
Iowa Fiscal Partnership

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Report Shows Big Estate Tax Breaks for Iowans New IRS Data Show Dramatic Drops in Iowans' Estate Taxes

MOUNT VERNON, Iowa (Monday, June 5, 2006) – As the U.S. Senate prepares to vote on possible repeal of the estate tax, a new report shows Iowans' small businesses and farms are rarely affected by the tax and few will receive any benefit from possible Senate action.

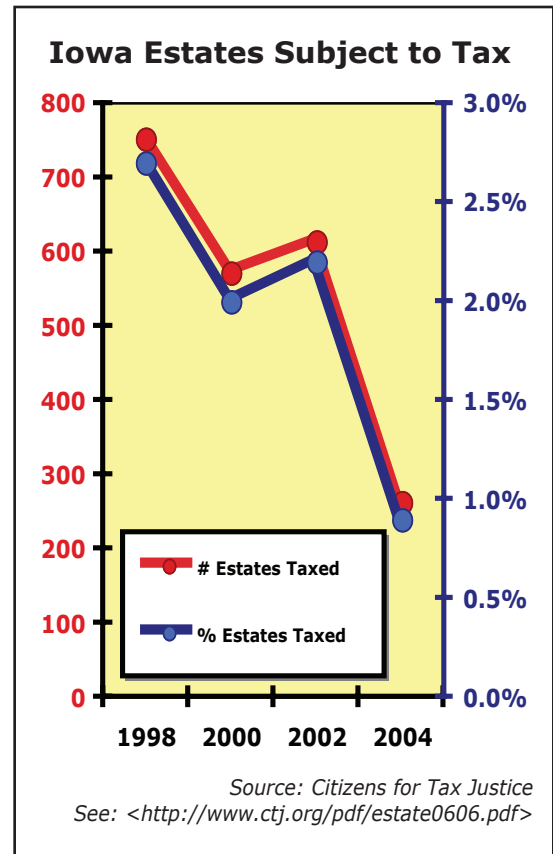
The number of multimillion-dollar estates in Iowa that pay any estate tax dropped by two-thirds from 1998 to 2004 and by more than half from 2002 to 2004, according to the report released Monday by the nonpartisan Citizens for Tax Justice (CTJ).

"Fewer than 1 percent of Iowa estates had to pay any estate tax in 2004 — and that number will fall even further this year because exemptions are already scheduled to expand again," said David Osterberg, executive director of the nonpartisan Iowa Policy Project (IPP).

"To repeal the tax or substantially cut the tax rate on billion-dollar estates as proposed in the Senate will not help Iowa small businesses and farms. If that is the intent, current law already works," Osterberg said.

The Senate is scheduled to vote this week on either full repeal of the tax — which would cost \$1 trillion over 10 years — or a "reform" plan by Sen. John Kyl of Arizona that would cost 84 percent as much as full repeal. Only one-half of 1 percent of U.S. estates are subject to any estate tax because of exemptions and deductions under current law.

CTJ reported Monday that new IRS data show only 263 Iowa estates in 2004 owed any federal estate tax, or 0.9 percent of all Iowa estates. This is the case because the first \$3 million (for couples) in estate assets was allowed to pass to the estate's heirs tax-free.



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In the past, lower exemption levels meant more Iowa estates were affected. In 1998, 752 estates (or 2.7 percent), and in 2002, 614 estates (or 2.2 percent), paid some amount of estate tax.

“This report illustrates that few Iowa estates are big enough to be subject to the estate tax, and that the number has fallen as increasing exemptions have taken effect,” said IPP Research Director Peter Fisher. “Economists already knew this was the case for the nation. Now we can see it’s also the case in Iowa.”

Estate-tax changes passed in 2001 have increased the individual exemption to \$1 million in 2002, \$1.5 million in 2004, and \$2 million this year — with those amounts doubled for couples. The exemption is further scheduled to rise to \$3.5 million (\$7 million/couple) in 2009.

“No estate subject to the estate tax is small. But even among those large estates, the new data leave no doubt that raising exemptions has sharply reduced the number subject to the tax, in Iowa and the nation,” Fisher said.

Osterberg said the estate-tax proposals carry far-reaching implications that deserve attention.

“If the Senate believes either repealing or gutting this tax is necessary, supporters should explain how they’ll make up for the lost revenue. Will it be more service cuts to the poor? Will it be higher taxes on Iowans and other Americans who will never inherit enough to pay an estate tax? Or will it be expanding the already spiraling national debt? The choices are all grim,” Osterberg said.

The Citizens for Tax Justice report is available at <<http://www.ctj.org/pdf/estate0606.pdf>>. More information about the estate tax is available on the Iowa Fiscal Central website <<http://www.iowafiscal.org>>, and on the website of the Center on Budget and Policy Priorities <<http://www.cbpp.org>>.

The Iowa Fiscal Partnership is a joint tax and budget analysis initiative of the Iowa Policy Project in Mount Vernon and the Child & Family Policy Center in Des Moines, two nonprofit, nonpartisan organizations.

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