Why the Estate Tax is Good for Ohio

Executive Summary

The Ohio General Assembly could repeal the estate tax as early as this month. Both the state budget approved by the House and the one currently being considered by the Senate would eliminate it, slashing needed revenue and increasing inequality in Ohio.

Ohio's estate tax is paid by the administrator after someone dies on the transfer of their assets. Estates worth $338,333 or less are effectively exempt from the tax because of a credit. Estates pay a 6 percent rate on amounts over that, and 7 percent on amounts over $500,000—rates no higher than the sales tax in much of Ohio.

Fewer than 8 percent of all Ohio estates pay the tax, so it is a tax on the affluent, not on the middle class. More than three-quarters of the tax is paid by estates worth more than $1 million. The estate tax is one of the few taxes partially offsetting a state and local tax system that falls more heavily on less affluent families.

The estate tax is an important source of revenue for cities, villages and townships across Ohio, which receive four-fifths of the tax (the other fifth goes to the state). In 2010, it produced $230.8 million for local governments, in addition to the $55 million that went to the state's General Revenue Fund. More than 100 communities received at least $400,000 in 2006, 2007 and 2008. While these included affluent places like Upper Arlington and Shaker Heights, they also included towns like Elyria, Springfield, Parma and Findlay. Columbus received at least $6.6 million each year between 2005 and 2009. Jackson Township in Stark County has received at least half a million dollars a year in each of the last 14 years, and is counting on that amount for 17 percent of its general fund receipts this year. Officials in Loveland have said they will have to lay off their four part-time police officers if they lose the $429,833 the city has averaged. Cincinnati, the largest recipient of estate tax revenue at $13 million or more each year, would also have to cut public safety workers if the tax is repealed, according to the mayor and city manager. The lost tax revenue there equates to 247 firefighters or 216 police officers.

Farms and small businesses are not hard hit by the estate tax. Family farms can take advantage of an additional exemption, so that many do not pay estate tax. And hardly any estates with farms or small businesses find themselves in such hardship that they take advantage of the opportunity to avoid paying it for up to 15 years, as permitted under state law.

Nor are large numbers of Ohioans are moving out of state because of the estate tax, any more than the lack of such a tax in Michigan is keeping many residents of that state at home. Summarizing research on this issue in a 2007 paper, Elizabeth McNichol of the Center on Budget and Policy Priorities concluded that "recent research does not support the argument that states should reduce or eliminate their estate or inheritance taxes as an economic development measure designed to attract or retain elderly residents." Joe Honerlaw, trustee of Springfield Township in Hamilton County and a self-described "fiscally conservative Republican" told the Ohio House Ways & Means Committee in February that in his 27 years as a lawyer he had had many clients write six-figure estate-tax

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checks in his office. "I have yet to have one client say, 'I'm leaving Ohio because of the tax,'" he said. According to Mayor Sue Lesch of Norwalk, "the estate tax does not drive people out of my community."

Ohio's dollar threshold for levying the estate tax is considerably lower than all other states that levy estate taxes, though some with inheritance taxes, like Indiana, have lower thresholds than Ohio's tax does. At the same time, the Ohio tax also features lower rates for big estates, as most state estate taxes have graduated rates in which the top rate is 16 percent.

The idea of progressive taxation was supported by Thomas Jefferson and other founding fathers and lies at the heart of our democracy. This tax supports the idea that equal opportunity must be the foundation of economic success, not inheritance of wealth. Ohio's most affluent residents were able to create their wealth because of the security, education, infrastructure and opportunity that state and local government have provided. Thus, it is reasonable that their estates pay something to maintain those services for those who follow.

Repealing this tax now – or in 2013, as the budget bills stipulate – would hit local governments just when they are reeling from a huge cut in the Local Government Fund and vastly lower reimbursements for lost property taxes. This is especially inappropriate.

No major overhaul of the estate tax is needed. However, if the exemption is increased, the top rate should also be increased to make up for the lost revenue. This could be accomplished by raising the exemption to $700,000, which would cut by more than half the number of estates that pay the tax, and creating a new bracket for the value of estates over $3 million.

The estate tax provides essential funds to local government at a time when other sources of local government support are being cut. It applies to a very small percentage of estates and applies to only a small percentage of the wealth of the estates that are subject to it. It is a fair tax, applied only after the person who earned (or themselves inherited) the wealth has died. We should keep this smart, progressive tax.