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**ESTATE TAX REPEAL AND THE TOP INCOME TAX RATE CUT:
A STATE-BY-STATE LOOK AT WHO WOULD BENEFIT**

by Iris J. Lav

The Senate Finance Committee has proposed full repeal of the estate tax and a substantial reduction in the top marginal income tax rate as part of its legislation to implement the Bush tax cut. While both repeal of the estate tax and a cut in the top income tax rate are extremely costly, very few Americans would benefit from either provision.

With respect to the estate tax, raising the estate tax exemption to a level such as \$5 million per estate — rather than fully repealing the estate tax — could exempt all but a few of the largest estates from taxation. Only 6.6 percent of all taxable estates — a total of 3,300 estates nationwide — had a value of \$5 million or more in 1999. These 3,300 estates paid over half of all estate taxes. This means that a substantial portion of estate tax revenue could be retained, while still exempting most estates.

In most states, repealing the estate tax rather than reforming it would benefit a very small number of families.

- New data from the IRS shows that there were 34 states in which fewer than 50 taxable estates were valued at \$5 million or more in 1999. (See Table 1.)
- For example, in Arizona there were 46 taxable estates valued at \$5 million or more. In Arkansas, there were 17. In Maine, there were 11 such estates. In Montana, there were 4.
- Even in large states such as New Jersey and Texas, there were only about 150 taxable estates valued at more than \$5 million.

Similarly, only a modest number of people will benefit from the cut in the top marginal income tax rate. Fewer one percent of all taxpayers nationally — fewer than 1 million out of the nearly 128 million families and individuals nationwide — are in the top 39.6 percent marginal income tax rate that the Senate Finance Committee bill would cut. Only these few taxpayers would benefit from the top rate cut.

- In 17 states, fewer than 5,000 tax filers would benefit from the cut in the top income tax rate, according to a new analysis by Citizens for Tax Justice. These states include Alaska, Arkansas, Delaware, the District of Columbia, Hawaii, Idaho, Maine, Montana, Nebraska, New Hampshire, New Mexico, North Dakota,

Rhode Island, South Dakota, Vermont, West Virginia, and Wyoming. (See Table 2.)

- In another 10 states, fewer than 10,000 taxpayers would benefit.
- For example, approximately 4,600 Arkansas taxpayers would benefit from the top rate cut, while 1.2 million families and individuals in Arkansas would derive no benefit from this provision. In Louisiana, just over 9,500 taxpayers would benefit from the top rate cut, while nearly 2 million Louisiana families would not benefit.

Even if there were no reduction in the top marginal rate, taxpayers currently in this tax bracket would receive large tax reductions as a result of cuts in other tax rates. For example, a couple filing jointly with income high enough to be in the top bracket would receive a tax cut of more than \$10,000 under the Bush and House proposals, and about \$8,400 under the Senate bill, as a result of reductions in the 15, 28, 31, and 36 percent tax rates.

Table 1
Taxable Estate Tax Returns Filed in 1999
By State of Residence

(All figures are estimates based on samples -- Money amounts are in thousands of dollars)

State of Residence	Gross Estate For Tax Purposes		Gross Estate For Tax Purposes Estates of \$5 Million or More	
	Number	Amount	Number	Amount
Total	49,870	119,176,309	3,283	52,383,542
Alabama	416	1,016,970	41	420,667
Alaska	48	90,361	0	0
Arizona	958	1,842,355	46	538,326
Arkansas	183	501,057	17	243,158
California	7,445	16,262,673	491	6,339,829
Colorado	591	1,192,530	26	429,250
Connecticut	980	2,340,424	73	972,675
Delaware	214	383,435	11	87,597
District of Columbia	198	638,740	18	367,719
Florida	4,859	13,521,011	412	6,974,470
Georgia	831	3,621,398	63	2,473,912
Hawaii	160	598,391	12	353,239
Idaho	148	245,502	6	64,569
Illinois	2,722	5,618,817	158	2,000,431
Indiana	793	1,484,582	42	463,643
Iowa	643	1,216,753	23	433,342
Kansas	491	819,134	23	218,143
Kentucky	384	836,567	27	317,891
Louisiana	454	873,109	23	319,047
Maine	203	420,496	11	153,791
Maryland	1,030	2,226,972	59	817,271
Massachusetts	1,478	3,116,850	86	1,129,377
Michigan	1,299	3,036,676	83	1,410,854
Minnesota	636	1,377,055	36	586,112
Mississippi	173	399,658	13	160,699
Missouri	1,090	2,146,331	54	656,953
Montana	208	259,841	4	27,352
Nebraska	481	1,291,617	13	717,217
Nevada	223	988,715	21	666,684
New Hampshire	188	544,914	18	240,315
New Jersey	1,963	4,583,623	152	2,087,171
New Mexico	184	360,418	14	133,249
New York	3,571	11,803,345	331	6,682,967
North Carolina	1,322	2,734,552	76	1,015,954
North Dakota	116	186,580	5	53,199
Ohio	2,175	6,117,946	127	3,254,656
Oklahoma	382	884,171	28	339,239
Oregon	553	963,015	21	283,204
Pennsylvania	2,184	5,289,598	144	2,150,024
Rhode Island	134	440,215	15	260,103
South Carolina	403	1,163,087	34	612,123
South Dakota	149	222,032	5	37,797
Tennessee	686	1,581,215	38	667,986
Texas	2,571	5,953,974	152	2,410,080
Utah	146	237,632	6	54,014
Vermont	174	346,031	9	130,624
Virginia	1,504	3,142,191	74	1,064,442
Washington	850	1,589,678	51	458,928
West Virginia	262	523,763	20	218,310
Wisconsin	790	1,594,486	50	649,930
Wyoming	101	227,169	6	70,502
Other areas	122	318,654	11	164,506

Source: Internal Revenue Service, Statistics of Income Division

Table 2
Top Federal Tax Bracket Taxpayers, By State, 2001

State	All Tax Units		Total Tax Units	Units not in Top Bracket
	# in top bracket	% in top bracket		
Alabama	10,805	0.5%	2,057,000	2,046,195
Alaska	1,731	0.6%	282,000	280,269
Arizona	13,843	0.7%	2,112,000	2,098,157
Arkansas	4,607	0.4%	1,217,000	1,212,393
California	133,060	0.9%	14,398,000	14,264,940
Colorado	16,717	0.8%	2,024,000	2,007,283
Connecticut	16,019	1.0%	1,595,000	1,578,981
Delaware	2,917	0.8%	371,000	368,083
District of Columbia	2,845	1.1%	256,000	253,155
Florida	58,928	0.8%	7,645,000	7,586,072
Georgia	23,853	0.6%	3,756,000	3,732,147
Hawaii	2,409	0.4%	567,000	564,591
Idaho	2,876	0.5%	565,000	562,124
Illinois	52,255	0.9%	5,730,000	5,677,745
Indiana	17,112	0.6%	2,821,000	2,803,888
Iowa	7,244	0.5%	1,389,000	1,381,756
Kansas	7,174	0.6%	1,244,000	1,236,826
Kentucky	8,237	0.4%	1,884,000	1,875,763
Louisiana	9,534	0.5%	1,981,000	1,971,466
Maine	2,858	0.5%	611,000	608,142
Maryland	16,578	0.7%	2,494,000	2,477,422
Massachusetts	20,520	0.7%	3,092,000	3,071,480
Michigan	29,601	0.6%	4,600,000	4,570,399
Minnesota	20,447	0.9%	2,307,000	2,286,553
Mississippi	5,989	0.5%	1,296,000	1,290,011
Missouri	15,772	0.6%	2,631,000	2,615,228
Montana	1,422	0.3%	421,000	419,578
Nebraska	4,373	0.5%	803,000	798,627
Nevada	8,494	0.9%	934,000	925,506
New Hampshire	4,121	0.7%	589,000	584,879
New Jersey	42,379	1.1%	3,909,000	3,866,621
New Mexico	2,367	0.3%	768,000	765,633
New York	68,372	0.8%	8,700,000	8,631,628
North Carolina	21,201	0.6%	3,778,000	3,756,799
North Dakota	1,241	0.4%	293,000	291,759
Ohio	26,723	0.5%	5,630,000	5,603,277
Oklahoma	7,007	0.5%	1,483,000	1,475,993
Oregon	9,264	0.6%	1,623,000	1,613,736
Pennsylvania	39,987	0.7%	5,833,000	5,793,013
Rhode Island	3,100	0.6%	486,000	482,900
South Carolina	8,710	0.5%	1,858,000	1,849,290
South Dakota	1,693	0.5%	340,000	338,307
Tennessee	15,216	0.6%	2,686,000	2,670,784
Texas	54,705	0.6%	8,922,000	8,867,295
Utah	5,646	0.6%	896,000	890,354
Vermont	1,412	0.5%	287,000	285,588
Virginia	21,366	0.6%	3,318,000	3,296,634
Washington	23,391	0.8%	2,799,000	2,775,609
West Virginia	2,213	0.3%	842,000	839,787
Wisconsin	15,597	0.6%	2,517,000	2,501,403
Wyoming	1,211	0.5%	229,000	227,789
US Totals	907,990	0.7%	128,869,000	127,961,010

Note: US totals include returns filed from other areas.

Source: ITEP Tax Model, PRELIMINARY

Citizens for Tax Justice, May 7, 2001