

The case against the estate tax

A report from the Republicans on the Joint Economic Committee, “Cost and Consequences of the Federal Estate Tax,” was updated and released in July. That the estate tax poses a special burden on farm families and family-owned businesses is no longer controversial, but the report lays out the factual basis for the belief. It also argues that the amount of revenue raised by the estate tax is negligible, and that income tax collections would be higher if the estate tax were repealed. Most importantly, the total amount of capital stock in the U.S. economy has been reduced by \$1.1 trillion by the imposition of the estate tax, a significant drag on economic growth. A few fun facts from the report:

- In nominal dollars, estate and gift tax revenue peaked in 2000, at \$29 billion. The billion-dollar barrier was broken in 1956 and the \$2 billion one in 1962. The \$10 billion threshold was not crossed until 1990.
- Inflation adjustments to the data reveal a very different story. Transfer taxes yielded more than \$1 billion in inflation-adjusted dollars (2010 base year) as early as 1919. The peak year was the same, 2000, with collections of \$36.7 billion.
- A study by the Tax Foundation found that in 2005 the compliance cost for the federal estate tax was \$88.2 million, from 2.3 million hours of compliance effort. The gift tax added another \$66.0 million and 1.7 million hours to the compliance chores.
- One defense of the estate tax is that it creates an incentive for charitable giving, and that without it charitable gifts would decline, perhaps sharply. It is true that 21% of taxable estates claim a deduction for a charitable bequest, but an even larger percentage of households, 36%, claim an income tax charitable deduction. The values involved are similarly disproportionate, \$16 billion in estate transfers versus \$158 billion in income tax deductions. What’s more, predictions that charitable giving via estates would decline during the 2000s as the exempt amount grew and the top tax rate fell proved inaccurate. Inflation-adjusted transfers to charities held steady through the period, and transfers to private foundations grew.

As matters stand today, the 2012 federal estate tax exemption of \$5.12 million falls by more than 80% on January 1, 2013, going to \$1 million. The matter is unlikely to be resolved before the end of the year.

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