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Missouri Loses Revenue Due to Estate Tax Repeal

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Have you ever paid estate tax to the Federal or state government? Do you know *anyone* who has?? The chances are rather good that you answered “no.”

According to Internal Revenue Service statistics, only about 2% of all estate transfers result in the payment of estate taxes. Nevertheless, the U.S. Congress is considering legislation that would make the repeal of the estate tax permanent after 2010 when the current phased-in repeal is scheduled to expire. A thumbnail history of the estate tax provides useful information on its importance to state and Federal budgets.

History of Estate Tax

The estate tax was first proposed in 1906 by President Teddy Roosevelt. An estate tax was enacted in 1916 as the Federal government sought to increase revenues in anticipation of becoming involved in World War I. In the era leading up to 1916, many American families had become extremely wealthy and there was concern about too much wealth and power becoming concentrated within a relatively small number of families.

It was also felt that the Federal and state governments were providing and maintaining a political system and economic infrastructure that facilitated business development, resulting in many prosperous families. For the remainder of the 20th century, the Federal and state governments collected significant revenue from the offspring of the ultra wealthy. (Missouri and all state governments were allowed to collect a portion of the Federal estate tax, receiving what is called the “Federal Death Tax Credit”). As noted, the tax affected only 2% of all estate transfers.

This situation began to change in June of 2001 when President George W. Bush signed into law the *Economic Growth and Tax Relief Reconciliation Act of 2001*. Among the provisions was the repeal of the estate tax over 10 years. The law was written such that state governments would lose their portion of this tax over four years.

Repeal Decreases Missouri Revenue

The repeal has had very serious consequences for the Missouri General Fund. In state fiscal year 2001, the estate tax yielded about \$157 million. By fiscal year 2005, which ended June 30, collections had fallen to \$42 million. The current fiscal year 2006 will probably result in estate tax collections falling to approximately \$15 million. Had the estate remained in force in Missouri, the severe budget cuts that have characterized the last five years could have been mitigated.

Given the need for additional revenues for the Federal as well as most state governments, one has to wonder why repealing a tax that affects only the heirs of wealthy people has garnered the needed political support. The answer is that those who have and continue to support the repeal of the estate tax have engaged in a campaign that is short on facts and long on largely false rhetoric.

An Invalid Argument: Save the Family Farm

The primary elements of disinformation used by those supporting the repeal of the estate tax are: referring to this as the “Death Tax”; and asserting that so-called “family farms” (and small businesses) are often sold in order to generate funds needed to pay the “Death” tax. Researchers have found this line of argument to be mostly fabrication. The reasons include:

1. Calling this a “Death Tax” is misleading. The accurate description is “estate tax” because it is a tax on the transfer of assets.
2. There is no known instance of a family farm being sold in order to generate cash to pay an estate tax liability. The average value of farms within taxable estates is well under the exemption levels allowed in current law (\$1.5 million).

Further evidence of the “family farm” myth includes:

- Dr. Neil Harl, an economist at Iowa State University and a well- respected expert, reports that in the three decades he has spent dealing with this issue, he has never encountered a family farm being sold in order to pay estate tax.
- In Chapter 6 of his book *Perfectly Legal*, David Cay Johnson, *New York Times* tax expert, reports in detail on why family farms rarely have been affected by the estate tax.
- In a report released in July 2005, the *Congressional Budget Office* also finds that only 300 farms nationwide would be subject to any estate tax. This number decreases sharply in 2006 and 2009 when the exemption levels rise to \$2.0 million and \$3.5 million.

Restore the Estate Tax

Looking to the future of the estate tax, uncertainty abounds. Under current law the Federal estate tax is scheduled to be restored in 2011 to its pre- 2001 status. At the state level, the situation varies. Eighteen states have acted to retain an estate tax similar to that which existed prior to the 2001 Federal changes... Missouri, however, is not in this group. Despite facing severe budget problems since FY 2001, Missouri policy makers have shown little interest in retaining some sort of estate tax.

As the Missouri General Fund budget is still woefully inadequate in many areas, restoring the estate tax in Missouri is an option that should be considered. A Missouri estate tax similar to that which existed in 2000 would generate revenues approaching \$200 million. This would be of tremendous help to many important programs and would impact only extremely wealthy families. When given accurate information about the estate tax, many Missouri citizens may well favor its restoration.

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