Move Kentucky Forward: Restore Kentucky's Estate Tax

Imagine what Kentucky could we be if we made better investments in Kentucky's schools and public services.

Even before the economic recession, Kentucky made inadequate investments in public health, public safety, higher education, and college affordability. Our state consistently falls in the mid- to high-40s in most rankings of state investments in all these sectors. This budget crisis isn't new, but it is serious. We can't afford deeper budget cuts that will further compromise our commonwealth. Restoring our estate tax is part of a plan for fair and sensible revenue reform in Kentucky. Together, we can move Kentucky forward through this crisis.

The estate tax is the most progressive tax, affecting the richest 1%

- An estate tax is paid on the value of all property (houses, cars, stocks, bonds, life insurance) left when a person dies, if the total value of the property is very large.
- The federal estate tax currently applies only to inheritable assets worth more than $2 million ($3 million for a couple), meaning it applies only to the richest 1% of deceased people. It differs from the inheritance tax.
- In 2003, before the complete phase-out, only 352 Kentuckians paid any estate tax with the $1million exemption. (U.S. Action Education Fund)

Kentuckians didn't choose to lose this revenue.

- When Congress created the federal estate tax in 1916, it allowed states to "pick up" a portion of the federal estate tax as state revenue. Every state, including Kentucky did so. In 2001 Congress passed a law to phase out the federal estate tax by 2010. Because Kentucky's estate tax is linked by statute to the federal tax, the state's portion has disappeared along with the federal tax. In fact, the federal law eliminated the states' portion first, zeroing it out in 2005. Kentucky lost an estimated $168 million between 2003-07 because of the estate tax phase out.

We can restore this revenue to help bolster our investments in Kentucky.

- According to the LRC, bringing back Kentucky's estate tax will earn about $45 million a year.
- With that amount of money, legislators could raise funding for mental health and substance abuse to the national average, fully fund the affordable housing trust fund, *and* adequately fund Kentucky's public defenders and legal services — or much more.
- The estate tax also encourages charitable giving. Repeal of the tax in 2001 would have resulted in the loss of an estimated $97 million in charitable giving in Kentucky in 2001. (OMB Watch, Estate Tax and Charitable Giving, 2003)

Kentucky can do better — restore the estate tax with a $1 million exemption

Reinstating Kentucky's estate tax with a $1 million exemption level would preserve this important revenue while protecting middle-income families. Nearly 20 other states have chosen to keep their estate tax and its much-needed revenue.

Restore Kentucky's Estate Tax!

Fair and sensible taxes that raise revenue and promote the health and well-being of our people

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More facts about the federal estate tax
and what it means for Kentucky

-- The American Farm Bureau Federation acknowledged to the *New York Times* that it could not cite a single example of a farm having to be sold to pay for estate taxes.

-- An analysis by the Congressional Budget Office found that if the current exemption level of $1.5 million had been in place in 2000, only 300 farm estates and only 223 family-owned businesses would have owed any estate taxes nationwide. The report also found that the vast majority would have enough other assets to pay the tax without touching the farm or business. (Congressional Budget Office, Effects of the Federal Estate Tax on Farms and Small Businesses, July 2005)

-- 17 states plus the District of Columbia have decoupled from the federal estate tax. These are: Connecticut, Illinois, Kansas, Maine, Maryland, Massachusetts, Minnesota, Nebraska, New Jersey, North Carolina, Ohio, Oregon, Rhode Island, Vermont, Virginia, Washington and Wisconsin.

-- Permanently repealing the federal estate tax would add roughly *$1 trillion* to the national debt from 2012 to 2021. (Center on Budget and Policy Priorities, 2005)

-- According to the IRS, eligible individuals paid only 19% of their assets in estate taxes in 2003, although the top estate tax rate is 50%. This effective tax rate is due to numerous exemptions and opportunities to shield assets from taxation. (Center on Budget and Policy Priorities, 2005)

-- Only the portion of a person's assets that exceed the exemption level is subject to the estate tax. In other words, at today's $2 million exemption level, an estate worth $2.5 million is taxed on just $500,000. (Center on Budget and Policy Priorities, 2005)

-- Estate taxes are not "double taxation" as often claimed. In fact, more than half of the assets of large estates (56% in estates worth more than $10 million) have never been taxed. This is because many properties appreciate in value since their original purchase. One reason the estate tax was created was to appropriately tax these "unrealized capital gains." (Center for Budget and Policy Priorities, *Why the Estate Tax is not "Double Taxation,"* 2005)

--The phase out of the federal estate tax initiated in 2001 will follow the following schedule:

Date	Exemption Level	Top Estate Tax Rate
2005	$1.5 million	47%
2006	$2 million	46%
2007	$2 million	45%
2008	$2 million	45%
2009	$3.5 million	45%
2010	Repealed	Repealed
2011	$1 million	55%

-- Kentucky has an estate tax and an inheritance tax. The inheritance tax is paid by certain types of beneficiaries. *A spouse, child, grandchild, brother or sister may inherit tax-free.* More distant relations are subject to an inheritance tax, with rates depending on the amount inherited. Kentucky's estate tax is calculated based on the value of the estate before it is divided, minus the inheritance tax owed by any beneficiaries. (Kentucky Youth Advocates, Money Matters, 2003)