of the income tax cuts and that 62 percent of all taxpayers would be in this income category.

We adjusted these Joint Tax Committee estimates by including the effects of the estate tax reductions, which according to a study by the Treasury Department would provide 91 percent of their benefits to the top five percent of taxpayers. These estimates based on the Joint Tax data and the estimates cited in the body of this report based on the CTJ data parallel each other closely. For example, in 2010, the Joint Tax data indicate that the bottom 62 percent of taxpayers would receive 12.9 percent of the tax cuts. The CTJ data indicate that the bottom 60 percent of taxpayers would receive 12.7 percent of the tax cuts.

*Most of the income tax cuts in the Bush package would not be in full effect in 2005, but the distribution of the income tax cuts would not change markedly once they are fully effective.

bottom 74 percent of families — or 103 million families — would receive. About 192 million people would be living in these families. (See Table 2.)

Comparing the Reduction in Tax Rates for Estates and Families

The estate tax is levied at graduated rates depending on the size of the estate. The highest marginal tax rate is 55 percent. However, a combination of exemptions, deductions, and credits, together with estate planning strategies, reduces the effective tax rate on taxable estates — that is, the proportion of these estates that is consumed by the estate tax — quite substantially. In 1998, the latest year for which these data are available, the average effective tax rate on all estates

subject to tax was 20 percent. In other words, on average, the estate tax paid on taxable estates equaled 20 percent of the value of these estates, leaving heirs the other 80 percent.

This is not all that dissimilar from the average proportion of income that the bottom four-fifths of families pay in federal taxes. According to Joint Tax Committee data, these families pay an average of about 16.4 percent of income in federal taxes. The average tax rate that taxable estates pay thus is reasonably close to the average tax rate that the bulk of U.S. families face. Yet the degree of tax relief that these estates would receive would be much greater than the degree of tax relief most families would secure. Estate taxes would be eliminated entirely, a tax reduction of 100 percent. By contrast, the Citizens for Tax Justice data indicate that federal taxes would be reduced an average of seven percent for the bottom four-fifths of the population under the Bush plan.

Conclusion

These findings raise significant concerns about estate tax repeal. Some estate tax relief can be provided — particularly for the small number of taxable estates that consist primarily of a family-owned farm or business — without repealing the estate tax and for a modest fraction of the cost of repeal. As this analysis indicates, repealing the estate tax altogether would entail using \$28 billion a year of projected budget surpluses to provide multi-million dollar tax cuts to the estates of a very small number of the nation's wealthiest individuals.

This raises the question of whether the use of \$28 billion for massive tax reductions for these extremely large estates — and the use of billions of additional dollars for estate tax reductions for other quite substantial estates — is a higher national priority than, for example, stronger action to shrink the ranks of the 43 million Americans without health insurance, provide an adequate prescription drug benefit for elderly individuals, provide assistance with the high costs of long-term care, lift more children out of poverty, or help close the long-term financing gaps in Social Security and Medicare so that the benefits those programs provide do not ultimately need to be reduced as substantially (or so the payroll taxes that help finance these programs do not need to be raised as much). In most of these areas, Congress and the Administration are expected to defer action, partly because of a shortage of resources, or to consider proposals that leave most of the problem unsolved, again in large part because of insufficient resources to address these problems in a more substantial and lasting manner.

It is no wonder that in recent days, members of some of the nation's wealthiest families have expressed opposition to repeal of the estate tax and urged that the substantial resources that would be dedicated to repeal be put to better use by addressing more serious problems the nation faces.⁵

⁵For example, this group, led by William H. Gates Sr., placed an advertisement on the opinion editorial page of the February 18, 2001 *New York Times*.