



POLICY BRIEF

Guide to Initiative 920

A Measure to Repeal Washington's Estate Tax

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Executive Summary

The estate tax (sometimes referred to as the “death tax”) has been a politically sensitive issue since its permanent adoption by both Washington and the federal government in the early 1900s. Initiative 920 seeks to repeal the state’s version of the estate tax, which taxes the transfer of property on estates of more than \$2 million upon the death of the owner.

The debate over the estate tax comes down to two major issues: First, can small and family-owned businesses financially survive the death of the principle owner? Second, will repealing the estate tax negatively affect the state’s responsibility to educate children?¹ This study finds that:

- The number of estates affected by the state’s estate tax hovers just above 200 per year, a fraction of the total number of estates passed on through death each year;
- As a percentage of Gross State Product, state estate tax revenues account for 0.0005% of GSP;
- Oregon’s estate tax rates are lower than Washington’s and Idaho has no state estate tax;
- The revenue generated from the estate tax is less than one percent of all tax revenue collected per year and therefore is relatively insignificant. This percentage will continue to fall in future fiscal years.

1. Introduction

In November, voters will again have the opportunity to repeal the Washington estate tax by voting on Initiative 920. The estate tax, sometimes called the “death tax,” has been a politically sensitive issue in the century since our state and the federal government imposed the first permanent estate taxes in the early 1900s.

¹ More information on the Washington State estate tax can be found in Washington Policy Center’s *Policy Guide for Washington State*, available online at www.washingtonpolicyguide.org.

There is often confusion between estate, inheritance and transfer taxes. An estate tax is a tax paid on the total value of a deceased person's estate. An inheritance tax is a tax on assets a living person receives through inheritance. A transfer tax is a tax on transfers of money or other gifts between living people. Transfers to grandchildren or more distant relatives are subject to a generation-skipping transfer tax. Both Washington and the federal government have at one time or another imposed these taxes. Initiative 920 deals only with the estate tax.

While this report outlines the estate tax issue in Washington State, it is important to note that the U.S. Congress is also debating this issue. This report will touch briefly on the federal estate tax issue, but focus mainly on Initiative 920 and Washington's estate tax debate. For decades, Washington's estate tax was intrinsically linked with federal policy, and many of the core issues in the debate over the estate tax remain the same, whether applied to national or state proposals.

2. History

Americans pay taxes on just about every legal transaction; taxes are levied on sales, purchases, licensing, property, capital gains, and death (among many others). Tax policy carries with it certain ramifications, not only economically, but regarding fairness and changes in social behavior too.

Generally, as a transaction tax increases, it creates a strong incentive for the transaction and its frequency to decrease. For instance, as gas taxes increase, some automobile owners will respond by driving less. An estate tax involves an event that no person can avoid: death. However, public policy has dictated that only certain estates are taxed – ones that exceed a certain threshold of wealth.

Estate taxes are not new – their origin in the United States stretches back over two centuries. Three times in the nation's early history a federal estate tax was imposed and repealed shortly afterwards. In each instance, the tax was implemented to provide short-term revenue to finance military activities – 1797-1802 for the Quasi-War with France, 1862-1870 for the Civil War, and 1898-1902 for the Spanish-American War. The federal estate tax was made permanent in 1916. A gift tax was added in 1932 to discourage possible avoidance of the estate tax through gifting to heirs before death.²

Washington's estate tax was adopted in 1901. Immediately upon its implementation there was public outcry against it. A state court upheld the tax by ruling that it constituted an excise upon the privilege of inheriting property and not a tax upon the property itself.³ Similar to federal policy, Washington added a gift tax in 1941.

² "Costs and Consequences of the Federal Estate Tax," Joint Economic Committee, United States Congress, May 2006.

³ "Tax Reference Manual, Information on State and Local Taxes in Washington State," Revenue Research Report, Washington Department of Revenue, 2005.

There were few changes of significance until 1979, when the legislature increased the basic exemption levels, phased out community property taxes and revised the graduated rate schedule in order to reduce tax rates.

The big shift in the inheritance tax debate came when Initiative 402 was filed in April 1981. The initiative asked voters:

“Shall inheritance and gift taxes be abolished, and state death taxes be restricted to the federal estate tax credit allowed?”⁴

The second part of this initiative meant that only estates liable for federal estate tax would be subject to tax under the initiative. In other words, the state would receive a credit for the amount due to the federal government. Voters approved Initiative 402 by a margin of two to one, 67% to 33%, and Washington’s inheritance, gift and estate taxes were repealed.⁵

3. Hemphill Case and De-coupling of Estate Tax

Initiative 402 limited collection of estate tax revenue by state government to “an amount equal to the federal credit.” Washington would now collect only a portion of the estate tax revenues paid to the federal government – not as a separate tax, but through a tax credit system established by the federal Internal Revenue Service Code. By 2001, 38 states had followed similar paths by equating the state tax to the total credit allowed to them by the federal government. This was called a “pick-up” tax. This way, the states were able to collect estate tax revenue without creating any additional tax burden on their citizens.⁶ This practice is also referred to as “coupling” the state and federal estate taxes. If an estate was liable to pay the federal estate tax, then, by default, it also paid the state’s estate tax.

Here is how it worked. An heir to an estate of \$1 million would pay \$116,000 in estate taxes to the federal government, but the federal government would allow the state government where the heir lived to keep \$33,200 (\$82,800 to feds + \$33,200 to state = \$116,000). The pick-up tax resulted in no greater burden on the estate than what the federal government would have charged anyway.

In 2001, the U.S. Congress passed the Economic Growth and Tax Relief Reconciliation Act (EGTRRA), which phases out the federal estate tax by 2010 and repeals the federal estate tax credit for states. By 2005, EGTRRA had gradually phased out estate tax revenue-sharing between the federal government and states.

⁴ Office of the Secretary of State,
http://www.secstate.wa.gov/elections/initiatives/statistics_initiatives.aspx.

⁵ http://www.secstate.wa.gov/elections/results_search.aspx.

⁶ *Estate of Hemphill v. Department of Revenue*, 153 Wn.2d 544, 2005.

EGTRRA is commonly known as the repeal of the federal estate tax. Though the federal estate tax is fully repealed only in the year 2010, between 2001 and 2010 the base exemption amount will increase gradually from \$1 million in 2002 to \$3.5 million in 2009, and the federal estate tax rate will fall from a high of 50% to 45%. Any estate valued below the base exemption will pay no estate taxes. (Prior to passage of EGTRRA the base exemption was \$700,000.) EGTRRA is due to expire in 2010. Unless Congress extends it or makes it permanent, in 2011 the entire federal estate tax system, including tax rates and base exemptions, returns to pre-2001 levels.

Passage of EGTRRA led to problems of interpretation of estate tax law in Washington State. Even after the federal government raised the base exemption and lowered tax rates, the Washington State Department of Revenue continued to collect the pick-up tax at the higher, pre-2001 rate. The state continued to tax estates as if EGTRRA had never been enacted. This meant hundreds of estate heirs were made to send money to the state treasury, though they either owed no tax, or were being taxed at too high a rate.

A lawsuit was filed against the Department of Revenue. In February 2005, the State Supreme Court, reversing a lower court decision, ruled in favor of estate heirs. In *Estate of Hemphill v. Department of Revenue* the Court stipulated that the Department had to adapt its current estate tax collection practices to conform with the most current federal statutes. Because EGTRRA ended the revenue sharing with the states, the Department had to refund the money it had collected from estates between the time of EGTRRA's passage and the date of the Court's ruling – a figure amounting to about \$152 million.⁷ Justice Charles Johnson wrote in the unanimous decision that “when an estate has no federal estate tax, there is no obligation to pay any state estate tax.”⁸

4. Enacting the New State Estate Tax

In response to the State Supreme Court's decision, the legislature enacted a new estate tax. Engrossed Senate Bill 6096 passed by a vote of 25-21 in the Senate and 50-48 in the House and was signed by Governor Gregoire on May 17, 2005.⁹ Legislators attached an emergency clause to the bill, so it took effect immediately upon signing.

The new estate tax is a stand-alone or “de-coupled” tax. It is not affected by the gradual phase-out of the federal estate tax. When the federal estate tax fully expires in 2010 the state's version will remain. However, the generation-skipping transfer tax has been permanently repealed. Assets that grandparents bequeath to grandchildren are no longer taxable.

⁷ “\$152 million refund likely after high court tosses state's estate tax,” *The Seattle Times*, February 4, 2005.

⁸ *Estate of Hemphill v. Department of Revenue*, 153 Wn.2d 544, 2005, page 4.

⁹ See washingtonvotes.org/Legislation.aspx?ID=37972.

A new twist to the newly enacted estate tax is how the revenue from the tax is spent. Previously, estate tax revenue went to the state’s general fund. Money from the new estate tax is deposited into the Education Legacy Trust account. This account funds the Student Achievement Fund, which was created by voter approval of Initiative 728 in 2000, which passed by a vote of 72 percent to 28 percent.¹⁰

According to state law, the Education Legacy Trust account is to “be used only for deposit into the student achievement fund and for expanding access to higher education through funding for new enrollments and financial aid, and other educational improvements.”¹¹

In the public debate over Initiative 920, the estate tax is often described as “funding education.” This has only been true since mid-2005. Over the previous 104 years, estate tax revenue went to pay for general government.

Initiative 728 passed with overwhelming support in large part, because voters were promised no new taxes would be required. Initiative 728, which focused on reducing class size, was to be funded by existing lottery and property tax revenues and shifting excess money from the emergency reserves created from budget surpluses. At the time of the election, Washington policymakers were expecting a \$1 billion budget surplus. Voters, wanting smaller classes for essentially no increased tax burden, passed the initiative.

By 2003, however, spending decisions by the legislature had turned the state’s expected surplus into a budget deficit. Two years later, education-funding proponents, in their search for additional revenue sources, urged that money from the newly-created state estate tax be channeled to education. Neither the Education Legacy Trust, nor the Student Achievement Fund is funded solely by estate tax revenue.

5. Current Law

This section describes how the estate tax law that Initiative 920 seeks to repeal works.

Washington’s estate tax is applied to transfers of property owned by persons resident in the state at the time of their death, and transfers of property located in the state belonging to nonresidents at the time of their death. Washington State no longer collects the “generation-skipping” transfer tax on the estates of people who died after May 2005.

¹⁰ Office of the Secretary of State, at http://www.secstate.wa.gov/elections/results_search.aspx.

¹¹ Revised Code of Washington, 83.100.330.

The tax is calculated using the Washington taxable estate. “Washington taxable estate” means the assets that are liable for federal taxes determined without regard to the deduction for state estate, inheritance, legacy or succession taxes.¹²

From May 2005, when the new estate tax law took effect, until December 31, 2005, there was a \$1.5 million exemption. Estates with a value below the exemption paid no tax, and estates worth more could reduce their taxable value by \$1.5 million. On January 1, 2006, the exemption increased to \$2 million.

Because family owned farms tend to accrue large assets (land, machinery, etc.), they are largely exempted from the estate tax upon the death of the owner. The farm deduction is available for farmland and any tangible personal property used primarily for farming. To qualify as farm property, 50 percent of the estate must be property used for farming, the decedent or decedent’s family must have materially participated in the operation of the farm, and the property must pass to a family member.¹³ However, there is no requirement that the heirs have to continue to use the estate for farming.¹⁴

The table below illustrates how the estate tax applies to estates in Washington. There are several other provisions that may lower an estate’s total tax liability, such as out of state assets, etc.¹⁵

For taxable estates worth at least:	Initial tax amount is:	Plus tax rate of:	On the estate’s value greater than:
\$1,000,000	\$100,000	14.00%	\$1,000,000
\$2,000,000	\$240,000	15.00%	\$2,000,000
\$3,000,000	\$390,000	16.00%	\$3,000,000
\$4,000,000	\$550,000	17.00%	\$4,000,000
\$6,000,000	\$890,000	18.00%	\$6,000,000
\$7,000,000	\$1,070,000	18.50%	\$7,000,000
Above \$9,000,000	\$1,440,000	19.00%	Above \$9,000,000

Source: Washington State Department of Revenue. Note: estates valued below \$2 million are now exempt.

¹² “New Washington Estate Tax,” Washington State Department of Revenue, May 2005, at http://dor.wa.gov/Docs/Pubs/SpecialNotices/2005/sn_05_NewEstateTaxLaw.pdf.

¹³ Ibid.

¹⁴ Final Bill Report, ESB 6096: <http://www.leg.wa.gov/pub/billinfo/2005-06/Pdf/Bill%20Reports/Senate%20Final/6096.FBR.pdf>.

¹⁵ For more information on other provisions regarding the estate tax, contact the Washington Department of Revenue at http://dor.wa.gov/content/taxes/other/tax_estate.aspx.

6. Estate Tax Impact

Estate tax proponents often argue that a very small percentage of the population is directly effected by the estate tax system. Government data shows that only around two hundred estates are taxed each year.

The following table shows the Washington Department of Revenue's projections of how many people in 2006 are likely to be affected by the 2005 estate tax.

Estimated Number of Estates Required to File an Estate Tax Return – 2006 (\$2 million filing threshold)

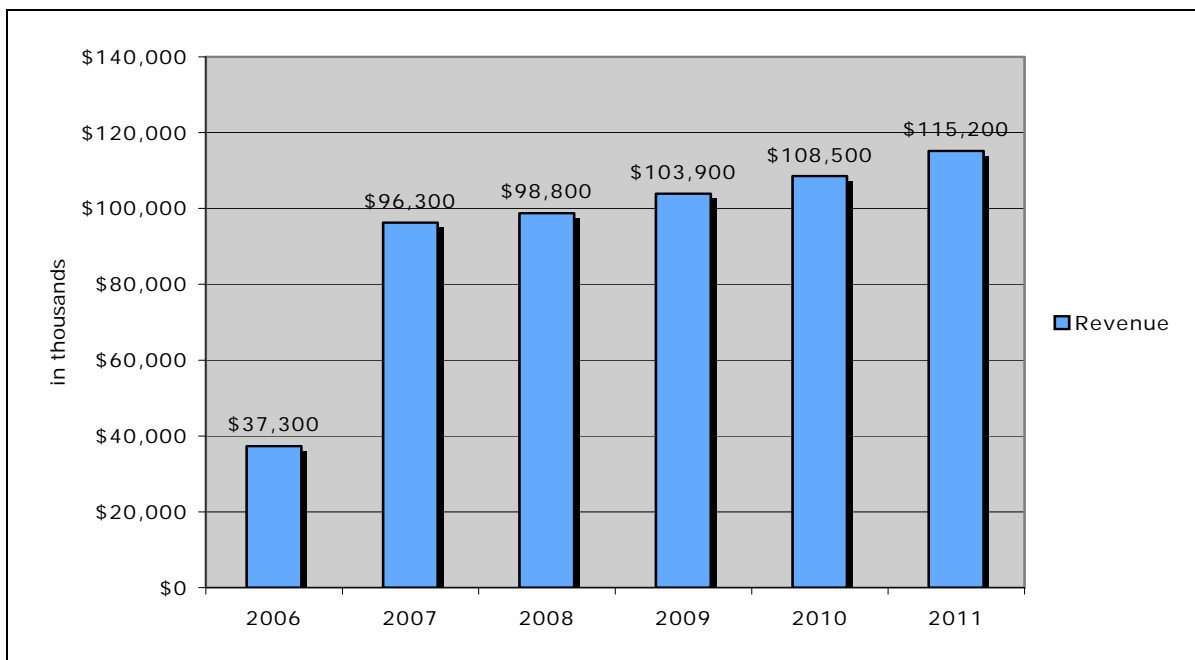
Gross Value of Estate	Combined Value (in millions)	Number of Taxable Estates	WA Estate Tax Revenue (in millions)	Average Tax per Estate	Effective Tax Rate
Up to \$2 million	\$946.5	0	\$ 0	\$ 0	0%
\$2 to \$3 million	\$285.1	105	\$4.3	\$40,000	1.5%
\$3 to \$5 million	\$207.0	51	\$10.0	\$200,000	4.9%
\$5 to \$10 million	\$274.2	38	\$24.7	\$650,000	9.0%
\$10 to \$20 million	\$180.4	14	\$17.6	\$1,260,000	9.8%
\$20 million and above	\$225.5	5	\$39.3	\$7,860,000	17.4%

Source: Washington State Department of Revenue

The table outlines the Department of Revenue's forecast that only 213 estates will be affected by the estate tax in 2006, for revenue to the state of about \$96 million. Two hundred thirteen estates represent about one-half of one percent of all yearly deaths in Washington.

The following graph shows the Department of Revenue's estate tax revenue forecast for future years. Estate tax revenues are relatively stable – slowly rising over time. However, this accounts for a small, and declining, percentage of overall state revenues – a situation that is mirrored at the federal level.

**Estimated Annual Revenue from the
Washington Estate Tax, 2007 – 2011**
(figures in thousands)



Source: Washington State Department of Revenue

For the federal government, the estate tax has never played a significant role in overall revenues. For the past several decades, the estate and transfer tax revenues accounted for about one percent of total federal revenue.¹⁶ Transfer tax revenues peaked during the Great Depression at about 9.7 percent of federal revenues – but it has fallen steadily ever since, rebounding to 2.6 percent in 1972 and hovering around one percent since the 1970s.¹⁷ As a percentage of the U.S. Gross Domestic Product, federal estate tax revenues represent about one quarter of one percent of GDP.¹⁸

In 2004, the Washington estate tax made up less than one percent of total state revenue – \$139 million out of more than \$13 billion.¹⁹ After taking into account the Department of Revenue’s forecasted revenue, along with the growth (projected and actual) of government, the estate tax will account for the same proportion of all state revenues, approximately one-half of one percent, over the next several years. As a

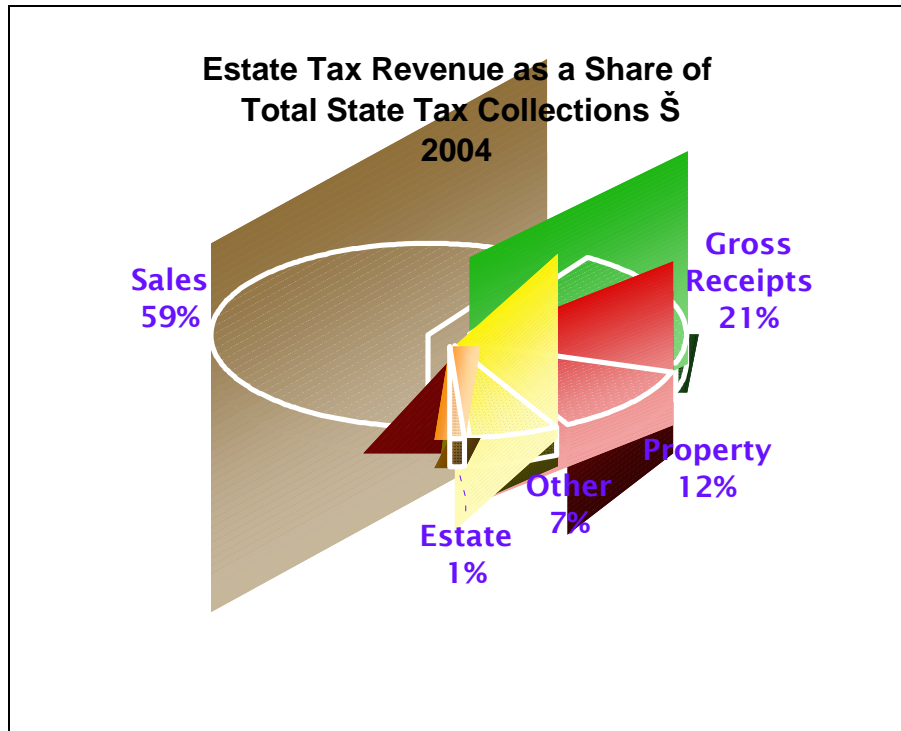
¹⁶ “Death and Taxes: The Economics of the Federal Estate Tax,” by Andrew Chamberlain, et. al., Tax Foundation, Washington, D.C., May 2006.

¹⁷ “A History and Overview of Estate Taxes in the United States,” by Patrick Fleenor, Tax Foundation, Washington, D.C., January 1994.

¹⁸ “The behavioral response of wealth accumulation to estate taxation: time series evidence,” by David Joulfaian, United States Department of the Treasury, November 2005.

¹⁹ Department of Revenue and Office of Financial Management:
http://dor.wa.gov/Docs/Reports/2005/Tax_Statistics_2005/Table2.pdf

percentage of the Washington Gross State Product, the state estate tax revenues represent about five ten-thousandths (0.0005%) of one percent of GSP.²⁰



Washington State Department of Revenue &
Office of Financial Management

7. The Impact on Small and Family-Owned Businesses

The debate rages over just how much and how many small businesses and family-owned businesses are affected by the estate tax. Many small business owners are concerned that, upon their death, the business may have to be liquidated in order to pay the estate taxes. Opponents of the estate tax also feel that heavy taxation discourages the formation of investment capital and creates disincentives to expand family enterprises. Defenders of the tax point out that the \$2 million exemption helps smaller businesses avoid any estate tax liability.

Opponents of the estate tax say that, while there is a full exemption for farms passed to family members, most family-owned businesses are not fully exempt, they merely get the same \$2 million exemption any citizen receives. While high for individuals, \$2 million is a very low financial threshold for a business. All but the

²⁰ 2006 *Competitiveness Redbook*, "Gross State Product in Current Dollars (2004)," Washington Alliance for a Competitive Economy, 2006, table 9.

smallest family firms are worth more than \$2 million, and are thus subject to the tax. Revenue from a family business may only be a fraction of its total worth, meaning the business may have to be sold if it becomes subject to the estate tax.

The problem of paying the estate tax is not limited to Washington State. Numerous studies have been conducted on how small and family-owned businesses are affected by the federal estate tax. A report by the non-partisan Congressional Budget Office finds that:

“Estates involving farms or small businesses were less likely than the average estate to have sufficient liquid assets to cover their estate taxes,” and that “estate taxes reduce after-tax income on investments just as income taxes do, and a large body of research suggests that the income tax discourages entrepreneurial effort to some degree.”²¹

A report by the Congressional Joint Economic Committee finds that minority businesses will become greater targets for the estate tax over the next 50 years, as more minority-owned businesses thrive.²²

The fairness of the estate tax also sets off vociferous arguments on both sides. Initiative 402 passed overwhelmingly in 1981 in large part because most people saw the estate tax as unfair. A 2005 national poll by Harris Interactive found that a majority of Americans view the estate tax as unfair.²³

Washington Policy Center’s 2005 Statewide Small Business Conferences addressed the issue of an estate tax. Among the more than 300 attendees – primarily small business owners and employees – repealing the estate tax was the second-highest recommended tax policy priority.²⁴

Perhaps some of the opposition to the estate tax is due to the fact that many Americans hold a positive view for their financial future. Regardless of current income and financial status, 30 percent of Americans think that it is very or somewhat likely that they will one day be rich. While the estate tax directly affects very few people today, many Americans fear they may have to pay it in the future. Thirty-four percent of Americans also believe that government taxes and services should be decreased, 30 percent believe services and taxes should remain static, while only 13 percent believe services and taxes should be increased.²⁵

²¹ “Effects of the Federal Estate Tax on Farms and Small Businesses,” Congressional Budget Office, July 2005.

²² “Costs and Consequences of the Federal Estate Tax,” Joint Economic Committee, United States Congress, May 2006.

²³ 2005 Annual Survey of U.S. Attitudes on Tax and Wealth, April 2005, Tax Foundation, Washington, D.C., at <http://www.taxfoundation.org/files/topline-20050414.pdf>.

²⁴ “Reviving Washington’s Small Business Climate,” by Carl Gipson, Washington Policy Center, January 2006.

²⁵ Ibid.

When people were questioned about the estate tax, the federal estate tax was ranked as the worst, or least fair, nationwide tax. Even though most respondents probably would not have been directly affected by the estate tax, it still ranked as the least fair tax in people’s minds. Its standing is even lower than the federal income tax and the Social Security payroll tax. Lastly, 68 percent of respondents favored eliminating the estate tax, versus 17 percent who opposed eliminating it, and 15 percent who were not sure.

8. Neighboring State’s Estate Tax Systems and Rates

It is important to take into account how Oregon and Idaho set up their respective estate tax systems, particularly because, like many other taxes and regulations, these neighboring states could offer a competitive alternative for Washington citizens. It is not unheard of for Washington citizens to relocate their residence out-of-state to avoid being subject to the state’s estate tax. For that reason, it is important for Washington citizens and lawmakers to know just how our tax system compares with others.

Idaho’s estate tax system is similar to Washington’s before the *Hemphill* decision. Through 2004, Idaho’s estate tax applied when the gross estate reported to the federal government exceeded \$1.5 million. However, as of January 1, 2005, Idaho’s estate tax was repealed and residents are now only required to pay federal estate taxes. Idaho has no inheritance tax or gift tax.²⁶

Oregon’s inheritance tax system is similar to Washington’s since the *Hemphill* decision. Oregon lawmakers decoupled the estate tax in 2002 and implemented an exemption base level of \$700,000. As of 2006, the exemption level rose to \$1 million, where it will remain for the next several years. Oregon inheritance tax rates start at 4.8 percent and rise to 16 percent, depending on the value of the estate. Oregon does have an estate income tax, meaning assets that earn income for beneficiaries are subject to income taxes. Oregon does not impose a generation-skipping transfer tax. The table below summarizes the estate tax systems in the three states.

Estate Tax Systems in Washington, Oregon and Idaho – 2006

	Washington	Oregon	Idaho
Estate Tax	Yes	Yes	No
Estate Income Tax	No	Yes	No
Gift Tax	No	No	No
Generation-Skipping	No	No	No
Estate Tax Rates	10 to 19%	4.8 to 16%	N/A

Data compiled from Washington State Department of Revenue,
Oregon Department of Revenue and Idaho State Tax Commission

²⁶ “Tax Information for Idaho Newcomers,” Idaho State Tax Commission, at www.tax.idaho.gov.

9. Initiative 920

Initiative 920 was submitted to the Secretary of State with 395,219 signatures (of which about 335,000 were deemed valid), well above the 224,880 signatures needed to qualify for the November 2006 ballot.

The ballot title for Initiative 920 reads:

“This measure would repeal Washington’s state laws imposing tax, currently dedicated for the education legacy trust fund, on transfers of estates of persons dying on or after the effective date of this measure. Should this measure be enacted into law?”

Arguments for Initiative 920

The “Yes on I-920” campaigns are primarily formed by a former Seattle police officer and business organizations – representing large, small and independent businesses. Their main arguments for passing Initiative 920, along with responses from opponents, are presented below.²⁷

1. *“It is morally wrong for death to trigger a tax on the property of the deceased. The deceased can no longer defend his savings.”*

The “No on I-920” campaign responds: Only estates worth more than \$2 million qualify for the estate tax. Otherwise you don’t pay. Unless you’re super rich, you will not get a single penny back from the government with Initiative 920.

2. *“Washington citizens repealed the [inheritance] tax in 1981 with Initiative 402. In 2005, the legislature went against the will of the people by imposing a new tax.”*

The “No on I-920” campaign responds: Washington State’s estate tax has been in existence since 1901. It’s not a new tax or tax increase. It used to be tied to the federal tax but now it is separate.

3. *“The estate tax tells business owners, ‘Grow your business in another state!’ It will hurt local ownership and job creation in Washington, driving economic activity – and the associated tax revenue – to states that have decided against such a tax.”*

The “No on I-920” campaign responds: The revenue generated will come from only about 210 estates a year – and it is money that has not been taxed before.

²⁷ All arguments for and against Initiative 920 were compiled from various documents from the respective campaigns’ websites and handouts and do not reflect the views of Washington Policy Center. For more information on the “Yes on I-920” campaign, visit www.noestatetax.org or www.yeson920.com. For more information on the “No on I-920” campaign, visit www.washingtondefense.org.

While most other states without the estate tax have an income tax or a capital gains tax, Washington does not.

4. *“The crafters of this new tax strategically tied this new revenue to school funding in a cynical attempt to create a broad-based constituency of support. Washington schools are funded by existing state revenue, unobligated lottery revenue, timber taxes, and most significantly by property taxes.”*

The “No on I-920” campaign responds: Initiative 920 guts the Education Legacy Trust, which helps fund: Initiative 728, a voter-approved initiative aimed at helping reduce class sizes so children in K-12 have an easier time learning; the Learning Assistance Program and 7,900 additional higher education enrollment slots.

Arguments Against Initiative 920

The “No on I-920” campaign consists mostly of organized labor groups and Washington Defense, a political advocacy organization. Following are the main arguments against Initiative 920, along with responses from proponents.

1. *“The estate tax is the fairest way to raise revenue, from those most able to pay. The estate tax is the most progressive way available to raise revenue our state desperately needs to meet its commitments.”*

The “Yes on I-920” campaign responds: The very wealthy and those with liquid assets find ways to avoid the tax with life insurance policies, moving out of state and other legal maneuvers. The tax lands primarily on small and family-owned businesses.

2. *“The estate tax is one way wealthy people pay back society after they die for the benefits of the economic, judicial, educational, and transportation systems that helped make them rich. Paying the estate tax enables our society to invest in the next generation, who will build our future economy.”*

The “Yes on I-920” campaign responds: Small businesses already pay a significant tax that most Washington citizens do not pay – the Business and Operating tax on gross receipts. Adding another tax that they will pay while the average citizen does not and then saying it’s because small businesses should pay more for schools is an insult to the people who create jobs in our state.

3. *“The benefits of these expensive tax cuts will flow largely to Washington State’s richest families and lead to greater income inequality.”*

The “Yes on I-920” campaign responds: In truth the enormously wealthy and those with liquid assets find ways to avoid the tax. Small business owners do not have the cash on hand to set up trusts to avoid this tax. When preparing for death

taxes, the average family spends annually \$20,000 in legal fees, \$11,900 for accounting fees, and \$11,200 for other advisors.

10. Conclusion

It is important for policymakers to take into account any new taxes and fees that are involuntarily imposed upon economic activity – whether it is on the production side or consumer side. Taxes have an adverse impact on the formation of capital to invest in the development of enterprise. While the evidence is to the contrary that an estate tax helps lessen income inequality, the duration of estate and generation-transfer taxes in this state and nation makes the casual observer think otherwise.

When voters go to the polls this November to consider repeal of the estate tax, they will be doing so for the second time in 25 years. While the overall impact of the tax revenue in relation to the state’s total budget is minimal, the outcome of the election could send a strong political signal about the nature of the tax itself. Several other states and the federal government are debating this very issue, so the outcome in Washington will have important effects throughout the country.

Washingtonians pay more than 50 different kinds of taxes at the state and local level, not including federal taxes.²⁸ The largest sources of state revenue are sales, property and business taxes. The estate tax represents one of the smallest revenue sources for the state. Should the estate tax be repealed, it will have a very small effect on Washington system of taxation.

Yet, in many ways the popular movement against the estate tax is not surprising. In historical terms Washington’s level of taxation is perhaps the highest ever, and state residents are among the most highly taxed in the nation. Today, Washington resident pay more money to government officials in taxes than they do for food, clothing and transportation combined.

The perceived unfairness of the estate tax is another motivator behind its repeal. The purpose of a tax system is to raise needed revenue for the government, not target specific groups with specialized levies. This may explain why polls show that most people see the estate tax as unfair. By definition the estate tax is directed at families and business that have been successful. Most people believe the tax system should be neutral, and that government should not pick winners and losers in society, or arbitrarily shift the tax burden onto one class of citizens.

While the estate tax represents only a small part of state revenue, the issue evokes strong emotions on both sides. This November, Washington voters will decide whether death of people who own large estates should remain a taxable event.

²⁸ “Tax Reference Manual, Information on State and Local Taxes in Washington State,” Revenue Research Report, Washington State Department of Revenue, January 2005.

About the Author



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