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Who Pays the Federal Estate Tax?

Congressional leaders are once again pushing for permanent repeal of the federal estate tax. This clamor for immediate action is odd enough given that the currently scheduled estate tax phase-out won't revert back to prior law until 2011. But newly released IRS data on estate tax returns filed in 2004 make it even clearer that Congressional tax writers are seeking to enrich a small group of the very wealthiest Americans at the expense of everyone else. Here is a quick overview of the new IRS data.

What the IRS Data Reveal

In 2003, 2,448,288 Americans died. But only 30,276 of these decedents left behind enough to owe any federal estate tax in 2004 (when returns were generally due). This handful of taxable estates paid \$21.6 billion in federal estate taxes.

- The 30,276 taxable estate tax returns represented just 1.24 percent of all the people who died in 2003.
- Most of the \$21.6 billion in federal estate taxes was paid by a tiny number of the very largest estates. The 520 taxable estates worth over \$20 million paid more than a quarter of the 2004 estate taxes. And the 3,494 taxable estates worth over \$5 million—0.1 percent of decedents—paid 62 percent of all federal estate taxes.

- For all estates bigger than \$1 million (the only ones that were required to file in 2004), only 11.5 percent of the net estate after expenses went to federal estate taxes. A little of the rest (3.4 percent) went to state taxes. But the lion's share, 85.1 percent, went to friends and family.

- Even for the very largest estates, worth more than \$20 million each, only 14 percent of the net estate after expenses went to federal estate taxes.

These modest federal estate taxes stem from several factors: Bequests to spouses and charity are exempt from tax. So is the first \$1 million of any

Where the Money in Estates Goes

Dollar distributions of net estates after expenses (in billions) for all 2004 estate tax filers

Size of estate	Taxes		Friends & Family		Total net estate
	Fed Govt	States	Charity	Heirs	
\$1 – 2.5 million	\$ 3.7	\$ 1.4	\$ 2.3	\$ 60.0	\$ 67.4
\$2.5 – 5 million	4.7	1.0	2.1	28.5	36.2
\$5 – \$10 million	4.4	1.0	1.8	18.6	25.7
\$10 – 20 million	3.2	0.9	1.5	12.1	17.7
\$20 million or more	5.7	2.0	7.3	25.5	40.5
TOTAL	\$ 21.6	\$ 6.3	\$ 15.0	\$ 144.7	\$ 187.6

Shares of where the money goes

Size of estate	Taxes		Friends & Family		Total net estate
	Fed Govt	States	Charity	Heirs	
\$1 – 2.5 million	5.5%	2.1%	3.5%	89.0%	100.0%
\$2.5 – 5 million	12.9%	2.8%	5.7%	78.7%	100.0%
\$5 – \$10 million	17.0%	3.9%	6.8%	72.3%	100.0%
\$10 – 20 million	18.3%	5.2%	8.2%	68.3%	100.0%
\$20 million or more	14.0%	5.0%	18.1%	62.9%	100.0%
TOTAL	11.5%	3.4%	8.0%	77.1%	100.0%

Note: Total "net estates after expenses" means estates after all expenses and uses except federal and state estate taxes and bequests to charity and heirs.

Sources: IRS, Nov. 2005, with calculations by CTJ, Apr. 2006.

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remaining taxable estate. In addition, the federal tax rates are slightly graduated. They start at 22 percent on the first \$100,000 above \$1 million, and rise to about 41 percent on bigger estates (after taking account of a tax credit for state estate taxes).

“At a time of huge, ongoing budget shortfalls and (closely-related) trade deficits, along with major unmet social needs, the deep concern that our political leaders have for a handful of extremely wealthy people is both puzzling and troubling,” said Robert S. McIntyre, director of Citizens for Tax Justice. “Given the tiny number of taxable estates, which in 2004 averaged only 48 for each Senator and Representative in the entire U.S. Congress, perhaps our leaders know most of these people personally.”

“But even more baffling,” McIntyre added, “is why so many of the 99 percent of Americans who’ll never face the estate tax are willing to let our leaders get away with such misplaced priorities.”

Shares of total federal estate taxes in 2004

By size of estate

Less than \$1 million	0.0%
\$1 – 2.5 million	17.0%
\$2.5 – 5 million	21.5%
\$5 – \$10 million	20.2%
\$10 – 20 million	15.0%
\$20 million or more	26.3%
TOTAL	100.0%

Federal estate taxes in 2004

By size of estate, for all decedents

Size of estate	Total # of decedents	# with estate tax	% with estate tax	Average net estate*	Ave. federal estate tax (all)
Less than \$1 million	2,385,570	—	0.0%	na	\$ —
\$1 – 2.5 million	45,974	21,152	46.0%	\$ 1,466,000	80,000
\$2.5 – 5 million	10,887	5,630	51.7%	3,326,000	427,600
\$5 – \$10 million	3,806	2,166	56.9%	6,765,000	1,148,600
\$10 – 20 million	1,315	808	61.4%	13,494,000	2,466,800
\$20 million or more	736	520	70.7%	55,016,000	7,715,100
TOTAL	2,448,288	30,276	1.24%	na	\$ 8,800

na = not available, because no estate tax returns were filed.

*Net estate reflects estate after all expenses and uses except taxes and bequests.

Note: the main reason why so many estates worth more than \$1 million pay no tax is the spousal exemption.

Sources: Internal Revenue Service and National Center for Health Statistics, with calculations by Citizens for Tax Justice, April 2006.

Background notes: As a result of President Bush’s 2001 tax bill, the federal estate tax is currently being phased out, with full repeal scheduled for 2010. For budgetary reasons, however, the full repeal of the estate tax will last for only one year under current law. In 2011, the estate tax is scheduled to revert back to pre-Bush law. Many Republican members of Congress would like to make the estate tax repeal permanent, but they are having trouble dealing with the estimated \$50 billion-plus cost of doing so.