

## Forum: America needs the estate tax

**Repealing it will wreak havoc on the federal budget, of course. Moreover, say DIANA AVIV and WILLIAM E. TRUEHEART, the nation's charitable institutions would take a pounding**

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When it returns this week from its Memorial Day recess, the U.S. Senate will consider permanently eliminating the estate tax -- a proposal that is greatly at odds with that holiday's spirit of sacrifice.

Only 1 percent of the country -- amounting to a handful of ultra-wealthy individuals -- would benefit from estate tax relief, since they're the only ones who are currently subject to the tax. In contrast, the cost of repeal would be significant economic damage to our nation's charities and foundations -- institutions whose sole purpose is to advance the common good here in America, and around the globe.

The silver lining of the estate tax has always been that individuals subject to the tax have very good reason to engage in philanthropy -- to find a worthy alternative to paying Uncle Sam. Of course philanthropy is often driven by a genuine charitable impulse, but it is also true that the estate tax has provided additional incentive to give.

In fact, the Congressional Budget Office has estimated that if there had been no estate tax in 2000, charitable donations by individuals would have been as much as \$25 billion lower than they actually were that year. That's more than all corporations in the United States donated to charity in 2000. This infusion of financial resources to the charitable sector is a natural byproduct of the estate tax that has had -- and should continue to have bipartisan support in Congress.



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Under current law, the estate tax is being phased out gradually. It will be completely eliminated in 2010, then come back into full effect in 2011. But that could all change as soon as Congress returns this week, as the fight for reform of the estate tax will take center stage.

The House has already voted to repeal the tax permanently. That would cost about \$1 trillion in federal tax revenues in the first 10 years it would be fully in effect, once the added interest on the federal debt is taken into account. In today's terms, repeal would cost roughly the same each year as everything the federal government now spends on homeland security, and more than it spends on education. Revenue losses this big would significantly worsen the already severe federal budget problems the nation faces.

And that is to say nothing of the potential negative impact on state budgets. Close to half the states currently levy estate or inheritance taxes that bring in approximately \$4.5 billion annually. Repeal of the federal estate tax would put this revenue --used to fund education, health care and other vital social services -- at considerable risk.

The livelihoods of charitable organizations that rely primarily on government funding -- state or federal -- are already at risk, and a full repeal of the estate tax will only serve to further dry up funding for those charities, particularly health and human service organizations, that serve the most vulnerable among us.

Fearing they lack the votes to repeal the tax entirely, some members of Congress have proposed so-called "compromises" that would preserve only a fig leaf. The most prominent of these plans would exempt the first \$10 million of a married couple's estate from taxation altogether and slash the rate at which amounts above this exemption level are taxed by two-thirds.

Its supporters assert that this compromise is nearly the same as full repeal, and they are absolutely correct. This approach would reduce estate tax revenues by more than 80 percent while also sharply reducing charitable donations because such a drastically reduced rate would eliminate most of the tax incentive to donate.



Fortunately, a genuine compromise is available:

Freeze the tax as it will exist in 2009, the last year before its one-year repeal under current law. In 2009, the first \$7 million of the value of any estate for a married couple (\$3.5 million per individual) will be totally exempt from the tax, and amounts above this exemption level will be taxed at a 45 percent rate.

Freezing the estate tax at its 2009 level would ensure that the tax is focused on an extremely small group of very wealthy people who are able to pay it: Only the wealthiest three out of

every 1,000 estates would owe any tax at all. This would allow us to reasonably reform the estate tax, substantially limit its reach and continue to preserve a strong incentive for charitable donations.

The role of charities and foundations -- which now number almost 2,700 in Pittsburgh alone -- is far too valuable in American civic life to be overlooked in the upcoming national conversation about estate tax reform. From hospitals and homeless shelters to art museums and little leagues; from religious congregations to universities, the charitable sector manages to reach into nearly every aspect of American life. And with a full repeal of the estate tax, the sector's reach could be substantially diminished.

Our nation has at its core a distinctively American ethos -- a pervasive desire to give to those less fortunate, and to those causes, whatever they may be, that individuals deem to advance their own vision of a better society. And our government has for generations supported and encouraged that very noble ideal.

If, however, Congress votes to repeal or substantially gut the estate tax, they will be, whether intentionally or unintentionally, turning their backs on that unique history of charity and philanthropy, and turning their backs on those in our communities, and around the world, that rely on charitable organizations to enrich their own lives.