FACT SHEET: The Responsible Estate Tax Act

Growing economic inequality threatens to warp our democracy and make it impossible for ordinary Americans to prosper. The Responsible Estate Tax Act would put a break on inequality by taxing estates of the wealthiest 0.3 percent of Americans — that is the wealthiest three-tenths of one percent of Americans — to help fund the types of public investments that allow everyone a chance to work their way to the top. The other 99.7 percent would continue to be unaffected by the estate tax.

The estate tax now applies only to the wealthiest 0.2 percent of Americans, but Republicans have proposed to repeal it to benefit this tiny group. The Republican proposal would cost $269 billion over the coming decade and would help just 5,400 families next year. Nearly three-fourths of the benefits would go to those families inheriting estates worth more than $20 million.

Instead of repealing the estate tax, Congress should strengthen it by enacting the Responsible Estate Tax Act. This bill would:

— **Exempt the first $3.5 million of an individual's estate (the first $7 million of a married couple's estate) from the estate tax.** With these exemption levels, which were in effect in 2009, only around 0.3 percent of deaths would result in estate tax liability annually. The rules in effect today exempt the first $5.4 million of an individual's estate (almost the first $11 million of a married couple's estate) and as a result, just 0.2 percent of deaths result in estate tax liability annually.

— **Subject the few taxable estates to a progressive rate structure rather than the flat 40 percent rate in effect today.**

- 45 percent for the value of an estate between $3.5 million (or $7 million for couples) and $10 million.
- 50 percent for the value of an estate between $10 million and $50 million.
- 55 percent for the value of an estate in excess of $50 million.

— **Include an additional billionaire's surtax of 10 percent.** According to Forbes Magazine, there are only about 530 billionaires in the United States out of a population of 320 million, making them the wealthiest 0.0002 percent of America. These are the only Americans who would pay the billionaires' surtax.

— **End tax breaks for dynasty trusts.** Billionaires like Sheldon Adelson and the Walton family members, who own the majority of Walmart, have for decades manipulated the rules for trusts to pass fortunes from one generation to the next without paying estate or gift taxes. This bill would:

- Strengthen the "generation-skipping tax," which is designed to prevent avoidance of estate and gift taxes, by applying it with no exclusion to any trust set up to last more than 50 years.
- Prevent abuses of grantor retained annuity trusts (GRATs) by barring donors from taking assets back from these trusts just a couple of years after establishing them to avoid gift

taxes (while earnings on the assets are left to heirs tax-free). The lawyer who invented this technique for the Waltons claims it has cost the Treasury $100 billion since 2000.

- Prevent wealthy families from avoiding gifts taxes by paying income taxes on earnings generated by assets in "grantor trusts."
- Sharply limit the annual exclusion from the gift tax (which was meant to shield the normal giving done around holidays and birthdays from tax and record-keeping requirements) for gifts made to trusts.

— **Close other loopholes in the estate and gift tax.** One of these loopholes involves "valuation discounts," restrictions placed on interests in family businesses which are claimed, falsely, to reduce the value of the estate. Another loophole involves claiming that the value of an inherited asset is lower, for estate tax purposes, than what is claimed for income tax purposes to calculate gains when the asset is sold.

— **Protect farm land and conservation easements.** The bill would protect family farmers by allowing them to lower the value of their farmland by up to $3 million for estate tax purposes. The bill also would increase the maximum exclusion for conservation easements to $2 million.

Comparison of Estate Tax Proposals to Current Law (based on 2015 estate tax rules)

	Current Law	GOP Proposal	Responsible Estate Tax Act
standard exemption from estate tax	$5.43 million ($10.86 million if married)	NA	$3.5 million ($7 million if married)
estate tax rates	■ 40% on estate value in excess of exemption.	■ 0%	■ 45% on estate value between $3.5 million (or $7 million for couples) and $10 million. ■ 50% on estate value between $10 million and $50 million. ■ 55% on estate value in excess of $50 million. ■ Additional 10% on estate value in excess of $500 million ($1 billion for couples).
deduction for charitable bequests	Allowed.	NA	Allowed.
maximum reduction in estate for family farm	$1.1 million	NA	$3 million
max. reduction in estate for conservation easement	$500,000	NA	$2 million
other	Several loopholes allowing estate tax avoidance with trusts, valuation discounts, and manipulation of basis reporting.	NA	Loopholes closed.