



## Stop the Inheritance Tax

Benjamin Franklin famously said "In this world nothing can be said to be certain, except death and taxes." Unfortunately for Nebraskans, the Cornhusker State's inheritance tax ensures that not even death alleviates the certainty of taxes.

Nebraska was recently listed as one of the "Die Harder States" by the *Wall Street Journal*, and one of the states deemed by the Family Business Coalition as "Where Not to Die."<sup>[1]</sup> Nineteen states and the District of Columbia still levy either an estate or inheritance tax. Specifically, five states-including Nebraska-levy an inheritance tax while twelve levy an estate tax; New Jersey and Maryland have both.<sup>[2]</sup> Indiana, Ohio, and North Carolina all ended their death taxes this year, and Tennessee will end their inheritance tax on January 1, 2016.<sup>[3]</sup>

The difference between estate and inheritance taxes is fairly straightforward; estate taxes are based on the net value of the entire property owned by the deceased at the time of death while inheritance taxes are based on the beneficiaries. For estate taxes the entire property is taxed while under an inheritance tax each bequest is taxed an amount dependent upon the familial relationship of the beneficiary with the deceased.<sup>[4]</sup>

Nebraska's inheritance tax is slightly different from the others in that the rates and policy are set by the state, but the collection is administered at the county level. While spouses are exempt, other decedents of the deceased are subject to three rates based upon their familial relationship with the deceased. Immediate relatives such as children, parents, and siblings, receive a \$40,000 exemption with a one percent tax rate on the clear market value of all property over that exemption. Non-direct relations, such as aunts, uncles, and cousins receive a \$15,000 exemption and must pay a 13 percent tax. Finally, non-relations receive a \$10,000 exemption and must pay an 18 percent tax.<sup>[5]</sup> The 18 percent rate is the second highest in the country, with only Washington's 19 percent estate tax rate being higher.<sup>[6]</sup> These taxes are in addition to a federal estate tax of 40 percent-up from 35 percent in 2012. The federal estate tax no longer allows deductions for state death taxes so some beneficiaries may be hit with the full brunt of both the federal and state taxes, which for unlucky Nebraskans could be as high as 58 percent.<sup>[7]</sup>

Those most impacted by the inheritance tax are farmers, ranchers, and family businesses, as the inheritance tax makes it nearly impossible to pass property from one generation to the next. Many Nebraska farms and ranches are family-owned-and 98 percent are family-owned nationally<sup>[8]</sup>-and the negative effects of the inheritance tax on agriculture cannot be ignored. In Nebraska agriculture is key to the economy, contributing 27 percent of the gross state product, 41 percent of

total sales volume, 24 percent of jobs, and 25 percent of total wages and income in 2010.[\[9\]](#)

While the U.S. Department of Agriculture estimates the net income of agricultural households as higher than the average American household, much of that wealth is in farm or ranch-related assets, making many agricultural households "land rich, but cash poor."[\[10\]](#) This means that on paper, agricultural household income is high, making them very susceptible to inheritance tax liability, but the only way to pay for that tax is to sell equipment, land, or even the entire farm or ranch. Small businesses are often in the same situation, with wealth tied up in business-related assets that would have to be liquidated in order to pay the tax. In both situations, if the business, farm, or ranch survives the tax, the loss of certain components undoubtedly makes it less productive, and leaves it with fewer resources with which to expand the business or hire new employees, perhaps even leading to bankruptcy down the road.[\[11\]](#)

These taxes are also an example of double taxation, as the families and businesses affected have paid years and even decades' worth of property taxes on these farms, ranches, and businesses that they intend to pass to the next generation, and the beneficiaries will likely continue paying taxes on that property for years to come. Similarly, all the income gained from these properties is subject to income taxes; and any sales the family would have to do to pay the inheritance tax bill would likely be subject to sales taxes. Clearly, the government is getting plenty of revenue from these families and businesses in other ways. It is double taxation to add the inheritance tax on top of what should be a simple ownership transfer to the next generation.

Besides family farms, ranches, and business, the inheritance tax also has a general detrimental effect on the economy. Death taxes discourage savings and investments by sending the signal that it would be better to consume wealth today rather than passing it on to future generations. A lack of investment and saving would have a multiplier effect of reducing job creation, and by extension, reducing wages and overall economic productivity.[\[12\]](#) A Congressional study by the Joint Economic Committee estimated that the federal estate tax had reduced the amount of capital in the country by \$847 billion between 1946 and 2006. This loss of capital is undoubtedly worse in states with their own death taxes on top of the federal estate tax.[\[13\]](#)

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The inheritance tax should be repealed as soon as possible so families that own farms, ranches, and businesses will not have to worry if they may pass their family business to the next generation. One stated goal of the Tax Commission is "tax equity,"[\[14\]](#) with that goal in mind the commission could work to lower the rates for distant and non-relatives to the same one percent level paid by immediate relatives, making the inheritance tax equal for all beneficiaries and not discriminatory based upon blood relations. Of course, the greatest equity would be no inheritance tax at all.

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[1] *Wall Street Journal*, "The Die Harder States," August 20, 2013. Accessed August 26, 2013, <http://online.wsj.com/article/SB10001424127887323639704579013040148683248.html>.

[2] *Forbes*, "The States With State Death Taxes For 2013 [Updated]," July 30, 2013. Accessed August 26, 2013, <http://www.forbes.com/special-report/2013/the-states-with-state-death-taxes-for-2013.html>.

[3] *Ibid.*

[4] Julie Garber, "What's the Difference Between an Estate Tax and an Inheritance Tax?" Accessed August 26, 2013, <http://wills.about.com/od/stateestatetaxes/qt/estatetaxvinheritancetax.htm>.

[5] Mary Rudolph, "Nebraska Inheritance Tax," NOLO. Accessed August 26, 2013, <http://www.nolo.com/legal-encyclopedia/nebraska-inheritance-tax.html>; Julie Garber, "Understanding Nebraska Inheritance Taxes," April 27, 2009. Accessed August 26, 2013, <http://wills.about.com/b/2009/04/27/understanding-nebraska-inheritance-taxes.htm>.

[6] *Wall Street Journal*, "The Die Harder States," August 20, 2013. Accessed August 26, 2013, <http://online.wsj.com/article/SB10001424127887323639704579013040148683248.html>.

[7] *Wall Street Journal*, "The Die Harder States," August 20, 2013. Accessed August 26, 2013, <http://online.wsj.com/article/SB10001424127887323639704579013040148683248.html>; Sandra Block, "Beware States With Their Own Estate Taxes," *Kiplinger*, May 2013. Accessed August 27, 2013, <http://www.kiplinger.com/article/taxes/T055-C000-S002-beware-states-with-their-own-estate-taxes.html>.

[8] *Beef Today*, "NCBA Calls for Congress to Act on Death Tax," October 14, 2010. Accessed August 26, 2013, <http://www.agfirstcouncil.com/assets/Estate%20Taxes/NCBA%20Calls%20for%20Congress%20to%20Act%20on%20Death%20Tax.pdf>.

[9] Dan Moser, "Report: Nebraska ag production complex is key to economy," IANR News. Accessed August 26, 2013, <http://newsroom.unl.edu/announce/todayatunl/1437/8116>.

[10] United States Department of Agriculture, "Farm Household Income," Economic Research Service, February 11, 2013. Accessed August 26, 2013, <http://www.ers.usda.gov/topics/farm-economy/farm-household-well-being/farm-household-income.aspx>; J.D. Alexander, "Farmers and ranchers asset rich, cash poor," *Southeast Farm Press*, February 15, 2012. Accessed August 26, 2013, <http://southeastfarmpress.com/management/farmers-and-ranchers-asset-rich-cash-poor>.

[11] Platte Institute for Economic Research, "LB970 Tax Relief Package," March 2012. Accessed August 26, 2013, [http://www.platteinstitute.org/docLib/20120312\\_LB970\\_Tax\\_Relief\\_Package.pdf](http://www.platteinstitute.org/docLib/20120312_LB970_Tax_Relief_Package.pdf).

[12] Curtis S. Dubay, "The Economic Case Against the Death Tax," Heritage Foundation

Backgrounder #2440 on Taxes, July 20, 2010. Accessed August 27, 2013, <http://www.heritage.org/research/reports/2010/07/the-economic-case-against-the-death-tax>.

[13] Jon Kyl, "Kill the 'death tax,'" *USA Today*, June 5, 2006. Accessed August 27, 2013, [http://usatoday30.usatoday.com/news/opinion/2006-06-05-estate-tax-oppose\\_x.htm](http://usatoday30.usatoday.com/news/opinion/2006-06-05-estate-tax-oppose_x.htm).

[14] Paul Hammel and Martha Stoddard, "Study panel focuses on Nebraska tax 'equity,' not just cuts," *Omaha World Herald*, August 8, 2013. Accessed August 26, 2013, <http://www.omaha.com/article/20130808/NEWS/130809096>.

