

Bury the Death Tax

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Death and taxes are inevitable, but death taxes are not. Indeed the long fight to end the death tax may be in its final round. Last week Senate Majority Leader Bill Frist, a Republican of Tennessee, told a gathering of conservative activists that he will bring death tax repeal to the Senate floor for a vote in May. The announcement was the biggest applause line in his speech, and the free market movement is energized and ready to make this the year this hated tax is finally repealed for good.

The death tax is bad fiscal policy. The tax itself is a tiny revenue producer, raising only about 1% of federal revenue, and repeal would be, at worst, revenue neutral. It could even be revenue positive: Several studies, most recently a 2005 analysis by professors at Carnegie Mellon University, show that repeal would cause a net increase in federal revenues through dynamic growth effects and increased capital gains tax receipts.

The death tax is bad economic policy. The tax destroys hundreds of thousands of jobs every year and forces many family-owned businesses and farms to shut down.

Given this fiscal and economic destructiveness, the only real debate is a moral debate. Many Democrats and liberal pundits remain convinced that inheritance is in some way morally tainted, and that estates should be confiscated to largely "level the playing field." But the myth of the idle rich has long been debunked, with bestsellers like Stanley and Danko's "The Millionaire Next Door" disclosing that the vast majority of millionaires are frugal, hard-working Americans. Indeed, the moral case for repeal is far stronger than the case for keeping confiscatory taxes on inheritance.

The death tax punishes virtue and rewards vice. It very powerfully tells older Americans, "You can't take it with you, and you can't leave it to your children," encouraging lavish over-consumption and discouraging the traditional American virtues of thrift and intergenerational savings. It discourages class mobility by making it impossible for many Americans to leave their businesses and farms to children and grandchildren, building wealth across generations.

Under current law, the death tax rate is 46%. Next year, it will be reduced to a still-confiscatory 45%, where it stays until 2010. That year, the tax is completely repealed. But if you want to leave your business to your children intact, you'd better die in 2010 and only 2010, because in 2011 and thereafter the old 55% rate comes back into effect. Meanwhile, thousands of Americans, including many World War II veterans, are having their estates seized. The House bill passed last year repeals the death tax starting in 2010, but keeping this immoral tax for four more years is four years too many. The Senate should cut through all of this confusion and end the death tax immediately, completely, and permanently.

Mr. Frist's three-month timetable means a scramble is on to ramp up the pressure on wavering senators. Americans hate the death tax, with polls consistently showing at least 75% support for repeal. A solid majority of U.S. senators support repeal, but it has been blocked by Democrat filibusters. To overcome the filibuster, advocates of repeal need 60 votes, and the latest whip counts show they're just a couple of votes short; success is possible, but there is no margin for error. With the vote looking closer than ever, strong support from an engaged public could determine the outcome.

Curiously, the death tax appears to be absent from President Bush's agenda, not warranting a single mention in this year's State of the Union address. Given the significance of the issue and the historic opportunity for success, it's critical that Mr. Bush weigh in and ratchet up the public pressure on wavering senators. Repealing the death tax would also have the ancillary benefit of building momentum for Mr. Bush's broader tax reform agenda by advancing all of his core objectives - making the tax code flatter, fairer, and less complicated, and moving it toward a consumption base.

The Founders considered seizing estates at death so outrageous that they included a clause in the U.S. Constitution that forbids it as a punishment for treason; it is time to stop taxing estates as a punishment for achieving the American Dream.

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