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RAISING ESTATE TAX WILL SUBSTANTIALLY AFFECT MIDDLE CLASS FAMILIES

High Marginal Cost to Cause Economic Damage If Not Repealed, Says NCPA Report

Dallas, TX (January 28, 2010) – If Congress does not act soon to repeal the estate tax it will impose an enormous tax rate that will even affect middle-class families and cause substantial economic damage, according to a new analysis by the National Center for Policy Analysis. The tax is scheduled to disappear this year but return at a much higher rate in 2011,

"Out of all the taxes in the U.S. tax system, the estate tax probably does the most damage to output and income per dollar of revenue earned," said Stephen Entin, President and Executive Director of the Institute for Research and Economics of Taxation.

In 2009 the estate tax rate was 45 percent for estates valued at $3.5 million down from 55 percent in previous years, due to the 2001 Bush tax cuts. However, in 2011 the estate tax will go back up to 55 percent for estates valued at $1 million.

There are several layers of the estate tax that will affect millions of Americans if not completely repealed this year, including a generation-skipping tax and taxes on savings and labor, according to the NCPA analysis.

A generation-skipping tax (GST) is enforced if a bequest goes to a grandchild or other relative more than one generation removed from the decedent. The GST rate is equivalent to imposing a 45 percent estate tax rate, then imposing another 45 percent rate on the remaining 55 percent of the estate if it goes from the surviving child to the grandchild.

Then there is a tax on savings and labor. In 2009, a worker in the 33 percent tax bracket faced tax rates of over 72 percent – nearly 85 percent with GST. However, in 2011 these rates are scheduled to rebound to pre-2001 levels, in which their federal income tax rate would have been 36 percent. The combined federal and state income, payroll, and eventual estate tax rates could have easily exceeded 78 percent – or 90 percent with the GST.

"A tax rate at that level is prohibitively high and creates an incentive to retire instead of continue to work to add to an estate," Entin said. "The high tax rates discourage saving and investment at the margin, and family businesses would have significant difficulty surviving in the event of a principal owners death."

If estate tax rates revert to pre-2001 levels:

- Private sector output and labor compensation would be cut by $183 billion and $122 billion, respectively.
- GDP would eventually be reduced by $183 billion
- By contrast, repealing the estate tax entirely would boost labor income by $79 billion and add $119 billion to GDP.

"The economy, the pre-tax and post-tax incomes of workers, savers, and investors, plus federal, state, and local revenue would all be higher if the estate tax was eliminated completely," Entin said.

For more information or to see the full NCPA analysis, log on to http://www.ncpa.org/pub/ba688.