

# Varying Degrees of Estate Taxation

An Analysis of Different Estate Tax Options



Brandi Simonson

# Outline

- ✓ Problem Statement
- ✓ Setting
- ✓ Background
- ✓ Methods Summary
- ✓ Results
- ✓ Conclusion/Recommendations
- ✓ Additional Thoughts

# Problem Statements



- What combination of Estate Tax exemption levels and tax rates has the greatest benefits for both agricultural operations and the economy as a whole?
- Is the Estate Tax a "GOOD" tax?

# Problem Setting

## History of the Estate Tax



- Originally enacted as a “stamp” tax in 1797 , abolished in 1802
- Reenacted in 1862 to raise revenue for the Civil War then repealed in 1870
- 1898 financed the Spanish-American War and again abolished in 1902
- World War I brought about the last introduction of the tax in 1916

# Problem Setting

## More Recent History

- Tax Reform Act of 1976
- The Taxpayer Relief Act of 1997
- The Economic Growth and Taxpayer Relief Reconciliation Act of 2001 (EGTRRA)
- The Tax Reduction and Reform Act of 2007
- the Estate Tax Provisions of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (TRA 2010)

Year	Estate Tax Exemption	Top Estate Tax Rate
1997	\$600,000	55%
1998	\$625,000	55%
1999	\$650,000	55%
2000	\$675,000	55%
2001	\$675,000	55%
2002	\$1,000,000	50%
2003	\$1,000,000	49%
2004	\$1,500,000	48%
2005	\$1,500,000	47%
2006	\$2,000,000	46%
2007	\$2,000,000	45%
2008	\$2,000,000	45%
2009	\$3,500,000	45%
*2010	\$5,000,000 or \$0	35% or 0%
2011	\$5,000,000	35%
2012	\$5,000,000	35%
2013	\$1,000,000	55%

# Background

## Related Works



- Congressional Research Center
  - 2010 Report for Congress
- Economic Research Service/ USDA
  - 2009 Amber Waves Publication

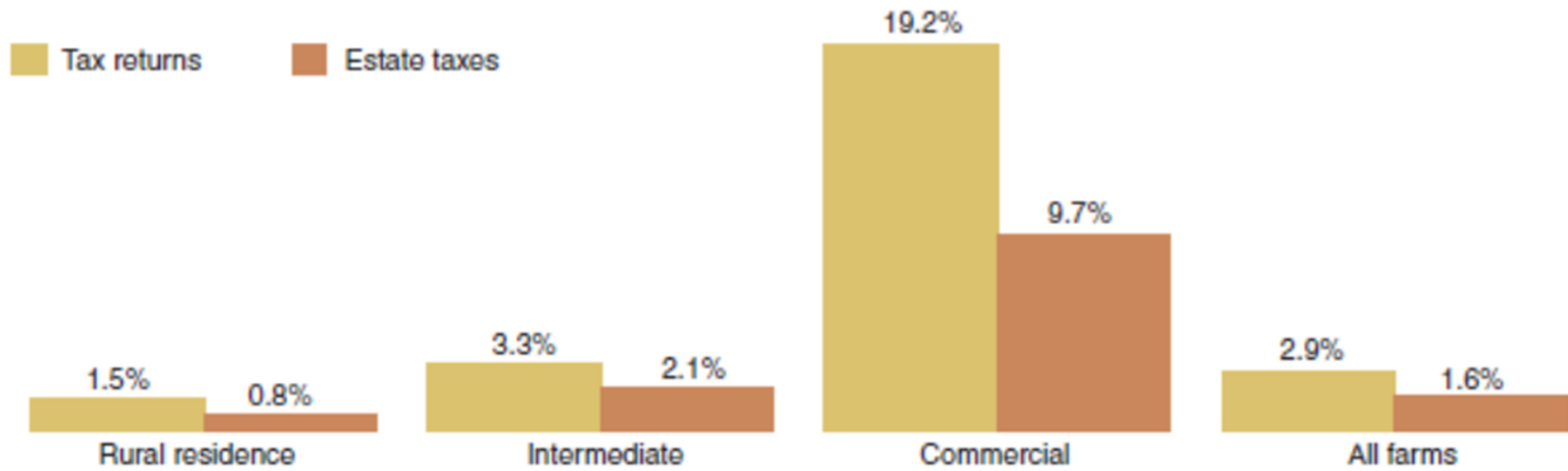
# Background

Agriculture

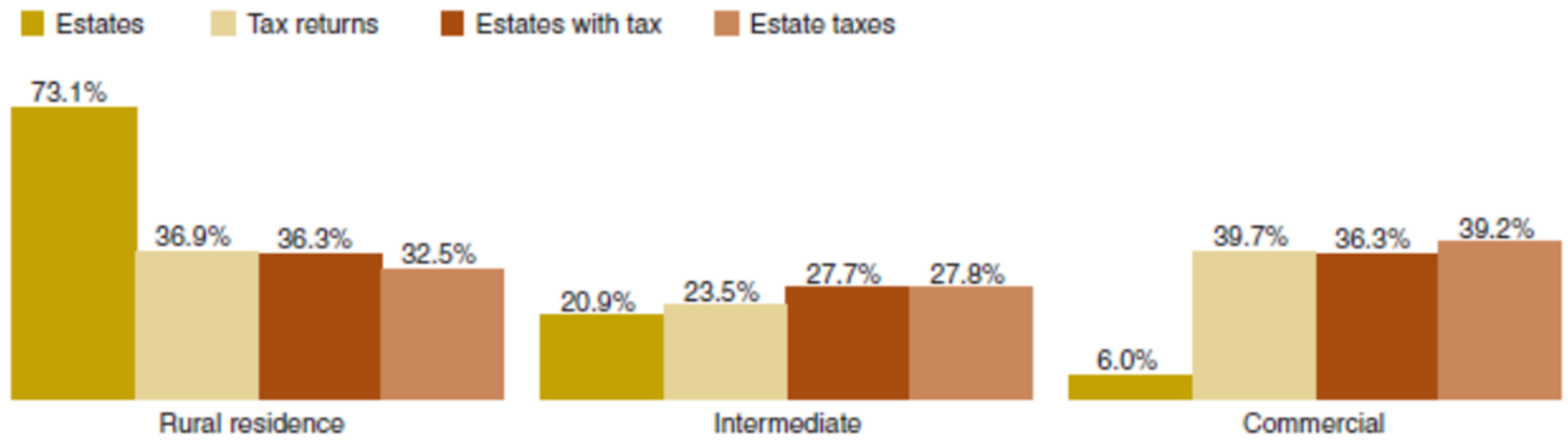


- Worry of not being able to pay Estate Tax without selling assets
- High amounts of wealth and assets
- Larger portion of assets are illiquid (Land, buildings, livestock, etc.)
- More likely to owe Estate Taxes than average U.S. households
- Special provisions

**Commercial farm estates are more likely to file a return and owe Federal estate taxes in 2009**



**Commercial farm estates account for only 6 percent of all farm estates but nearly 40 percent of Federal estate taxes**





# Method of Analysis

## Policy Analysis

- Verify, define and detail the problem
- Establish evaluation criteria
- Identify alternative policies
- Assess alternative policies
- Display and distinguish among alternatives
- Implement, monitor, and evaluate the policy

# Method of Analysis

Adam Smith's "Canons of Taxation"

## *Smith's original four canons were:*

- The cost of collection must be low relative to the yield
- The timing and amount to be paid must be certain to the payer
- The means and timing of payment must be convenient to the payer
- Taxes should be levied according to ability to pay

## *Three more have been added by modern economists:*

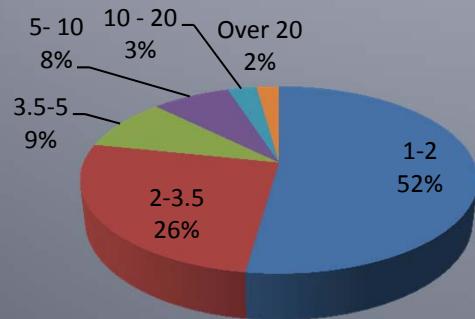
- A tax must not hinder efficiency or should involve the least loss of efficiency
- A tax should be compatible with foreign tax systems
- Tax should automatically adjust to changes in the rate of inflation

# Results

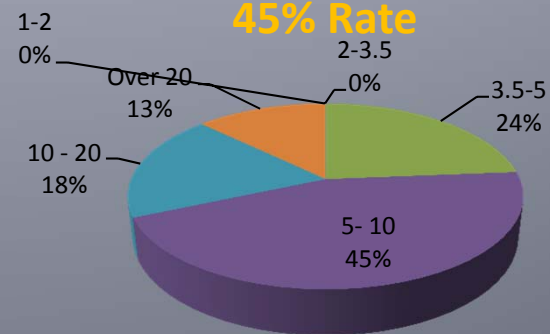


% Distribution by Size of Estate

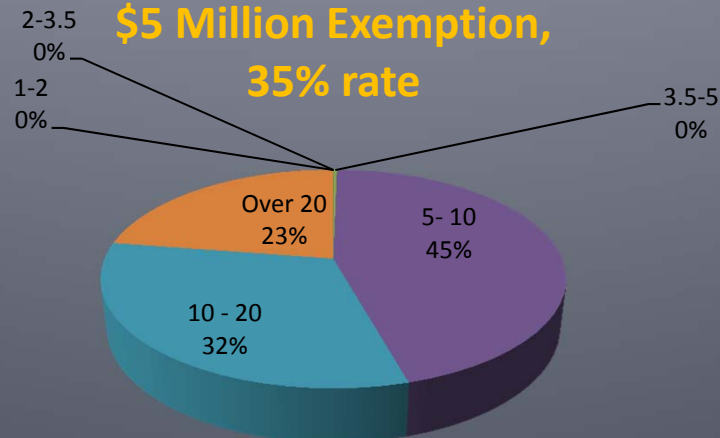
**\$1 million Exemption,  
55% rate**



**\$3.5 million Exemption,  
45% Rate**



**\$5 Million Exemption,  
35% rate**



- 1-2
- 2-3.5
- 3.5-5
- 5-10
- 10-20
- Over 20

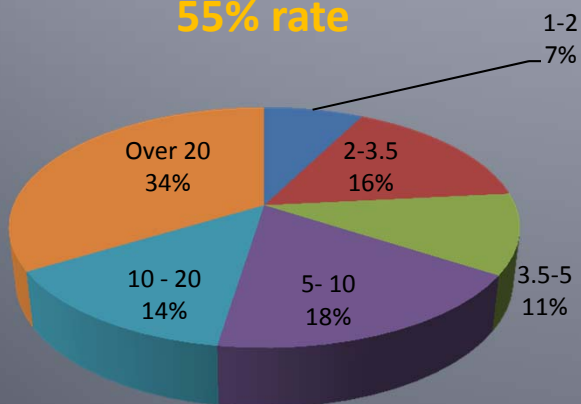
# Results

% Distribution by Return Type

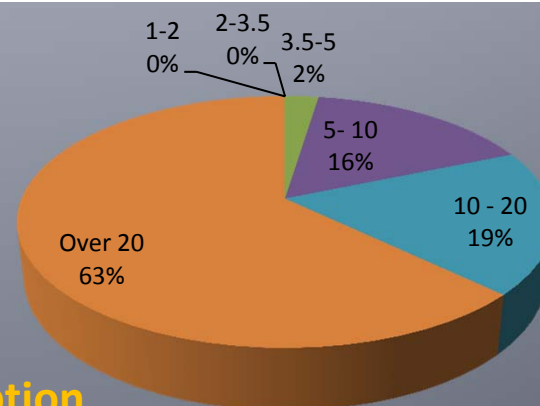
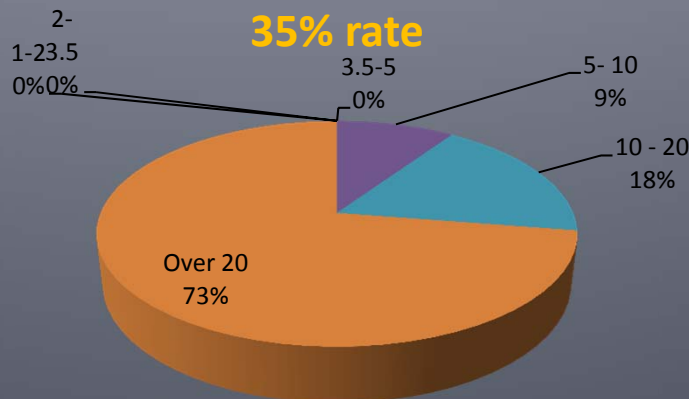


**\$3.5 Million Exemption,  
45% Rate**

**\$1 Million Exemption,  
55% rate**



**\$5 Million Exemption,  
35% rate**

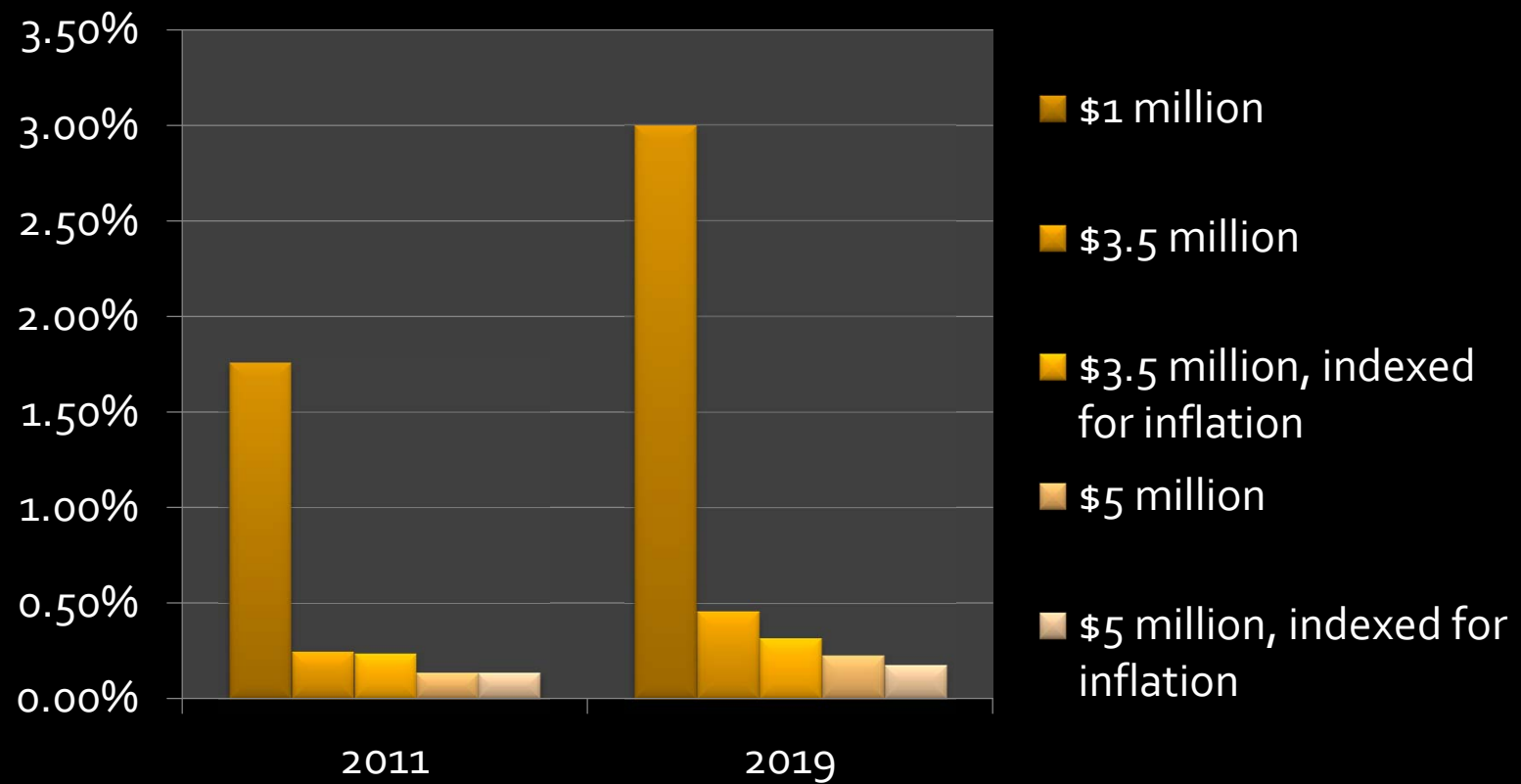


- 1-2
- 2-3.5
- 3.5-5
- 5-10
- 10-20
- Over 20

# Results

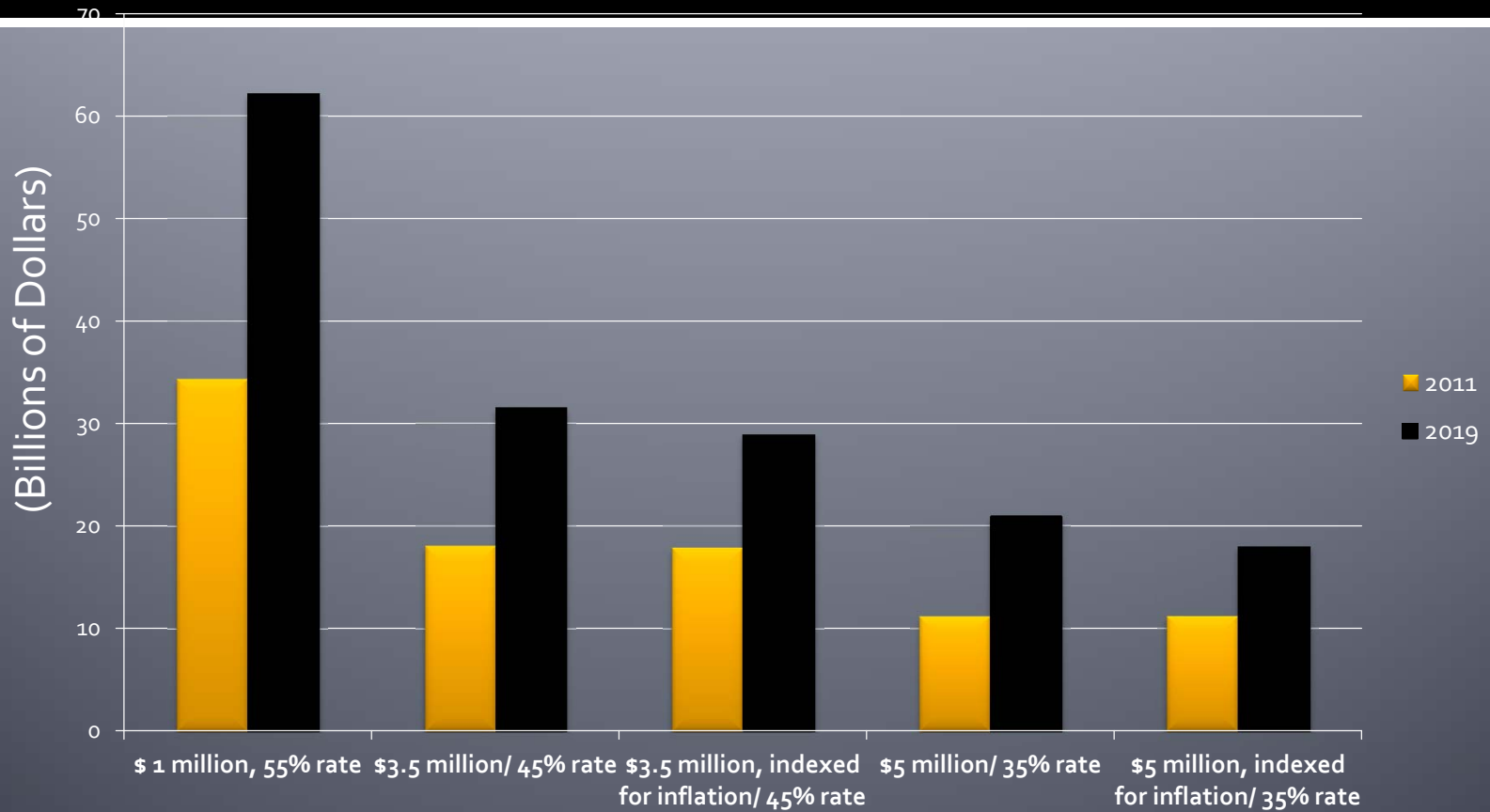


% of Decedents Affected



# Results

## Estate Tax Liability



# Conclusion

- Both the \$3.5 million/ 45% rate and \$5 million/ 35% rate are easily shown to decrease the effect on smaller operations and limit decedents subject to the tax.
- \$1 million/ 55% rate gains higher liability for the government but also puts larger portion of the tax burden on smaller estates.

# Recommendations

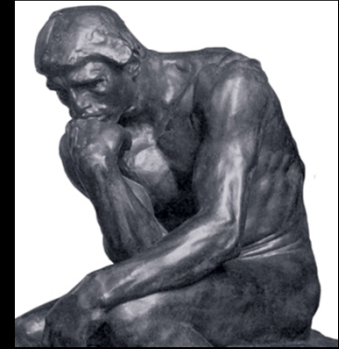
The combination containing an exemption level of \$3.5 million and a taxation rate of 45% would be the best choice

- It reduces the burden on smaller estates while still producing in a significant amount of revenue for the government
- Has a relatively low percentage of decedents that will be subject to the tax
- Places small burden on agricultural operations



# Additional Thoughts

Strengths, Weaknesses, and Improvements



- There has been a lot of research already done on this subject
- Information used for data was relatively transparent
- Biases among political parties
  - Garbage in – Garbage Out
- Agricultural tax information is somewhat unclear
- There is a lot of time and effort spent over something that doesn't contribute much in the form of revenue despite which alternative is chosen.

**Questions?**