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# POLICY MATTERS OHIO

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**Testimony to the House Ways & Means Committee on House Bill 3: Estate Tax Repeal**  
**Zach Schiller, Research Director**  
**February 9, 2011**

Good afternoon, Chairman Stautberg and Ranking Member Letson. Thank you for the opportunity to testify today about the estate tax. I am Zach Schiller, research director of Policy Matters Ohio, a nonprofit, nonpartisan research institute with offices in Cleveland and Columbus.

As you know, 80 percent of Ohio's estate tax goes to local governments. The estate tax is a source of revenue for municipalities across the state. Altogether, 235 out of 251 cities, 289 out of 689 villages and 962 out of 1,308 townships received estate tax in 2009, scattered across every county in Ohio.

As one might expect, more affluent communities like Shaker Heights, Indian Hill and Upper Arlington are major recipients of the estate tax. But the City of Cincinnati is by far the largest, with an average \$16 million a year between 2005 and 2009, with at least \$13.65 million each year. Columbus has averaged \$7.9 million a year over that time, with at least \$6.6 million each year; Akron, \$4.0 million, with at least \$3.2 million a year.

But this is not a matter just of Ohio's large cities and wealthiest suburbs. The City of Springfield has received at least \$650,000 each year for at least the last six years, and is anticipating \$900,000 this year for estate tax revenue out of overall general fund revenue of \$37 million. 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. In Green Township in Hamilton County, the estate tax has consistently accounted for 40 percent of the general fund over the past decade. These localities depend on the estate tax as a regular part of their budgets.

Estate tax was finalized in Fiscal Year 2009 on just 8,003 Ohio estates, compared to the 109,000 Ohio deaths in calendar 2008 and 107,000 in calendar 2009. These numbers have been very stable, year after year. The estate tax is paid on about 7.5 percent of Ohio estates. This is not a tax on Ohio's middle class, since more than 90 percent of Ohioans will never have estate tax due after they die. In effect, the first \$338,333 of each estate is not taxed.

Nor is the Ohio estate tax causing large numbers of small businesses and family farms to be sold. Farms that are passed on to a blood heir and continue to be used for farming for at least four years are eligible for valuation under Current Agricultural Use Value, which allows up to an additional \$500,000 exemption on the value of each estate that is taxed. According to the Ohio Department of Taxation, estates for most farms with a CAUV election have not had to pay estate tax in recent years because of this exemption. For deaths in 2009, 371 farm estates filed with this exemption; 203 of these were not liable for any tax. For deaths in 2008, 393 farm estates filed with this exemption, of which 219 did not have to pay any tax. That left 174 that paid the tax in 2008 and 168 in 2009.



In addition, Ohio law permits up to a 15-year extension for payment of the estate tax in cases of “undue hardship.” Estates that take advantage of this provision pay interest on the tax due, which was set for this year at 1 percent. According to Ohio law, one of the suitable reasons for an extension is:

“A significant portion of the gross estate consists of a farm or a closely held business, and there are not readily available, sufficient funds in the gross estate to pay an estate tax imposed by this chapter and any federal estate tax. For purposes of this division, funds shall not be considered readily available because the farm or closely held business could be sold to persons who are not related by consanguinity or affinity to the decedent, at a price that equals the fair market value of the farm or closely held business.” (Ohio Revised Code, Sect. 5731.25(A)(1)(e))

Just seven estates involving deaths in 2009 filed for such extensions, and 11 in 2008. According to the taxation department, only about two dozen estates remain open under such extension. In short, farm estates are not hard hit by the 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.

Large numbers of Ohioans are not heading 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. The number of elderly residents in a state is more likely to be affected by other factors such as climate, the closeness of relatives, the availability of jobs and access to services such as health care than by tax policy.”

One study, by Jon Bakija of Williams College and Joel Slemrod of the University of Michigan Business School, found that high state inheritance and estate taxes have a statistically significant, but small, negative effect on the number of elderly in a state, as measured by the number of federal estate tax. However, they also found that revenue losses from income- and other taxes “would not be large relative to the revenue raised by the tax.” Economists Karen Smith Conway of the University of New Hampshire and Jonathan Rork of Vassar College said in a 2006 study published by the National Tax Journal that, “Our research casts doubt on the view that the elderly react to state (estate, inheritance and gift) tax policies in making their migration decisions.”

Twenty two states and the District of Columbia levy estate or inheritance taxes, including three of Ohio’s neighbors, Indiana, Kentucky and Pennsylvania. Ohio’s dollar threshold for levying the estate tax is lower than those of other states that levy estate taxes, though some with inheritance taxes have lower thresholds. States with such taxes also have higher rates than Ohio does on estates or inheritance of large amounts. Most states with estate taxes use a rate schedule with lower rates than Ohio’s on estates up to \$1.54 million, but much higher rates on larger estates; the value over \$5.04 million is taxed at 12 percent, and the value over \$10.04 million, 16 percent. By contrast, Ohio’s rate tops out at 7 percent.

As noted, only a small share of Ohio estates is liable for this tax. If the exemption were to be increased, the top rate should be increased to make up for the lost revenue. A new bracket for the value of estates over \$3 million could be created, for instance.



Delaying the repeal does not fix the problem with this measure. While it may relieve municipalities of the immediate problems that repeal would provoke, it just means they will face those issues two years later. Ohio needs more revenue to support basic services, not less.

The estate tax also makes Ohio's tax system fairer. Lower- and middle-income Ohioans pay a greater share of their income in state and local taxes than more affluent Ohioans do. According to the Institute on Taxation and Economic Policy, Ohioans in the top 1 percent of the income spectrum, who made at least \$352,000 in 2007, pay an average of 7.8 percent of their income in state and local taxes. By contrast, the fifth of Ohio families in the middle, who averaged \$40,500, pay 11.0 percent. The estate tax is one of the few taxes partially offsetting a tax system that falls more heavily on less affluent families.

The idea of progressive taxation was supported by Thomas Jefferson and other founding fathers. This does not cut against hard work; on the contrary, it lies at the heart of our democracy and the idea that equal opportunity must be the foundation of economic success, not inheritance of wealth. Retired Federal Reserve Board Chair Paul Volcker wrote about the federal estate tax in 2002: "What strikes me as insupportable – insupportable as a matter of fiscal and economic analysis and insupportable in terms of a simple fairness and traditional American values – is to abolish the estate tax altogether."

Policy Matters Ohio opposes a repeal of the estate tax. Thank you again for the opportunity to testify.

