



Return the inheritance tax to the 2009 level: \$113 billion, or to the 2001 level: \$371 billion over 10 years

The Idea: To ensure that concentrated wealth does not undermine mobility and hard work, the federal government levies taxes on the fortunes that parents pass on to their children. This tax is structured so that some amount of a person's estate is exempted from all taxes, and then the rest is taxed at a higher rate than earnings.

The inheritance tax rate has been reduced twice in the past decade. Before the Bush tax cuts were enacted, the first \$675,000 per person (or \$1.35 million per couple) of inherited wealth was exempt from taxes, and the tax rate was 55 percent on amounts over this.

In 2001, the inheritance tax was changed so that the first million of wealth (\$2 million per couple) was exempted from any tax and the rest was taxed at 55 percent. In 2009, the rate was reduced further: \$3.5 million (\$7 million per couple) of wealth was exempted from any inheritance tax, and the top tax rate was reduced to 45 percent. If the inheritance tax returned to its 2001 level, the country would raise \$371 billion¹¹ in revenue over the next 10 years. If the tax were returned to its 2009 level, the nation could raise \$113 billion¹² over the same period. The inheritance tax is scheduled to return to 2001 levels in 2012 if no congressional action is taken.

The Rationale: Created in 1916, the inheritance tax helps prevent the concentration of wealth, as many people feel that too much accumulated wealth and privilege can distort our political processes and undermine democracy. Inheritance taxes have been an important source of federal revenue. The tax also encourages billions of dollars in charitable donations, since charitable gifts reduce the taxes on large estates.

The inheritance tax had a top tax rate of between 10 percent and 45 percent for the first 15 years it was in existence. But in the post-Depression era and WWII, Congress upped the top tax rate on inherited wealth several times; it peaked at 77 percent, where it stayed for the next 34 years. This was an era of equality and rapid growth.

The inheritance tax came under attack in the 1970s. Exemption levels rose steadily through the 1980s and the top tax rate was severely reduced. Rates and exemptions stayed constant roughly through the 1990s, until President George W. Bush's 2001 and 2009 tax cuts reduced them further. In 2010, the inheritance tax temporarily disappeared completely, costing the nation billions in lost revenue. Today, fewer than three estates out of every thousand actually owe any inheritance taxes, and these typically amount to less than 20 percent of the total estate, according to the [Urban Institute-Brookings Tax Policy Center](#).

Support for the Idea: Several members of Congress have introduced legislation over the last two sessions to enact a more progressive inheritance tax, one with graduated tax rates. Rep. Jim McDermott (D-WA) introduced the "Sensible Estate Tax Act of 2009," which would enact an inflation-adjusted inheritance tax that starts taxing estates worth \$1.5 million at 45 percent, and gradually increases the rate so that estates worth more than \$10 million are taxed at 55 percent. Sen. Bernie Sanders (I-VT) introduced the "Responsible Estate Tax Act," which would tax estates starting at \$3.5 million at a 45 percent rate, increasing to a 65 percent tax on any estate worth more than \$500 million (\$1 billion for couples).

Of the plans reviewed for this revenue project, the following support returning the inheritance tax to 2001, 2009, or some other progressive level: Our Fiscal Security's (Economic Policy Institute, Demos, and The Century Foundation) *Investing in America's Economy*, Center for American Progress' *First Step* and *Budgeting for Growth*, the House Democratic *2012 budget*, the Institute for America's Future *Citizens' Commission*, President Obama's *2012 budget* and *Living within Our Means*, and the Congressional Progressive Caucus' *People's Budget*, Rep. Jan Schakowsky's *Deficit Reduction Plan*, and the Bipartisan Policy Center's *Restoring America's Future*.

¹¹[Reducing the Deficit: Spending and Revenue Options](#), CBO, pg. 216.

¹²[ibid.](#)