Federal Tax Policy in focus:
Proposed Repeal of the Estate Tax

Background on the Estate Tax:

- Under the tax-cut law enacted in 2001, the estate tax will be reduced in coming years, repealed in 2010, and then reinstated in 2011 at pre-2001 law levels. The Administration has called for making repeal permanent after 2010.
- Permanent repeal of the estate tax would be extremely costly. Yet few support returning to pre-2001 law (which would set the estate tax exemption at $1 million and the top tax rate at 55 percent). So there is a push to find an appropriate reform.

Why should the education community care about the estate tax?

- The Federal government currently faces enormous budget deficits. The tax cuts enacted in recent years have added to the deficit, worsening the outlook.
- The current budget reflects this strain on government finances, calling for program cuts in a range of areas, including education, and the potential loss of federal grants to states.
- The estate tax is the next major tax issue that the Senate is expected to take up, possibly as soon as the first week of September.

While a full repeal of the estate tax does not appear to have enough support, there will be compromise proposals.

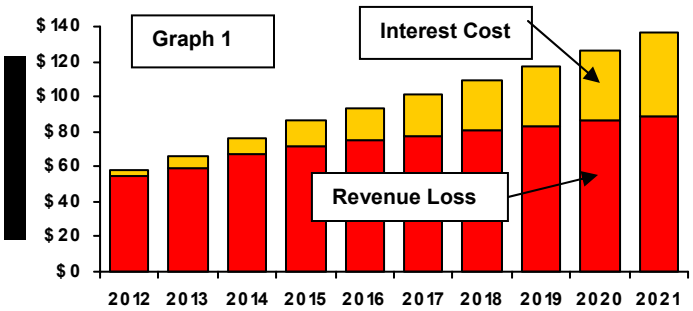
Senator Jon Kyl (R-Ariz.) has proposed setting the exemption level initially at $3.5 million per person ($7 million per couple) and the top rate at the capital gains rate (which is currently 15 percent). The Kyl proposal loses ***about three-quarters*** of the revenue that otherwise would be lost if the estate tax were repealed.

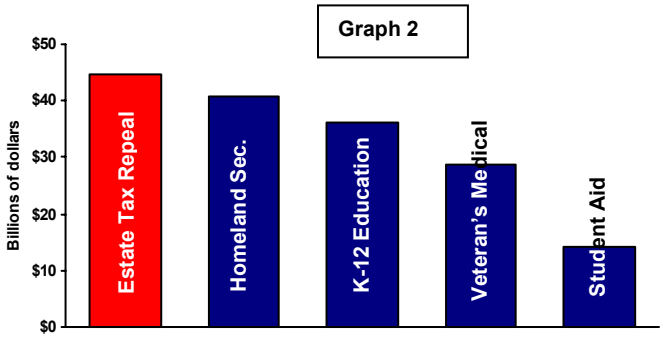
Lowering the top rate (as proposed by Sen. Kyl) ensures a massive tax cut for the wealthiest estates only!

Good compromise:
A modest increase in the estate tax exemption amount (to $3.5 million, e.g.) would substantially ease the burden on small businesses and family farms.

Bad compromise:
By lowering the rate, Kyl and others would be providing a massive tax cut only for this group (the 3 out of every 1,000 people who pay the estate tax). This tax cut would come at a substantial cost to the federal government and other less privileged taxpayers.

Putting it all in perspective





Graph 1: *Estate Tax Repeal Costs Nearly $1 Trillion Over 10 Years; Cost, with interest, fiscal years 2012-2021*

Graph 2: *One-year cost of estate tax repeal vs. 2005 program funding levels*

For more information on the repeal or modification of the federal estate tax, go to http://www.cbpp.org/pubs/estatetax.htm (The Center on Budget Policy and Priorities).