

D.C. Tax Revision Commission Policy Options
Policy Option #24: Eliminate the Estate Tax

MEMORANDUM

Proposal: Eliminate the estate tax

Tax Type: Estate Tax

Origin: Public

Commission Goals: Competition

Current Law

D.C. imposes an estate tax up to a maximum rate of 16% on all estates worth more than \$1 million not passing at death to a surviving spouse or charity. The federal government imposes an estate tax up to a maximum rate of 40% on property in excess of \$5.25 million not passing at death to a surviving spouse or charity. The estate tax in Maryland is similar to the one in D.C. There is no estate tax in Virginia.

Proposed Changes

Eliminate D.C.'s estate tax.

Reasons for Change

The District's estate tax can be burdensome for beneficiaries that inherit a home, or other assets, valued at just over \$1 million. Beneficiaries are sometimes forced to sell their home or other inherited assets in order to pay D.C. estate taxes.

Estate taxes, often referred to as death taxes, are very unpopular with taxpayers around the country. Most states (including Virginia and Florida) eliminated their estate tax when the federal government repealed the estate tax credit. D.C. residents may be motivated to avoid D.C.'s estate tax by moving to a state without an estate tax.

Pros

- If D.C.'s estate tax were eliminated, beneficiaries would have decreased administrative and financial burdens when making final arrangements, and might not have to sell their homes or other inheritance in order to pay the estate tax.
- Eliminating the estate tax would be popular among some residents, who might stay in D.C. in their later years rather than move to non-tax states such as Virginia or Florida.
- Most states have eliminated their estate tax.

Cons

- Eliminating the estate tax would reduce tax revenue.
- Eliminating the estate tax may reduce the progressivity of D.C.'s tax system.

Revenue Impact

The Office of Revenue Analysis estimates that eliminating D.C.'s estate tax would cost \$38 million in tax revenue in the first year of implementation.