The Sensible Estate Tax Act of 2016

The Sensible Estate Tax Act of 2016 would restore the estate, gift and generation skipping transfer taxes to more fair and reasonable levels that were in effect in 2009. In 2009, the estate tax exemption amount was $3.5 million ($7 million jointly). Additionally, this legislation would reinstate the $1 million lifetime gift exemption and retain the annual $14,000 gift tax exclusion and unlimited spousal portability.

The Administration supports this position and has proposed returning to more sensible levels in all of its budget proposals. The Joint Committee on Taxation (JCT) estimates the Administration's proposal would raise $161 billion over the 10-year budget window.

<u>Current Estate Tax Law and Comparison:</u>

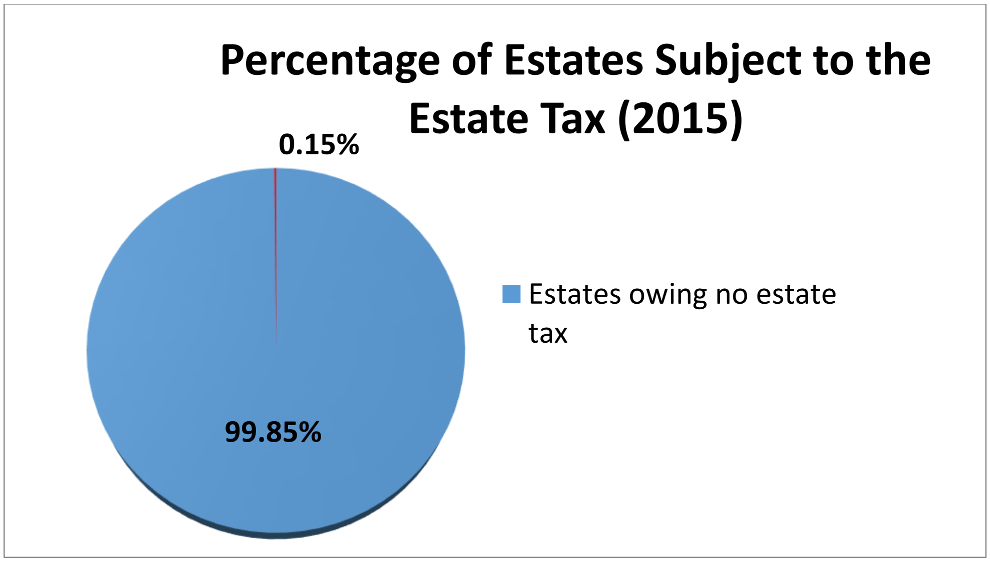
Under current law, the estate and gift tax share a unified exemption amount of $5.45 million ($10.9 million jointly) which is indexed for inflation. Estates that exceed the exemption amount are subject to a top rate of 40%.

	Current Law	**Sensible Estate Tax Act of 2016**
Estate Tax Exemption	$5.45 million ($10.9 million joint)	$3.5 million ($7 million joint)
Top Rate	40%	45%
Gift Tax Exemption	Unified with estate tax	$1 million over lifetime
Annual Gift Tax Exclusion	$14,000	$14,000
Spousal Portability	Unlimited	Unlimited

<u>Effect of Continued Weakening of the Estate Tax:</u>

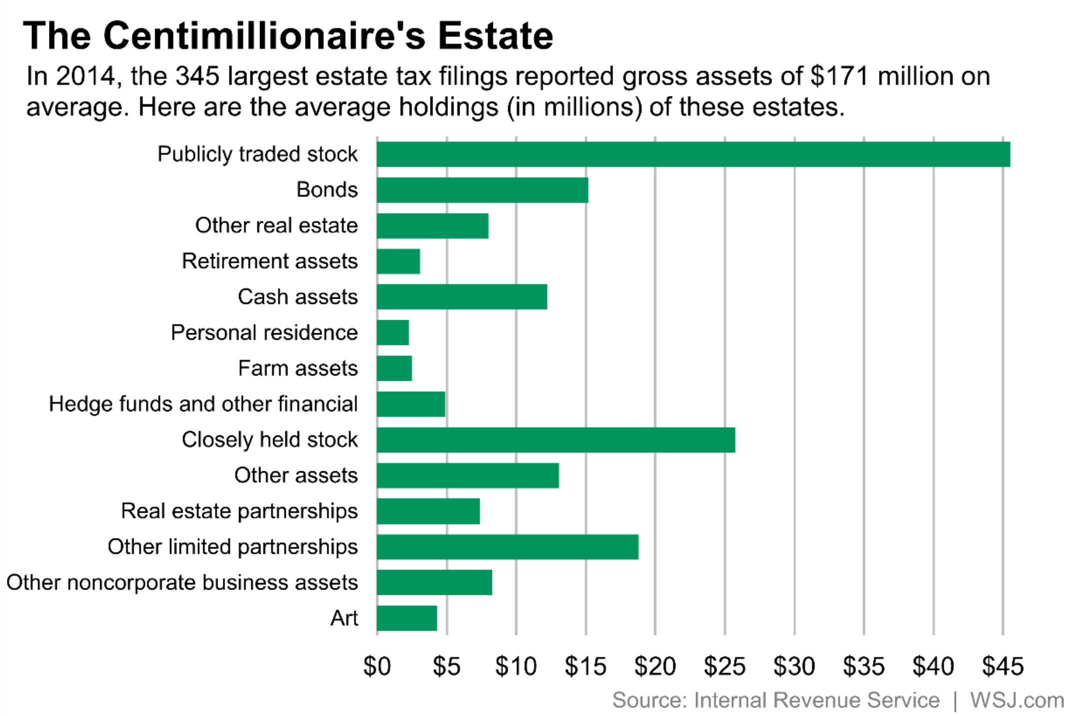
Over the past decade, the estate tax has been steadily weakened as the estate tax exemption level continued to increase – exempting fewer estates over time. Beginning in 2002, the estate tax exemption amount slowly grew from $1 million to $5.45 million today – a 445% increase over a little over a decade.

In 2013, the most recent year for which final numbers are available, there were 2.6 million deaths in the United States, and 4,700 estate tax returns that were filed reporting some tax liability – representing fewer than one-fifth of one percent of all estates owing any estate tax in 2013.



Tax Fairness and Wealth Inequality:

A meaningful estate tax is critical to ensuring a fair tax system. Under current law, a significant amount of appreciated assets escape any taxation on the appreciated gain. For instance, a taxpayer selling appreciated stock must pay capital gains on the amount of the appreciated gain. However, that appreciation is never taxed if that taxpayer holds on to that stock and transfers it at death. The beneficiary takes the stock at full market value – known as stepped up basis – and may then sell that stock without recognizing any taxable appreciation.



As wealth continues to concentrate in fewer estates, a stronger estate tax can ensure tax equity among taxpayers. In 2013, stocks and bonds made up more than 50% of estate value, much of which contained untaxed gain that will never be subject to tax, providing a significant tax benefit to the wealthiest estates.

Furthermore, income and wealth disparity continues to increase. In 2012, the wealthiest 1 percent of American families held about 42 percent of total wealth, rising to levels last seen more than 80 years ago before the great depression. Large inheritances contribute significantly to this growing wealth concentration and disparity that could be addressed through a more meaningful estate tax.

Revenue and Impact:

The JCT has estimated that rolling back the estate tax to 2009 levels would generate approximately $161 billion over the 10-year budget window – almost 5 times more than the FY17 NIH budget request. In context, this revenue represents more than 25% of our annual defense discretionary spending. This revenue could support critical investments in education, health and transportation.