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New Year Kicks In Generous Federal Estate Tax Rules

(Silverton) — Moneyed Oregon families have one more reason to pop open the champagne for the New Year, when a law cutting further the federal tax on inherited wealth takes effect, according to the Oregon Center for Public Policy.

In 2009, the federal estate tax exemption will jump from \$4 million per couple to \$7 million. This means that the heirs of a widow or widower who dies in 2009 with an estate valued at \$7 million will pay no federal estate taxes, according to OCPP policy analyst Janet Bauer.

Only three in 1,000 estates in Oregon will likely be subject to the federal tax under the 2009 rules, said Bauer. She noted that the ratio was 13 per 1,000 in 2000, before a 2001 law enacted under the Bush Administration began to phase in cuts to the federal estate tax.

“If you go to six funerals every single week in 2009, odds are you might attend one the entire year where the deceased’s estate would pay any federal tax,” said Bauer. “Even the busiest funeral parlor director won’t see many individuals subject to the federal estate tax.”

In the entire country, under the expanded exemption, only an estimated 140 small farms and businesses will pay any amount in federal estate taxes in 2009, according to Bauer.

“The law is already very generous, exempting 99.7 percent of all Americans,” said Bauer. “Any further gutting of the federal estate tax at this point would constitute a giveaway to extremely wealthy households who don’t need assistance.”

But one more cut to the federal estate tax is on the horizon. Under the 2001 law, in 2010 the federal estate tax will be repealed entirely, but only for that year. If Congress takes no action, in 2011 the estate tax exemption will revert to \$1 million, the level in place before the Bush Administration’s 2001 tax legislation phased in cuts to the estate tax.

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Bauer saw it as unlikely that the 2010 repeal will take effect, noting that Congress has voted several times recently to oppose permanent repeal of the tax and stressing what she called the “nation’s urgent budget priorities.”

“The country needs to invest in fixing its ailing health care system, upgrading its infrastructure and education system and containing the expanding national debt,” she said. “We cannot address those priorities without adequate resources, and the federal estate tax is one of the fairest ways wealthy Americans can support their country.”

Bauer estimated that in 2009, the federal estate tax will generate about what the federal government will spend on K-12 education that year.

She called on Congress to protect this important source of revenue and set the exemption for 2010 and beyond on terms no more generous than the rules in place in 2009.

“The federal estate tax is the most sensible revenue tool that the federal government has to create economic opportunity for everyone,” said Bauer.

The Oregon Center for Public Policy is a non-partisan research institute that does in-depth research and analysis on budget, tax and economic issues. The Center’s goal is to improve decision making and generate more opportunities for all Oregonians.