

Revised August 30, 2006

SINCE LAST MINIMUM WAGE INCREASE, CONGRESS HAS REDUCED ESTATE TAX BURDENS EIGHT TIMES

If No Further Action Is Taken, Estate Tax Exemption Will Still Increase by 2009 While Value of Minimum Wage Will Continue to Fall

By Aviva Aron-Dine

Legislation passed by the House before it departed for recess links a dramatic reduction in the estate tax with an increase in the minimum wage. In seeking to tie the fate of these two proposals together, House leaders have implied that they address concerns of similar import and urgency.

In reality, of course, the minimum wage increase would benefit 5.6 million workers, while the estate tax reduction would benefit 8,200 very large estates.¹ Moreover, over the past decade, Congress has zealously protected the small number of wealthy estates subject to the estate tax, enacting legislation (in 1997 and 2001) that has reduced estate tax burdens in eight of the past nine years.

In contrast, whether or not the House minimum wage proposal takes effect beginning in January 2007, December 2006 will mark *the longest period without an increase in the federal minimum wage since the minimum wage was established in 1938*. In the nine years since the last minimum wage increase (1997), the value of the minimum wage has fallen by 20 percent, after adjusting for inflation. This year, its purchasing power fell to its lowest level since 1955.

Table 1: Estate Tax Changes Since Last Minimum Wage Increase		
	Estate Tax	Minimum Wage
1998	Exemption Level Increased	No Change
1999	Exemption Level Increased	No Change
2000	Exemption Level Increased	No Change
2001	No Change	No Change
2002	Exemption Level Increased; Top Rate Reduced	No Change
2003	Top Rate Reduced	No Change
2004	Exemption Level Increased; Top Rate Reduced	No Change
2005	Top Rate Reduced	No Change
2006	Exemption Level Increased; Top Rate Reduced	No Change

¹ See Joel Friedman and Aviva Aron-Dine, "Comparing the House Minimum Wage and Estate Tax Proposals: Who Benefits and By How Much?" Center on Budget and Policy Priorities, revised August 3, 2006.

Further Estate Tax Reductions Will Occur Whether or Not Congress Acts

House leaders have been extremely reluctant to allow any vote on a minimum wage increase, but have held two votes on major estate tax reductions within the past six weeks and three votes during this session of Congress. This prioritization is especially striking given that, even if Congress takes no further action, the estate tax exemption will continue to rise. As Table 2 shows, the estate tax exemption will increase to \$3.5 million for an individual (\$7 million for a couple) in 2009.²

Under the 2009 estate tax law, the estates of only *3 in 1,000* people who die will owe any estate tax; the other 997 will be completely exempt. Yet the House has rushed to enact costly legislation that would reduce the tax below the 2009 levels, and has pushed to lock in those changes now, four years before the estate tax cuts enacted in 2001 are slated to expire.

Meanwhile, in the absence of Congressional action, the value of the minimum wage will only continue to deteriorate. By 2009, the purchasing power of the \$5.15 an hour minimum wage will be about 25 percent below where it was when it first took effect in 1997.

Table 2: Estate Tax Exemption Versus Minimum Wage		
	Estate Tax Exemption	Minimum Wage
1997	\$600,000	\$5.15
1998	\$625,000	\$5.15
1999	\$650,000	\$5.15
2000	\$675,000	\$5.15
2001	\$675,000	\$5.15
2002	\$1.0 million	\$5.15
2003	\$1.0 million	\$5.15
2004	\$1.5 million	\$5.15
2005	\$1.5 million	\$5.15
2006	\$2.0 million	\$5.15
2007	\$2.0 million	?
2008	\$2.0 million	?
2009	\$3.5 million	?

² Under 2001 law, the estate tax is then repealed for one year in 2010 and comes back into effect in 2011 with a \$1 million exemption and a 55 percent top rate.