

June 5, 2006

Honorable Norm Coleman
United States Senate
Washington, D.C. 20510

Dear Senator Coleman:

We are writing to express our strong opposition to legislation which would repeal the federal estate tax as well as the Kyl amendment or similar legislation which would radically reform the estate tax in such a way as to significantly increase the federal deficit and harm incentives for charitable giving.

- At a time of large federal budget deficits, repeal of the estate tax is unaffordable at an estimated cost of \$1 trillion over the first ten years it is in effect.¹ This loss of revenue would further expand the budget deficit and threaten the nation's ability to fund its priorities.
- Repeal or radical reform of the estate tax is unfair, as it would further shift responsibility for funding our national priorities away from those with the greatest ability to pay.
- Repeal or radical reform of the estate tax would take away incentives for charitable giving, incentives that have been important in creating and supporting philanthropy in Minnesota and across the country.

Repeal or Radical Reform of the Estate Tax is Unaffordable

With the federal deficit projected to exceed \$300 billion in the current fiscal year and with expenditures for the war in Iraq and hurricane-related relief exceeding early estimates, repeal or radical reform of the estate tax would deprive the federal government of revenue needed to address urgent national priorities. Congress has already voted twice this year to increase the debt limit. The estimated cost of \$1 trillion for repeal of the estate tax over the first ten years includes \$745 billion in lost revenue as well as \$225 billion in higher interest payments on the national debt. That is more than what the federal government currently spends each year individually for homeland security, K-12 education, or veterans' medical care.²

The Kyl amendment, which would cut the top estate tax rate from the current 46 percent to 15 percent (the same as the current top capital gains tax rate), is also an expensive proposition from

¹ Center on Budget and Policy Priorities, *The Estate Tax: Myths and Realities*, www.cbpp.org/estatetaxmyths.pdf.

² Center on Budget and Policy Priorities, *Issues Surrounding the Federal Estate Tax: Impact of Repeal vs. Reform*, www.cbpp.org/estatetaxslideshow.htm.

a revenue loss perspective. Under the guise of reform, the Kyl amendment would have a fiscal impact similar to repeal, as it would lose 84 percent of the revenue that would otherwise be collected by the estate tax.

Repeal or Radical Reform of the Estate Tax is Unfair

The estate tax is notable for being the most progressive component of a federal tax code that is only modestly progressive. This tax only affects those who are most able to pay and the revenues raised by the estate tax are used by the federal government to support a broad range of programs and services which benefit all Americans. The estate tax actually applies to only a small number of estates. The Tax Policy Center estimates that in 2006, only 12,600 estates will be subject to the estate tax, or 0.5 percent of all estates. In other words, 99.5 percent of all people who die in the U.S. this year will be able to pass on 100 percent of their assets to their heirs free of any federal estate tax. In 2006, estates with values in excess of \$10 million will pay 64 percent or nearly two-thirds of all estate taxes.³

The estate tax does not threaten small family-owned farms and businesses. The Congressional Budget Office (CBO) has estimated that if the current estate tax levels had been in effect in 2000, then only 123 farm estates and 135 family-owned businesses in the entire country would have been subject to the estate tax. As the exemption level rises over time, even fewer family farms and businesses would be affected.

Because of the significant deductions and exemptions available to shield estates from taxation, the actual share of the estate paid in estate taxes is significantly less than the current top estate tax rate of 46 percent. Those few estates that will pay any estate tax in 2006 will on average pay less than 20 percent of their assets in estate taxes. This effective tax rate (or percentage of assets paid in taxes) will also fall over time as the exemption amounts increase and tax rates fall.

Repeal or Radical Reform of the Estate Tax Would Diminish Charitable Giving

Under current law, any part of an estate that goes to a charitable donation is exempt from the estate tax, thereby providing a valuable incentive for charitable giving. Minnesota benefits greatly from private foundation grants made possible by the incentive of the estate tax. In fact, some of Minnesota's largest foundations would not exist but for the estate tax. Repeal or radical reform of the estate tax would have a devastating impact on foundations and nonprofit organizations that do important work in our communities and that depend upon charitable contributions for their survival.

A 2004 study by the Congressional Budget Office (CBO) found that repeal of the estate tax would cause charitable contributions to fall by large amounts. The study found that in 2000, charitable contributions and bequests totaled \$212 billion. If the estate tax had not been in place in 2000, charitable donations would have decreased by an estimated 6 percent to 12 percent, or \$13 billion to \$25 billion nationwide. By way of comparison, corporate charitable donations in 2000 totaled \$11 billion.⁴ Similarly, by drastically reducing the top estate tax rate, the Kyl

³ Tax Policy Center, Table T06-0020, *Current Law: Distribution of Gross Estate and Net Tax By Size of Gross Estate, 2006*, www.taxpolicycenter.org/taxmodel/tmdb/tmtemplate.cfm.

⁴ Center on Budget and Policy Priorities, *New CBO Study Finds That Estate Tax Repeal Would Substantially Reduce Charitable Giving*, www.cbpp.org/8-3-04tax.htm.

amendment would have a similar negative impact upon charitable contributions. Clearly, repeal or radical reform of the estate tax would have a profoundly negative impact on charitable contributions and nonprofit organizations in Minnesota and across the nation.

For these reasons, we urge you to vote NO on any legislation to repeal the federal estate tax and to vote NO on the Kyl amendment or similar legislation which would radically reform the estate tax in a manner that increases the deficit and eliminates or diminishes incentives for charitable giving.

Sincerely,

Steve Francisco
Federal Policy Director
Minnesota Council of Nonprofits

On behalf of the Minnesota Council of Nonprofits and the following organizations:

African American Family Services, Minneapolis	Lakes Area Youth Service Bureau, Forest Lake
Apple Tree Dental, Minneapolis	Land Stewardship Project, Minneapolis
Archdiocese of St. Paul and Minneapolis, St. Paul	Lutheran Social Service of Minnesota, St. Paul
Brain Injury Association of Minnesota, Minneapolis	Minneapolis Highrise Representative Council, Minneapolis
Central Minnesota Task Force on Battered Women, St. Cloud	Minnesota AFL-CIO, St. Paul
Children's Defense Fund Minnesota, St. Paul	Minnesota Farmers Union, St. Paul
COMPAS - Community Programs in the Arts, St. Paul	Minnesota National Organization for Women (NOW), St. Paul
Dakota Woodlands, Eagan	National Association of Social Workers MN Chapter, St. Paul
Early Childhood Resource and Training Center, Minneapolis	Out Front Minnesota, Minneapolis
Families Moving Forward, Minneapolis	Planned Parenthood of Minnesota, North Dakota, South Dakota, St. Paul
Family & Children's Service, Minneapolis	Residents for Affordable Housing, Minneapolis
Family Tree Clinic, St. Paul	Saint Paul Area Council of Churches, St. Paul
Franciscan Sisters of Little Falls, MN Leadership Team, Little Falls	Sandweiss & Associates, Minneapolis
Glesener's, Inc., Bird Island	Second Harvest North Central Food Bank, Grand Rapids
HOME Line, Minneapolis	Sisters of St. Joseph of Carondelet Ministries Foundation, St. Paul
Immunization Action Coalition, St. Paul	The Arc of Minnesota, St. Paul
Independent Lifestyles, Inc., St. Cloud	The Center for Victims of Torture, Minneapolis
Intercongregation Communities Association, Minnetonka	The Mercy Foundation, Moose Lake
Jacob Wetterling Foundation, St. Paul	Twin Ports Area Nonprofit Coalition, Duluth
Jewish Community Action, St. Paul	West Central Industries, Inc., Willmar
JOBS NOW Coalition, St. Paul	Winona Senior Advocacy Program, Winona
Kinship of Greater Minneapolis, Minneapolis	Women of Nations, St. Paul
	Woodland Hills, Duluth