

D.C. Tax Revision Commission Policy Options
Policy Option #26: Exempt the First \$1 Million of Estate

MEMORANDUM

Proposal: Exempt the first \$1 million of property in an estate

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 \$1 million threshold is not an exemption. That is, if an estate is worth \$1 million plus one dollar, the first \$1 million is taxable. 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.

Proposed Changes

Exempt the first \$1 million of property in an estate.

Reason for Change

The threshold is inequitable. An estate that is worth one dollar more than the \$1 million threshold may incur \$38,000 of extra tax liability.

Pros

- Exempting the first \$1 million of property would eliminate the “cliff” effect in D.C.’s estate tax.
- Would remove an incentive for affluent families to leave D.C.

Cons

- Ensuring that the first \$1 million of property of an estate is exempt may decrease tax revenue.

Revenue Impact

An official revenue impact estimate from ORA is TBD.