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Estate Tax Could Protect Vulnerable Families from Budget Cuts

The \$652 million shortfall in the current state budget, initially estimated at \$300 million to \$400 million by the Legislative Fiscal Bureau in January, could lead to cuts in state spending in programs that are essential to the state's most vulnerable children and families. There are fairer, more progressive alternatives. Restoring the estate tax, which expired at the end of 2007, would affect only a few of the state's wealthiest residents while generating at least \$100 million annually.

Only 800-900 Wisconsin estates would pay a tax like that in effect until this year—the estates of fewer than 2% of the Wisconsin residents dying each year. Wisconsin's recently expired tax was imposed only when the estate's value exceeded \$675,000, and there was no tax on amounts left to a husband or wife.

The tax would not take a significant portion of the estate, on average about 5%—less for smaller estates because of graduated tax rates. The tax in effect until this year was only \$64,400 on an estate with a taxable value of \$1.5 million and \$280,400 on a \$4 million estate. (Taxable estate equals gross estate less deductions for funeral and administrations expenses. The calculations assume no part of the estate is left to a spouse.)

Though imposed only on a few estates, the tax would generate at least \$100 million per year. Further, though not in effect now, the tax will resume in 2011, barring any changes in state or federal law.

The tax may have some negative impacts, but they are probably very limited. Most studies show that the estate tax may encourage some wealthy persons to move to another state. However, factors like proximity to family and

climate are much more important. A National Bureau of Economic Research study indicated that, even though the estate tax might contribute to some persons' decision to move, it generates far more revenue than it loses because of this migration.

There is not a lot of evidence to support the argument that an estate tax dampens entrepreneurship, not surprising since the burden of the tax is relatively small, about 5 percent. This small burden also means that the tax seldom poses an obstacle on transferring farms or small businesses from one generation to the next, another concern raised by critics of the tax.

Raising the exemption may soften these impacts. The \$675,000 exemption under the tax that had been in effect until this year was put in place in 2000, so it may be appropriate to raise it to a higher amount if the tax is restored. A \$1 million exemption would eliminate the tax for roughly 30 to 40 percent of the estates otherwise taxable, but would reduce revenues by only 15 to 20 percent.

Because a higher exemption would eliminate tax for a substantial number of estates and lower the tax on those still subject to the tax, it would lessen the concerns raised by opponents of an estate tax.

Conclusion

Restoring the estate tax would generate revenue that would protect programs benefiting countless state residents from budget cuts. Falling on only the largest estates, the tax would affect fewer than 1,000 estates each year and amount to only 5 percent of those estates, on average. Reinstating the tax is likely to have limited

effects on the decision on where to live and on entrepreneurship, and in all but a few instances would not hinder the passing of farms and small businesses to the next generation. Raising the

amount below which estates are exempt from the tax is a better way to address these concerns, while still generating substantial revenue for funding needed programs.

Take Action to Support Programs for Wisconsin's Most Vulnerable Families

Legislators and the Governor need to hear that you support protecting programs that help Wisconsin's most vulnerable citizens from budget cuts when fair, progressive alternatives, like restoring the estate tax, are available to fund them. You can contact the Governor's office by calling (608) 266-1212, or use their online e-mail form at: <http://www.wisgov.state.wi.us/contact.asp?locid=19>.

To get the name or the contact information for your state Representative and Senator, go to the e-mail address below. It will give you their phone numbers, as well as a way to reach them by e-mail:

<http://waml.legis.state.wi.us/>