



**INDEPENDENT SECTOR**  
A vital voice for us all

## **Independent Sector Statement on Estate Tax Reform**

March 31, 2009

Our nation's tax system has strongly encouraged Americans to give back to their communities through tax deductions for contributions to tax-exempt charitable organizations. Last week, every Senator reaffirmed this policy by voting for one of two versions of a resolution that called on Congress to "look for additional ways to encourage charitable giving." Toward that end, Independent Sector strongly supports retaining the federal estate tax at 2009 levels as provided in the fiscal year 2010 budget resolution approved by the House and Senate Budget Committees and urges Congress to oppose any amendment that would raise the individual and couple exemption or reduce the estate tax rate. Any further weakening of the estate tax from 2009 levels would diminish an essential source of revenue to the charitable community and thereby weaken our ability to address the needs of the individuals and communities we serve.

The tax incentives provided to people to donate from their estates to charitable organizations have provided significant revenues to support services and programs that are vital to sustaining healthy communities and the well-being of Americans of all ages. Many of these programs would not be possible without the combination of the public and private support that our tax system facilitates. The Budget Resolution for fiscal year 2010 proposes permanently extending the current 2009 estate tax levels, thereby generating an estimated \$515 billion in revenues over ten years to pay for our collective responsibilities.

The federal estate tax encourages Americans of substantial means to meet their special leadership responsibility by providing them incentives to give back, both during their lifetimes and through their estates, to the communities in which they have lived and earned success and to the causes to which they are devoted. The Congressional Budget Office found that the estate tax leads affluent individuals to donate far more than they otherwise would, because such donations sharply reduce estate tax liability.<sup>1</sup> The CBO found that about one-sixth of the estates filing estate tax returns in 2000 left a charitable bequest which together totaled \$16 billion. Charitable bequests were heavily concentrated in the largest estates with over 70 percent of the total bequests coming from estates valued at more than \$3.5 million. These contributions are needed more than ever in these difficult economic times.

It is in this context that we have evaluated proposals to reform the estate tax. We believe that the compromise in the Budget Resolution is the most reasonable and appropriate reform at this time that would protect family farms and small business owners while also serving the revenue needs of our country and providing a sufficient incentive to promote the work of nonprofits.

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<sup>1</sup> Congressional Budget Office, *The Estate Tax and Charitable Giving*, July 2004.

We are urging Senators to oppose an alternative proposal by Senators Lincoln and Kyl that would raise the individual exemption and lower the estate tax rate beyond 2009 levels. According to the Urban Institute-Brookings Tax Policy Center, a proposal similar to this one would reduce estate tax revenue by almost four-fifths as much as full repeal of the tax.<sup>2</sup> Because of the reduction in federal revenues this proposal would cause, we would undoubtedly see deep further cuts in federally funded programs vital to the people served by the nonprofit community, including education, the arts, health care, and especially aid for poor and vulnerable people, as well as elimination of community development grants, first responder funding, and entrepreneurship grants. The amendment also would make charitable bequests more expensive and significantly reduce charitable giving, thus damaging the ability of the nonprofit community to raise private funding to address these and other needs in our society. Therefore, we feel that the costs of a weaker estate tax are not justifiable given the much greater needs that we as a society are facing.

To summarize, the estate tax provides a stream of revenue that is essential to the work of charities in enhancing life and to the work of government and its priorities. In the context of the budget process, we believe that making permanent the 2009 estate tax exemptions and tax rate is the most appropriate reform to ensure adequate federal revenues and to continue to encourage charitable contributions that help nonprofits implement, complement and enhance services provided by government and business.

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Independent Sector is a national, nonpartisan charitable organization with approximately 550 members, including public charities, private foundations, and corporate giving programs, collectively representing tens of thousands of charitable groups in every state across the nation. Our coalition leads, strengthens, and mobilizes the charitable community to fulfill our vision of a just and inclusive society and a healthy democracy of active citizens, effective institutions, and vibrant communities. IS members represent a broad cross-section of our nation's nonprofit community, which exists to improve society, frequently in partnership with government, in diverse areas such as health care, education, human services, the arts, and community development.

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<sup>2</sup> Burman, Leonard; Lim, Katherine; and Rohaly, Jeffrey. *Back from the Grave: Revenue and Distributional Effects of Reforming the Federal Estate Tax*, Urban Institute and Brookings Institution Tax Policy Center, October 20, 2008.