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Washington's Estate Tax: Revenue for Higher Education and Early Learning

BY JOHN R. BURBANK AND MARILYN P. WATKINS

INTRODUCTION

Washington has had an inheritance or estate tax since 1901. The United States has had an estate tax in place since 1916. Initiative 920, which would have repealed Washington's estate tax in November 2006, was resoundingly defeated by the people, 62% to 38%. Our estate tax raises over \$100 million annually, on average.¹

WASHINGTON ESTATE TAX REVENUES

Fiscal Year	Estimated Revenue
FY 2010	\$ 97,900,000
FY 2011	\$123,900,000
FY 2012	\$133,200,000
FY 2013	\$133,900,000
FY 2014	\$135,400,000
FY 2015	\$137,200,000

Based on November 2009 Forecast

This revenue is dedicated to the Education Legacy Trust Fund, which finances lower class sizes in public schools, academic help for struggling students, additional enrollments in higher education, and financial aid for low and moderate income students in higher education. Washington's state estate tax exempts estates of less than \$2 million and all family farms. Married couples with \$4 million or more in assets can completely avoid the tax with minimal planning. About 300 estates per year in Washington pay taxes out of 45,000 deaths – less than two-thirds of 1%.

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CURRENT STATE ESTATE TAX RATES

Total Estate Value	Marginal tax rate	Actual tax rate on entire estate	Actual tax in dollars
\$2,000,000	0.0%		
\$3,000,000	10.0%	3.3%	\$100,000
\$4,000,000	14.0%	6.0%	\$240,000
\$5,000,000	15.0%	7.8%	\$390,000
\$6,000,000	16.0%	9.2%	\$550,000
\$7,000,000	17.0%	10.3%	\$720,000
\$9,000,000	18.0%	12.0%	\$1,080,000
\$10,000,000	18.5%	12.7%	\$1,265,000
\$12,000,000	19.0%	13.7%	\$1,645,000
\$50,000,000	19.0%	17.7%	\$8,865,000
\$100,000,000	19.0%	18.4%	\$18,365,000

In 2005, the threshold for the federal estate tax was lower than Washington's: \$1.5 million. The marginal rates of taxation started at 18%, with a top tax rate was 47%. The threshold for taxation rose in the past several years, while the top tax rate dropped.²

THRESHOLDS FOR TAXATION

Year	Tax Rate Range	Threshold for Taxation
2006	18% - 46%	\$2,000,000
2007	18% - 45%	\$2,000,000
2008	18% - 45%	\$2,000,000
2009	18% - 45%	\$3,500,000
2010	Repealed	Repealed

This year there is no federal estate tax. Zero.³ Federal policy encourages intergenerational private wealth, while starving public resources. The Legislature could and should work to bring in some of these lost revenues from the wealthiest estates to help the people of our state. If the Legislature doubled estate tax rates, only on estates over \$2 million, and exempting family farms and small businesses, the state would realize \$65 million for fiscal year 2011.⁴ Approximately 150 estates, less than one percent of all estates, would be affected. The majority of these estates would have a tax of 6.7% or less levied on their total estates. In FY 2012, the state would realize \$100 million in revenues.⁵

PROPOSED ESTATE TAX RATES

Total Estate Value	Proposed marginal tax rate	Actual proposed tax rate on entire estate	Actual proposed tax in dollars	Approximate # of estates
\$2,000,000				
\$3,000,000	20.0%	6.7%	\$200,000	184
\$4,000,000	28.0%	12.0%	\$480,000	47
\$5,000,000	30.0%	15.6%	\$780,000	20
\$6,000,000	32.0%	18.3%	\$1,100,000	13
\$7,000,000	34.0%	20.6%	\$1,440,000	7
\$9,000,000	36.0%	24.0%	\$2,160,000	12
\$10,000,000	37.0%	25.3%	\$2,530,000	3
\$12,000,000	38.0%	27.4%	\$3,290,000	21
\$50,000,000	38.0%	35.5%	\$17,730,000	
\$100,000,000	38.0%	36.7%	\$36,730,000	

DEDICATION OF REVENUES

These funds then could be dedicated to the education legacy trust fund, enabling the state to bring to scale programs including ECEAP and its elaboration as universal pre-kindergarten, and the early childhood education career and wage ladder. This is a robust source of funding, such that the state could also dedicate these funds to ensure access to higher education by providing completely publicly-financed tuition for all Washington public high school graduates. These grants would be good for either the first year of tuition at a Washington state community college or the first term of tuition at Eastern Washington University, Central Washington University, Western Washington University, The Evergreen State College, University of Washington, or Washington State University.

ADDITIONAL REVENUE FROM PROPOSED ESTATE TAX INCREASE

Fiscal Year	Current Law	Double tax rate for all estates	Increase
2010	\$97,900,000	\$97,900,000	\$0
2011	\$123,900,000	\$189,800,000	\$65,900,000
2012	\$133,200,000	\$233,400,000	\$100,200,000
2013	\$133,900,000	\$267,900,000	\$134,000,000
2014	\$135,400,000	\$270,800,000	\$135,400,000
2015	\$137,200,000	\$274,300,000	\$137,100,000

Based on November 2009 Forecast, Department of Revenue.

This is a good and fair exchange. The wealth of large estates is enabled by the laws and institutions of civil government. A slight portion of these estates should go to the health, wellbeing, and upbringing of the next generation. In this way, the benefits of the accumulation of wealth enable societal wellbeing and progress, as well as family intergenerational wealth.

¹ Department of Revenue, January 29, 2010, Kim Davis, analyst

² <http://www.treas.gov/offices/tax-policy/library/ota100.pdf> OTA Paper #100, November 2007, Table 5

³ The likelihood of a reversion to 2002 levels in 2011 is slight. There will be a scaling down of rates and a scaling up of thresholds.

⁴ Assuming implementation as of April 1, 2010

⁵ Op cit, Department of Revenue