



# 5 minutes with Mark

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## WILL “DEATH TAX” REPEAL BE PERMANENT?

*To see the future,  
look to the past.*

In every conversation I have with a client these days, I eventually hear the question, “What’s going on with the estate tax repeal?” Here’s a quick update and my best guess for what’s down the road.

On April 13, 2005 the U.S. House of Representatives passed H.R. 8 – legislation that would permanently repeal the federal estate tax (aka the “death tax”). The bill then moved to the Senate for a final vote originally planned for August. But with repeal forces and reform lobbyists working the legislators, a compromise could not be reached, and the vote was postponed until fall. Meanwhile, the war, the budget, and natural disasters like we’ve never experienced forced the issue to the back burner. Politically, it’s not a good time to give a tax break to the “ultra-rich” (as defined by the government, not me).

Additionally, the Senate finance committee directed the Congressional Budget Office (CBO) to analyze past estate tax returns and

taxes paid, and compare them to various proposed scenarios for increasing the tax-free credit to determine the likely benefit (and lost revenue, I’m sure).

Here are some interesting facts. The average estate size in 1999 was \$1.9 million and in 2000 it was \$2 million. The average tax was \$500,000. Using a \$1.5 million exemption (this year’s number), fewer than a third of those estates would pay a tax; at a \$2 million exemption, fewer than 20 percent; and at \$3.5 million, fewer than 10 percent.

The CBO also reported that for estates that filed for the **qualified family-owned business** treatment, the number that would pay taxes under steadily rising exemptions falls sharply. (See table.)

Family-owned Businesses and Estate Taxes		
Tax Year	Exemption Amount	% of Estates That Would Pay Tax
2005	\$1.5 million	2%
2006–08	\$2 million	1.1%
2009	\$3.5 million	0.7%

To see the future, look to the past. Historically, when the public complains about estate taxes, the tax-free credit is raised to allow most Americans to fall below the taxable amounts. Prediction: the credit will go to \$3.5 million and the maximum tax rate will come down to 40 percent. Time will tell. Unfortunately, for everyone receiving this letter, this isn’t much help, so let’s keep planning.

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