CENTER ON BUDGET AND POLICY PRIORITIES

820 First Street, NE, Suite 510, Washington, DC 20002
Tel: 202-408-1080 Fax: 202-408-1056 center@cbpp.org www.cbpp.org

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ESTATE TAX AFFECTS VERY FEW FAMILY BUSINESSES

The full report can be viewed at http://www.cbpp.org/6-17-03tax.pdf

A new Center report, *Permanent Repeal of the Estate Tax Would Be Costly, Yet Would Benefit Only a Few, Very Large Estates,* shows that, contrary to the popular impression, today's estate tax has little impact on the vast majority of family businesses and farms. (The American Farm Bureau Federation acknowledged to the *New York Times* in 2001 that it could not cite a single example of a farm having to be sold to pay estate taxes.) Solving the problems of the relatively few family businesses and farms that are affected does not require permanently repealing the estate tax. As the report explains:

- Only two percent of the estates of people who die each year are subject to the estate tax, and this number will fall in coming years as the exemption level for the estate tax rises. (The 2001 tax-cut legislation phases out the estate tax by gradually raising the exemption level and lowering the top rate; the tax is eliminated in 2010 but then returns in 2011, when the entire 2001 tax cut expires.) Of the estates that are subject to tax, very few include family-owned businesses or farms. In 1998, family-owned businesses or farms formed the majority of the estate in just 1,418 taxable estates out of the approximately 2.3 million people who died that year — or six out of every 10,000 people who died.

- Taken together, all farms and family businesses account for less than three percent of the assets in taxable estates valued at less than $5 million.

- Family farms and businesses are already eligible for special treatment under existing law. For instance, estates containing family farms and businesses may use special valuation rules to reduce or eliminate estate tax liability. In addition, when the enterprise accounts for at least 35 percent of an estate, tax payments can be deferred for up to 14 years.

Relief for family farms and businesses can be provided without repealing the estate tax:

- If the estate tax were extended at its 2009 level — with an exemption of $3.5 million ($7 million for couples) and a top rate of 45 percent — only about 10,000 estates nationally would be subject to taxation in 2010. That is less than one half of one percent of the projected 2.6 million deaths in that year. For every 1,000 deaths, 995 people would be exempt from estate taxes altogether, and the remaining five would pay significantly less in tax because of the higher exemption and lower rate.

- A Treasury Department analysis found that raising the estate tax exemption level for family-owned farms and businesses to $4 million ($8 million for married couples), as then-Senator Daniel Patrick Moynihan proposed in 2000, would have exempted *almost all* the family-owned farms and reduced the already small number of family businesses subject to the tax by nearly three-quarters.