

## What is the estate tax? Who pays it?

The federal estate tax is a tax on the transfer of large amounts of money. When someone dies, his or her assets (the person's estate) are distributed to heirs. If the total value of the estate is large enough, an estate tax is imposed before the assets are distributed. In 2003, the net value of an individual's estate must exceed the basic exemption of \$1 million, with a \$2 million exemption for couples. As part President Bush's 2001 Tax cut, this exemption will gradually rise to \$3.5 million for an individual (\$7 million for couples) by 2009. Currently, with planning, small business owners can pass on \$5 million tax-free. For farms, that figure is \$8 million.

**FACT:** Estate taxes do not hurt Minnesotans.

*Opponents of a fair estate tax claim that estate taxes penalize hard-working families who simply want to pass the fruits of their labor on to their children. The estate tax is overwhelmingly paid by those most able to pay. Because of the generous exemptions offered as part of the estate tax, it is a tax few low- and middle-income families, and relatively few upper-income families, ever have to pay, as 98% of Americans are never subject to the estate tax.*

## Who pays the estate tax?

Only the wealthiest 2% of Americans pay the estate tax. And it is estimated that less than 0.5% of estates will be taxed in 2009, when the exemption will be \$3.5 million. As the only significant federal tax on accumulated wealth, the estate tax is an important part of a fair tax system, which is why calling the estate tax a "death tax" is attention getting, but false.

In Minnesota, only 530 estates in 2000 had to pay any estate tax, out of 37,000 deaths. If the exemption were raised to \$3.5 million per individual, the estate tax would only affect about 75 estates per year.

Statistical sources throughout this brochure were provided by: United for a Fair Economy; Americans for a Fair Estate Tax; Effects of Estate Tax Reform on Charitable Giving, Urban-Brookings Tax Policy Center; The Summer 1999 Statistics of Income Bulletin; Arkansas State Fiscal Analysis Initiative; The Estate Tax and Charitable Giving: State-by-State Analysis, John S. Irons, OMB Watch.

## Facts and figures on the estate tax

- Only the wealthiest 2% of Americans are subject to the estate tax.
- One half of all estate taxes are paid by the top 0.15% wealthiest Americans. These are people with estates larger than \$5 million.
- Repealing the estate tax would result in large tax cuts to the heirs of America's millionaires and billionaires, concentrating wealth and political power in fewer hands.
- Elimination of the estate tax will reduce federal revenue by \$982 billion over the next 20 years.
- By providing an unlimited deduction for charitable giving, the estate tax offers a valuable incentive to donate to charity and has played a crucial role in creating a thriving nonprofit sector.
- Higher education institutions, museums, religious groups, and many human service organizations will be directly affected if the estate tax is repealed.
- In Minnesota, repeal of the estate tax would equal a loss of \$197 million per year in charitable giving, or \$33,708 per charity.

## Other resources regarding the estate tax

**Minnesota Council of Nonprofits** is leading a local public education campaign on the devastating impact repeal of the estate tax would have on charitable giving. Sign up to receive updates regarding the estate tax and learn more about what you can do to help spread the word about the positive impacts of the tax and devastating effect of repeal.

[www.mncn.org/estatetax.htm](http://www.mncn.org/estatetax.htm)

**Americans for a Fair Estate Tax (AFET)** is a broad-based non-partisan coalition of nonprofits. AFET advocates that Congress should reform the estate tax to safeguard Medicare, Social Security, education, charities and other key national priorities that would be threatened by complete repeal.

[www.ombwatch.org/estatetax/](http://www.ombwatch.org/estatetax/)

**United for a Fair Economy (UFE)** coordinates national grassroots action to preserve the estate tax. UFE is a national, independent, nonpartisan organization that puts a spotlight on the damaging consequences of growing economic inequality.

[www.faireconomy.org](http://www.faireconomy.org)

### **Wealth and Our Commonwealth: Why American Should Tax**

**Accumulated Fortunes** (Beacon Press: 2003), by Bill Gates, Sr., co-chairman of the Bill and Melinda Gates Foundation and UFE co-founder Chuck Collins. The authors weave in personal narratives, history, and solid economic sense to make a sound and compelling case for estate tax reform, not repeal. Available in bookstores or at [www.ResponsibleWealth.org](http://www.ResponsibleWealth.org).

*Help stop a devastating reduction in charitable giving*

## The case for reforming the estate tax

Proposed changes in federal tax law would mean a loss of \$197 million to Minnesota charities per year.

*"Wealthy people are some of the most generous contributors to our community, and they give because they care, and want to share and make good things happen. Deciding how much to give is complicated, but for people with a lot of money the tax laws are very important. We need a fair estate tax to keep Minnesota's generous tradition alive, especially when our community's needs are so great."*

Joe Selvaggio, Executive Director, One Percent Club

Reform options for the estate tax.  
Don't harm our communities.

## The Estate Tax and Charitable Giving

By excluding an unlimited amount for charitable giving, the estate tax offers a valuable incentive to donate to charity. One-third of private foundation revenues come from estate tax giving. Minnesota benefits greatly from private foundation grants made possible by the incentive of the estate tax. \$200 million in grants are made each year by Minnesota foundations that would not exist but for the estate tax – endowed by donors that made lasting contributions for years to come.

In 1999, estate tax filers in the U.S. paid \$28 billion in gift and estate taxes, and made charitable bequests of nearly \$15 billion. Higher education institutions, museums, religious groups, and many human service organizations will be directly affected if the estate tax is repealed. It is estimated that their revenues through bequests and donations could decline as much as 23 - 40% under repeal, which will mean a loss of \$10 billion annually.

### **FACT:** The estate tax does not hurt family farms or small business owners.

*Arguments for complete repeal sometimes suggest that farmers and small business owners are forced to sell to pay estate taxes, though congressional and other independent studies have shown this concern to be greatly exaggerated. Few family farms are ever subject to the estate tax. In 2001 The American Farm Bureau Federation did not find a single case of a family farm lost due to the estate tax. Examples of the "family businesses" advocating for complete repeal are in fact very large companies, including: Mars Candy, Gallo Wines, and the Seattle Times Company. Most of the value of family-owned businesses (66-80%) is made up of unrealized capital gains. Without the estate tax these gains would never be taxed.*

## Implications repeal would have on Minnesota

In Minnesota, repeal of the estate tax would translate to a loss of \$197 million per year in charitable giving (based on 2001 charitable bequest data), or an average of \$33,708 per charity. Repeal of the estate tax would have a devastating effect on charitable contributions and greatly reduce the number of new foundations being created. The nonprofit sector is important to Minnesota for the services, culture, and education it provides, and the economic development it creates.

### **FACT:** Estate taxes are not double taxation.

*The estate tax is one part of a balanced tax system which does not favor one type of income over another. Opponents claim estate taxes are unfair because the assets in an estate have already been taxed as regular income and should not be taxed again. This is untrue. A significant portion of an estate's value, and the majority of the value in the largest estates, has never been taxed as regular income because the value is in the form of unrealized capital gains.*

*Without an estate tax, the capital gains that are part of an estate would never be taxed. If an individual holds an asset until s/he dies, the gain in the asset's value from the time it was purchased has never been taxed. Under the estate tax, however, untaxed capital gains are included in a decedent's estate, and if the estate is large enough, will be taxed through estate taxes.*

Complete repeal of the estate tax would be bad for our democracy, our economy, and our society. Elimination of the estate tax would reduce federal revenue by nearly \$1 trillion over the next two decades, lower Minnesota tax revenues, and have a devastating impact on charitable giving. As a constructive part of the U.S. tax structure for 85 years, the estate tax does not prevent families from passing on wealth to their heirs, and encourages charitable giving. With federal deficits exceeding \$400 billion per year, complete repeal of the estate tax would irresponsibly expand the enormous national debt for future generations of Americans and reduce the resources available for local communities.

## Take Action to Reform the Estate Tax!

The Minnesota Council of Nonprofits supports reform of the estate tax, and opposes complete repeal. We need you to help spread the word about the positive impacts of the estate tax and the devastating affects repeal would have on charitable giving.

If you would like to receive additional information from the Minnesota Council of Nonprofits on this issue, please complete and return the form below or subscribe online at [www.mncn.org/estatetax.htm](http://www.mncn.org/estatetax.htm).

### **\_\_\_ Yes! I would like to receive email updates about reforming the estate tax.**

Name \_\_\_\_\_

Title \_\_\_\_\_

Organization \_\_\_\_\_

Email address \_\_\_\_\_

Street address \_\_\_\_\_

City, State, ZIP \_\_\_\_\_

Please mail or fax this form to:  
Minnesota Council of Nonprofits  
2314 University Avenue W Ste 20  
St. Paul, MN 55114  
Phone: (651) 642-1904  
Fax: (651) 642-1517

For more information on the estate tax, visit [www.mncn.org/estatetax.htm](http://www.mncn.org/estatetax.htm)