The American Miracle

Tax Update

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THE MOST REPUGNANT OF ALL TAXES

By JACK KEMP
Courtesy Copley News Service

Oprah Winfrey doesn't mince any words when it comes to telling us what she thinks about the federal estate tax: "I think it's irritating that once I die, 55 percent of my money goes to the U.S. government. You know why that's irritating? Because you would have already paid nearly 50 percent."

She's not alone in these sentiments. Millions of poor and middle-class Americans find the estate tax obnoxious as well, not necessarily because they stand in line to inherit anything but because they aspire to become rich enough themselves to pass along an inheritance to their children and grandchildren.

It's not surprising therefore that only about 2 percent of all estates actually are taxable under the inheritance tax by the time the person dies. It is not, as apologists for the tax would have us believe, because the tax is levied only on the richest of the rich. It is because virtually everyone who might be subject to the tax – and it's not just the rich – are so irritated be the prospect of the posthumous taxation that they go to extraordinary expense and inconvenience while they are alive to prevent their assets from being snared at graveside by the tax man.

John Maynard Keynes got one thing right when he observed, "The avoidance of taxes is the only intellectual pursuit that carries any reward."

Because the death tax is subject to such massive avoidance, it is actually a regressive tax among those who actually pay it. For individuals whose taxable estate exceeds the unified credit, the richer they are when they die, the less likely it is their estate will be taxed at the lower rate.

"The case for repeal of the death tax is so overwhelmingly obvious that even Congress seems to get it, at last."

According to IRS data, 53 percent of the estates that filed tax returns in 1996 were under $1 million and 96 percent were under $5 million. Nearly 52 percent of the revenue collected from the estate tax in 1996 was collected from estates valued at less than $5 million; estates worth between $5 million and $20 million paid 26.4 percent of the taxes collected, while estates over $20 million paid only 22.1 percent.

And most eye-opening of all: estates in the range of $5 million to $10 million paid thehighest average death tax rate – 17.4 percent – in 1996, while estates over $20 million paid an average rate of only 12.5 percent.

In addition, the estate tax is economically destructive and fiscally counterproductive.

Compliance costs associated with the estate tax are so high that the $24 billion collected in federal estate tax and gift taxes last year actually cost taxpayers $31 billion because they had to pay $7 billion over and above what they owed the federal government in taxes to maintain records, hire lawyers and tax accountants, and pay law enforcement personnel to compute, pay and collect the tax. Moreover, Institute for Policy Innovation fellows Gary and Aldonna Robbins estimate that the tax is so economically destructive that in the long run, for every additional dollar of revenue raised by the death tax, national economic output is reduced by $5.18.

Thus, is the death tax were repealed, they estimate the additional income, payroll, capital gains and other federal tax revenue that would be generated from the added economic production would exceed the lost death tax revenues after about the seventh year.

So the long-run effect of repealing the estate tax would increase, not decrease, federal revenues.

The case for repeal of the death tax is so overwhelmingly obvious that even Congress seems to get it, at last. After more than 80 years on the books, Congress is on the verge of repealing this, the most repugnant of all taxes.

In June, the House of Representatives voted 279-136 to repeal the estate tax, with every Republican and 65 Democrats in favor of the repeal. In the Senate, Majority Leader Trent Lott has said there will be a vote on the repeal soon.

The only potential hang up now would be for the president to prevail on enough Democratic senators who support repeal to sustain a filibuster and obstruct Senate passage as a partisan ploy to extort some of the president's spending agenda from Republicans.

Not a likely scenario, as Al Gore knows voters would extract retribution at the polls in November were congressional Democrats to allow themselves to be strong-armed into such a crass and cynical action by a lame-duck president.

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