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.