



**INDEPENDENT SECTOR**

A vital voice for us all

## THE ESTATE TAX AND CHARITABLE GIVING

Independent Sector, a national, nonprofit organization of approximately 600 member charities, foundations, and corporate philanthropy programs, **supports reform of the estate tax** that balances relief to family farms and small businesses with continued tax incentives for the charitable gifts generated by continuing the estate tax.

Independent Sector **opposes full, permanent repeal of the estate tax.** Full repeal of the estate tax would have a devastating impact on tens of thousands of charitable organizations, serving millions of individuals, families and communities everyday while benefiting only a very small number of estates. Even estate tax reform legislation that drastically cuts the rate of the estate tax or that effectively eliminates nearly all estates from coverage by raising the exemption level too high would cause billions to be lost by charities.

Independent Sector recognizes the need to reform the estate tax laws and supports efforts to provide relief to family farmers and small businesses. These are important assets to families and communities, and should not have to be divided or liquidated in order to pay estate taxes. But the very wealthiest estates should continue to contribute to meeting the needs of the nation.

### **The Relationship Between Estate Tax and Charitable Donations**

The estate tax includes an *unlimited* deduction for charitable giving, providing a valuable incentive to donate a portion of the estate to a charity or philanthropic fund. Americans have always supported a strong and independent charitable sector. Policy makers have long recognized the vital role tax incentives play in encouraging Americans, particularly wealthy taxpayers, to give back to the community.

- According to the Internal Revenue Service (IRS), in 2006 almost two-thirds of charitable bequests came from estates valued at over \$10 million, and three-quarters of bequests came from those valued at over \$5 million.<sup>1</sup>
- According to *Giving USA Surveys*, educational institutions, hospitals, human service organizations, arts institutions, and every other segment of the charitable sector benefits from bequests and/or grants from philanthropic funds established by decedents in order to provide long-term support to charitable organizations.<sup>2</sup>
- For decades, charitable organizations have encouraged wealthy donors to consider making bequests, establishing endowments or setting up foundations from their estates. Planned giving is now a key fundraising tool for nonprofits, and gifts from estates are an essential source of revenue. In fact, bequests have become one of the pillars of philanthropy and repealing the estate tax that encourages such gifts would, in essence, destroy the foundation of that pillar.

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<sup>1</sup> IRS Statistics of Income Data, Estate Tax Returns Filed in 2006, <http://www.irs.gov/pub/irs-soi/06es01fy.xls>

<sup>2</sup> *Giving USA 2007*, the Center on Philanthropy at Indiana University, pp.74-75.

- A July 2004 report by the Congressional Budget Office (CBO)<sup>3</sup> found that the estate tax not only provided an incentive for charitable giving at death (bequests), but also plays an important role in the philanthropic decisions people make throughout their lives. This conclusion has also been reached by other researchers.<sup>4</sup> According to the CBO report, based upon tax year 2000, one-sixth of estate tax returns filed showed a charitable bequest, totaling \$16 billion.<sup>5</sup> The report estimated that repeal of the estate tax would have resulted in a **decrease** of charitable bequests of 16 to 28 percent,<sup>6</sup> for an overall loss of charitable donations of \$13 to \$25 billion in 2000 alone, more than the total corporate donations made that year.<sup>7</sup>
- **Studies have also shown that the most significant incentive for charitable contributions from estates is the tax rate.**<sup>8</sup> An estate tax rate that is too low would also dramatically affect bequests. When the estate tax rate was reduced in 2003, the IRS found a 17.2% decline in charitable bequests compared to the previous year. Total bequests in 2002 were \$17.83 billion and dropped to \$14.77 billion in 2003.<sup>9</sup>
- Any reduction in the tax rate would increase the cost of giving. The greater the reduction, the more detrimental the impact on philanthropy. Thus, significantly lowering the rate, such as to 15 percent, would have a profoundly negative impact on charitable giving.

### **Who Pays Estate Taxes?**

Pursuant to the Economic Growth and Tax Relief Reconciliation Act of 2001, the estate tax exemption level rose to \$1 million in 2002 for an individual (\$2 million for a couple), up from \$650,000 in 2001. In 2004, the exemption level rose to \$1.5 million for an individual (\$3 million for a couple) and is scheduled to go to \$2 million for an individual in 2006 (\$4 million for a couple). By 2009, the exemption level will have risen to \$3.5 million for an individual (\$7 million for a couple), and the top estate tax rate will be 45 percent, down from 55 percent in 2001.

The vast majority of Americans are not subject to estate taxes at death. As the asset amount exempt from the estate tax rises, the number of estates subject to the tax declines. Today, the tax applies to only 2 percent of estates. By 2011, if the estate tax is retained at its 2009 levels, only 0.3 percent of all persons who die that year would be subject to the tax. In short, **the estates of only 3 people out of 1,000 would be subject to the tax in 2011.**

For more information, please contact a member of the Independent Sector public policy department at [publicpolicy@independentsector.org](mailto:publicpolicy@independentsector.org) or (202) 467-6100.

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<sup>3</sup> *The Estate Tax and Charitable Giving*, Robert McClelland and Pamela Greene, Congressional Budget Office (CBO), July 2004.

<sup>4</sup> *Effects of Estate Tax Reform on Charitable Giving*, Jon M. Bakija and William G. Gale, Brookings Institution, No. 6, July 2003; *Estate Taxes and Charitable Bequests by the Wealthy*, David Joulfaian, National Tax Journal, vol 53, no. 3 (September 2000), pp. 743-64.

<sup>5</sup> CBO, *supra* note 1, p.2.

<sup>6</sup> *Ibid*, p.8.

<sup>7</sup> *Options to Reform The Estate Tax*, Leonard Burman, William Gale, and Jeffrey Rohaly, Urban-Brookings Tax Policy Center, March 2005.

<sup>8</sup> *Ibid*; CBO, *supra* note 1.

<sup>9</sup> IRS Statistics of Income Data for 2002 and 2003,

<http://www.irs.gov/taxstats/indtaxstats/article/0,,id=96442,00.html>