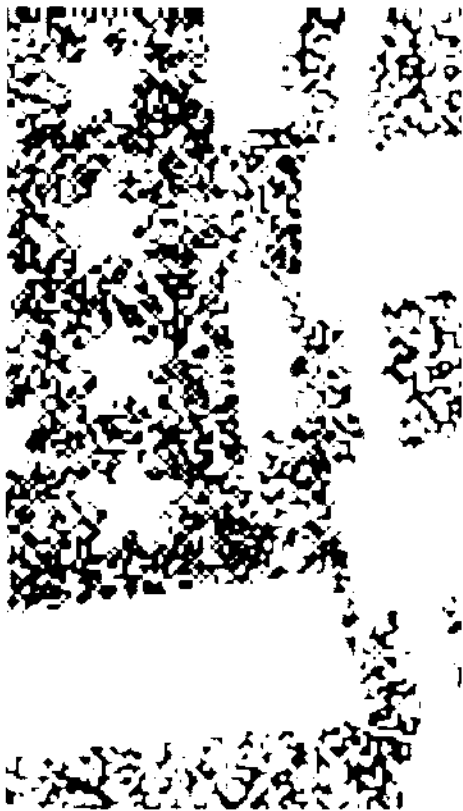


EXECUTIVE BRIEFING



A 20% Solution for Estate Taxes

A proposal to remove the burden of
estate taxes from
family owned businesses

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The American Miracle

A project of the Today Foundation

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Executive Summary

The estate tax is a tax on the assets of a deceased taxpayer. Because almost everything owned is subject to tax, the estate tax can severely constrain the operations of small businesses, farms and ranches. Often, families must sell some or all of the family business just to settle estate taxes. Estate tax rates can reach 55%.

Small businesses are America's best job creators. We believe these operations should not be penalized for their success via estate taxes, nor should they have to undertake costly and time consuming estate planning activities. Short of eliminating the estate tax, the next best alternative would be to lower estate tax rates and dramatically raise the minimum value of an estate for it to be subject to tax.

The **20% Solution** calls for estate taxes to be lowered to 20% across the board. An economic study will determine at what level estates would become subject to tax. The objective will be to protect family enterprise and small business without dramatically reducing the revenues currently generated by the tax. The study will also examine the economic effects of removing the estate tax and tax planning burden from American small business. This project is an extension of the American Miracle Project.

The American Miracle Project is the Today Foundation's effort to educate the media and Congress about the benefits of eliminating capital gains and estate taxes. During the Spring of 1997, we forwarded our capital gains case statement to Congress and major media outlets. We have also submitted numerous press and opinion pieces on the elimination of capital gains taxes, as well as the benefits of eliminating the estate tax. Our focus has been on "getting the word out" about pro-growth policies and responding to opponents of such policies. We have recruited members of Congress such as Congressman Sam Johnson and Senator Richard Shelby to be our national spokesmen along with Victor Sperandio, a Wall Street pundit, and David Horowitz, a nationally known writer and political commentator.

Death taxes and family business

The estate diverts time and resources away from productive endeavors. Money spent on estate planning would be better spent expanding operations. Estate taxes can force the sale of family businesses, farms and ranches. As small businesses are America's best job creators, burdening these productive enterprises with the estate tax is a foolish policy.



In Louisville, Nebraska, a 4th-generation owner of a farm equipment retail business had to decide how many employees to let go in order to settle estate tax liabilities.



An Alabama family who managed 15,000 acres of timberland since 1840 was forced to sell all but 500 to a paper company in order to pay estate taxes of \$1 million.



It took 10 years for a Texas ranching family to pay the estate taxes owed after the death of one of the founders, and 15 years to pay estate taxes owed following the death of another. With the three surviving partners in their 80s, the next round of estate taxes will force the family to sell pieces of the ranch to developers.



Despite 3 years of estate planning and an expensive insurance policy designed to cover his mother's estate taxes, the owner of a Lapeer, Michigan flower shop is faced with selling the 43-acre tree farm that is part of his business. After several months and \$20,000 of legal and accounting bills, the amount of estate taxes owed remained uncertain.



A 1996 survey of 1,003 small-business owners conducted by researchers at Kennesaw State University found that more than half of respondents believed their estates would be hit with a tax bill that would limit the growth potential of their business.

The death tax has created an "estate tax industry" that diverts funds from productive endeavors. The American Bar Association alone claims 16,000 members primarily practice trust, probate or estate law.

Estate Tax Overview and Update

The unified estate and gift tax is a tax on the assets of a deceased taxpayer. The tax is similar to the income tax in that one must determine what is subject to tax and what is deductible. The tax is imposed at graduated rates and is subject to certain credits. Almost everything owned is subject to tax at death. Even property given away may be subject to inclusion in the estate if certain powers are retained. Estate tax law provides a unified gift and estate tax credit, which is equivalent to exempting a portion of assets from estate tax. Since passage of the 1997 Tax Plan, the amount exempted is \$625,000. This threshold will increase to \$1 million over the next 10 years. The new \$1 million exemption effectively adjusts for inflation the \$600,000 exemption which had been in effect since 1987. That is, the new law only mitigated the "bracket creep" which made increasing numbers of estates subject to estate tax. The amount of tax computed is increased by 5% for taxable estates between \$10,000,000 and \$21,040,000. This 5% surcharge eliminates the benefit of the unified credit and graduated tax rates.

In addition to the \$625,000 exemption, the 1997 law provides for a \$1.3 million business exemption. The larger business exemption was designed to protect small businesses and family farms. But the estate can only take one of the two exemptions. As a result, after 10 years, the business exemption will hold little advantage. While this aspect of the law will help some small businesses, the new exemptions come with the price of great complexity. This added complexity increases rather than decreases the expense of estate planning.

*"These changes should keep lawyers who do estate planning busy for some time."
The Wall Street Journal, July 30, 1997 on the 1997 Tax Plan*

Estate and Gift Tax Rates

Size of estate	Marginal Tax Rate
\$ 750,000	
\$0 million	39%
\$1.25 million	41%
\$1.5 million	43%
\$2.0 million	45%
\$2.5 million	49%
\$3.0 million	53%

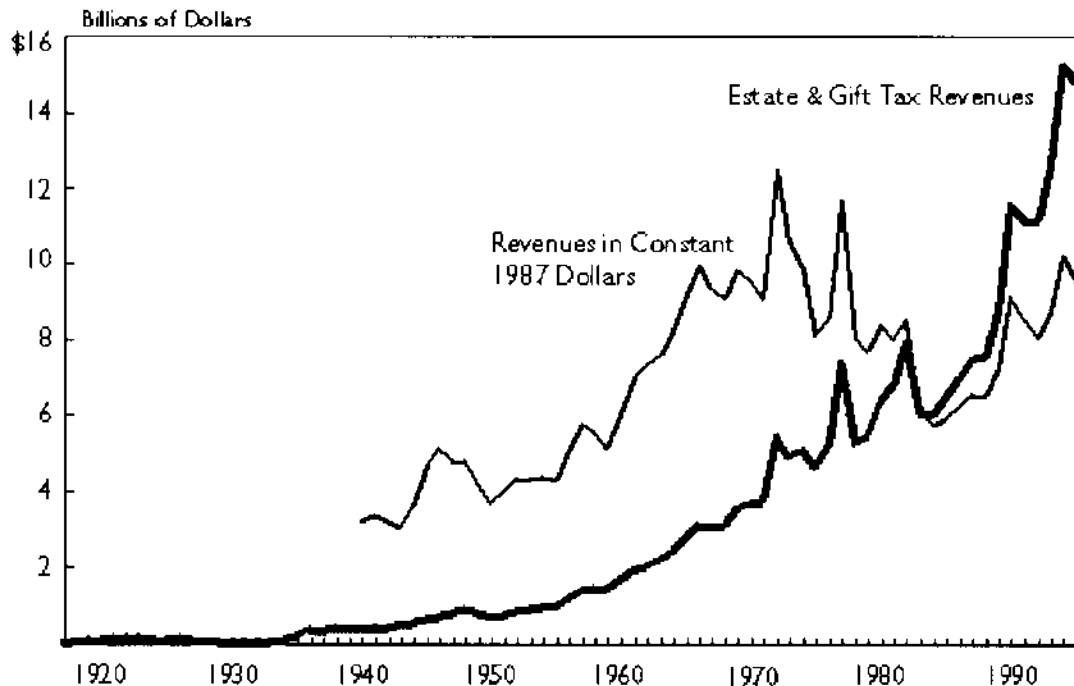
Brief History of the Estate Tax

Until early this century, the U.S. government implemented the estate tax only as an emergency fund raising measure. But in 1916, only three years after inception of the income tax, the estate tax became a permanent part of the tax code. Although the estate tax may have been sold as a revenue raiser, the steeply progressive rates indicate that redistribution of wealth was an important goal.

Between 1920 and 1976, the incidence of the estate tax was broadened to include more taxpayers at higher rates. In 1924 the top marginal rate was raised from 10% to 40%, and on up to 45% in 1932 and to 77% in 1941. The trend was reversed in 1976 when Congress expanded the marital deduction for small estates and lowered the top rate to 70%. In 1981, the top rate was dropped by 5% a year until 1985. Currently the top marginal rate is 55%.



In this world nothing is certain but death and taxes.
— Benjamin Franklin

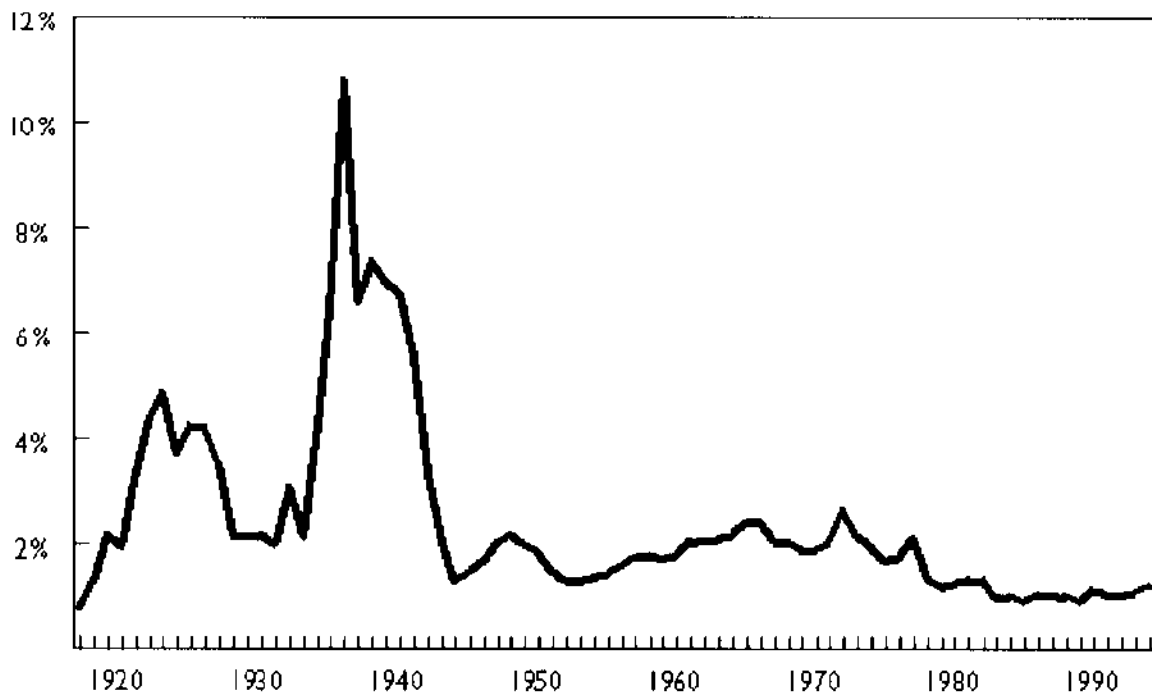


Source: Bureau of the Census, *Historical Statistics of the United States, Economic Report of the President*, 1985, 1996, Heritage Foundation, *Backgrounder*, Aug. 21, 1996.

Estate taxes and Treasury revenues

Although the marginal tax rate on estates can reach 55%, the estate tax is government's least important source of funding. Estate taxes account for just over 1% of federal revenues. But even these benefits to the Treasury may be overstated. Certain facets of planning for estate taxes reduce federal income taxes. In addition, the cost of government enforcement and taxpayer compliance costs 65 cents of every dollar raised. Estate planning costs borne solely by the taxpayer are estimated to equal the entire amount of estate taxes collected each year.

Estate taxes as a percent of federal revenues



Source: Bureau of the Census, *Historical Statistics of the United States, Economic Report of the President*, 1985, 1996, Heritage Foundation, *Backgrounders*, Aug. 21, 1996.

Who pays estate taxes?

The U.S. Department of Agriculture calculates that 54% of the assets held by the two million farm and ranch operators nationwide are at risk to estate taxes. Yet, estate taxes on closely-held businesses and family farms account for only a fraction of federal estate tax revenues. As a result, large numbers of family owned businesses must incur the costs and hassles of estate planning even though taxing these job-creating enterprises produces little revenue for the Treasury. According to the National Federation of Independent Businesses, one-third of today's small business owners will sell all or part of their businesses to pay estate taxes.

Perhaps the most disturbing aspect of the estate tax is that the value on which the tax is based is often unrelated to the income produced. For example, farmland near developed areas may be highly valued, but rising land values do not improve cash flow from operations. Since businesses are often valued at several times their annual income, a family business that nets \$100,000-200,000 per year could be valued at more than \$2 million, and thus subject to estate taxes.

Estate taxes and redistribution of wealth

Proponents argue that the estate tax is necessary to reduce the concentration of wealth in America. Yet, the vast majority of "wealthy" Americans are self-made. Fewer than 1 in 5 American millionaires inherited even 10% of their wealth.

Furthermore, the estate tax encourages consumption, an activity which magnifies the differences between wealthy and non-wealthy households. Money that is not consumed is often funneled into less productive investments, such as life insurance policies and municipal bonds. This is money which might otherwise be invested in job creating enterprises.

Speaker Gingrich favors eliminating the inheritance tax and trimming taxes on some Social Security recipients. He has also proposed to cut the top capital gains rate from 20 to 15 percent.

— MSNBC news report, July 17, 1998

The 20% Solution

Short of eliminating the estate tax, a simplified estate tax with which affects only the largest estates is a sensible alternative to our complicated code with its confiscatory rates. Simultaneously cutting rates, raising the exemption, and simplifying the estate tax code would shift assets into more productive investments. A tax rate of 20% should satisfy critics who claim eliminating the estate tax would allow investors to avoid the capital gains tax.

According to at least one study of estate tax rates, estate taxes account for about 17% of estates valued at between \$10 and \$20 million. Setting at 20% range would enable the government to retain revenues received from the largest estates. Savings incurred by small business owners would stimulate economic growth. Estate tax simplification at lower rates could be designed to create jobs and stimulate productive investment.

Economic Impact Study

Nationally recognized economists Aldona and Gary Robbins will examine the impact of a 20% estate tax rate on economic growth, investment, and job creation. In addition, they will examine how these changes will affect federal tax revenues. The economists will recommend the optimum exemption required to ensure that estate taxes and estate planning are no longer concerns of the small business. Aldona and Gary Robbins are principals of Fiscal Associates, a Washington D.C.-based consulting firm, and well-respected authorities on government finance issues.

Nationwide promotion of 20% Solution

Legislative Awareness Campaign

Once the economic study is complete, the Today Foundation's American Miracle Project will send a complete copy of the report to every member of Congress. In addition to the initial report, the Today Foundation will contact House members and Senators via fax and e-mail explaining the need to reform the estate tax. We will include real-life "horror stories" to illustrate how the estate tax as designed destroys family businesses and costs jobs. We will refer lawmakers to our web site which will serve as resource as they contemplate reforming the outmoded estate tax code.

Media Awareness Campaign

To raise awareness of the need for estate tax reform, the American Miracle Project will establish the Estate Tax Task Force. This group will help present the American Miracle Project's 20% Solution to the American Media. The group will include professional economists, estate tax planners, small business advocates, and family business owners who have experienced the punitive nature of the current estate tax system first-hand. Strategies for media awareness will include:

Printed Media

- Mail the completed economic study to the top 100 newspapers and magazines in the U.S.
- Forward a summary of the study to another 3,000 daily and weekly newspapers.
- Begin a series of editorials promoting the 20% solution for distribution.
- Institute a "quick response" campaign to respond to columns and editorials opposed to estate tax reform.
- Hire a media relations professional to contact opinion page editors of newspapers and magazines, encouraging them to publish our opinion pieces.
- Connect reporters with victims of estate tax "horror stories" in their area.
- Promote the Estate Tax Task force as a resource.
- Promote the American Miracle Web Site as a resource.

Radio/Television:

- Send a complete media packet to talk radio hosts explaining the estate tax problem and the 20% Solution.
- Assign the media relations professional the task of finding air time for American Miracle spokesman on talk radio stations across the country.
- Connect radio news editors with victims of estate tax "horror stories" in their area.
- Promote the Estate Tax Task Force as a resource.
- Promote the American Miracle Web Site as a resource

Cooperative Arrangements

Form coalitions with other organizations interested in estate reform. These may include small business advocates, chambers of commerce, farm bureaus or environmental groups. These coalitions will enable us to involve more action-oriented individuals in our cause.

The American Miracle Web site

The American Miracle web site provides a wealth of information regarding estate taxes and tax reform. As part of the effort to promote and explain the **20% Solution**, the Estate Tax section would be redesigned and expanded. Commentaries from the Estate Tax Task force would be available on line, as well as editorials and the economic study. Daily news items pertinent to the estate tax debate will be posted regularly. Links to estate planning sites will be provided in an attempt to energize those directly affected by estate planning and estate taxes.

We have to let people get some of their money back. We don't need as much money as we've been collecting to run this government,

— Rep. John Kasich, House Budget Committee chairman