

D.C. Tax Revision Commission Policy Options
Policy Option #25: Increase Estate Tax Threshold

MEMORANDUM

Proposal: Increase the D.C. estate tax threshold from \$1 million to \$2 million or \$5.25 million

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 property in 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

Increase the D.C. estate tax threshold from \$1 million to \$2 million or the federal threshold of \$5.25 million.

Reasons for Change

D.C.'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. Conforming to the federal threshold would simplify D.C.'s estate tax.

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 Most states, including Virginia and Florida, eliminated their estate tax when the federal government repealed the estate tax credit.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 avoid D.C.'s estate tax by moving to a state without an estate tax.

Pros

- If the estate tax threshold were increased, many beneficiaries would have decreased administrative and financial burdens when making final arrangements, and may not have to sell their homes or other inheritance in order to pay the estate tax.
- Increasing the threshold 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- Most states either increased estate tax thresholds or eliminated the tax when the federal government repealed the estate tax credit.
- Would make D.C. more attractive on the estate taxes than Maryland.

Cons

- Increasing the estate tax threshold 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 increasing the estate tax threshold to \$2 million would cost D.C. \$3.9 million in tax revenue in the first year of implementation while raising the threshold to the federal level of \$5.25 million would cost \$15.8 million in tax revenue.