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Increased Estate Tax Rates Will Impede Economic Growth if no Action is Taken

New NCPA Report Debunks Estate Tax Myths and Explains the Harm to Many Americans

Dallas, TX (October 1, 2009) – The current estate tax, also known as the death tax, is scheduled to disappear in 2010, but if Congress does not act soon to completely repeal the tax, it will return at a much higher rate, substantially hindering job creation and halting economic growth, as well as adversely affecting lower- and middle-class Americans, according to a new report by the National Center for Policy Analysis.

"The Senate passed an amendment back in April to reduce the estate tax to 35 percent, but little to no attention has been paid to it in the House," said Terry Neese, NCPA Distinguished Fellow and co-author of the report. "If the tax returns the new rate will be up to 55 percent from the current 45 percent for estates valued at $1 million or more. Family businesses would have significant difficulty surviving in the event of a principal owner's death due to the estate tax."

Support of the estate tax is based on three major myths that the NCPA report debunks.

One myth about the estate tax is that it is a major source of inequality. However, the NCPA report found that among the wealthiest one percent of Americans only 17 percent of their wealth came from bequests.

Support of the estate tax is also based on the idea that it raises considerable sums of money for the federal government.

"The reality is that estate tax makes up less than 3 percent of total federal tax proceeds," said Bethany Lowe, NCPA research assistant and co-author of the analysis. "In fact, it reduces capital formation, which lowers productivity, wages employment, and federal payroll and income tax revenues."

Estate tax advocates also believe that heirs can easily afford the tax. In reality, heirs may be wealthy or poor. Nearly two-thirds of the children of parents in the wealthiest 20 percent of families fall to a lower wealth bracket upon reaching adulthood, according to the NCPA report.

"Many times heirs are asset rich, but cash poor," Lowe said. "Middle-class Americans, especially small business owners, can be stuck with an estate tax burden. For example, a typical tree farm can be valued at more than $2 million, but because the household income of an average tree farmer is less than $50,000, many heirs must sell their land to pay the estate tax."

"Small business owners and other middle-class Americans should not let misleading claims of estate tax supporters deceive them," Neese said. "Even if the tax does go away in 2010, the increase when it returns in 2011 will cause significant damage to our economy. If Congress really wants to stimulate the economy, they ought to end the estate tax permanently."

To read the full NCPA report, log on to http://www.ncpa.org/pub/ba678. To arrange an interview for Terry Neese or Bethany Lowe, please contact Leah Gipson.