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Policy Perspective

Throw the Death Tax From the Train!

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Under current law, the Death Tax will be completely repealed effective January 1, 2010.

But the opposite is happening. Because of a last minute change to the repeal bill in the U.S. Senate (a result of arcane Senate rules), the Death Tax will rise from the grave, fully re-grown, on January 1, 2011. This caused the *New York Times* to dub Death Tax repeal the "Throw Momma from the Train Act," as 2010 will be the only year in which a person can die without facing the Death Tax.

Repeal was intended to eliminate the economic drag and unfairness of wasteful and burdensome compliance costs associated with the Death Tax. Instead of simplifying tax compliance, the un-repeal of the Death Tax slated for 2011 is making sensible estate planning well-nigh impossible.

On April 4, 2001, the House voted for **permanent** Death Tax repeal. To spur the Senate to action, next week the House will again vote to make Death Tax repeal permanent. Sometime in June, Senate Majority Leader Tom Daschle will at last permit the Senate to address the issue.

It is time to forever bury this unfair and destructive tax. Social engineers intended the Death Tax to break up large concentrations of wealth. Instead, the tax has become the number one reason that small businesses and family farms are broken up and sold to large corporations. The extremely rich—the heirs of such long-ago multibillionaires as John D. Rockefeller and

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Joseph P. Kennedy—have for generations barely noticed the Death Tax, because their expensive lawyers and accountants can find ways to avoid the worst effects of the tax by using complicated trusts and other legal devices. Instead of confiscating the wealth of the super rich and redistributing it to the poor, the Death Tax hits the working poor the hardest. Unlike dead plutocrats, the living employees of small and medium-sized businesses that are split up or liquidated when the founder dies face an effective 100% tax on their wages: they lose their jobs.

Minority-owned businesses are among the most common unintended victims of the Death Tax. A Kennesaw State College study found that half of minority businesses failed or were unable to grow because of the legal, accounting, and insurance costs associated with the Death Tax.

The Death Tax is the most expensive of all taxes to collect, with 31 cents of every dollar wasted on collection costs to the government alone. Counting the government's sky-high costs, the Death Tax nets less than 1% of federal revenues.

According to a report by the Congressional Joint Economic Committee, when all of the compliance, collections, and administrative costs of the Death Tax are taken into account—those paid by the government, and by the taxpayers—the costs of the Death Tax actually exceed the revenues it generates for the Treasury. That is, the Death tax actually loses money. With the increased tax-planning complexity caused by the scheduled repeal and reintroduction of the Death Tax, the negative yield of the Death Tax will become worse still.

Abolishing the Death Tax will promote economic growth. Studies show that within eight years of Death Tax repeal, economic production will be increased by more than $80 billion per year, 112,000 jobs will be created each year, and $1.5 trillion will be added to America's capital stock. Economic growth spurred by repeal will cause federal revenues from other taxes to surpass what otherwise would have been collected through the Death Tax within seven years.

The Death Tax is a tax on virtue. Knowing that when you tax something you get less of it, the government often imposes "sin taxes," such as those on tobacco and alcohol. But the Death Tax—which penalizes continued savings and work by the wealthy, while encouraging needless consumption—does just the opposite. It is a tax on personal responsibility.

The Death Tax deserves to be buried. Because the Death Tax is intentionally a double, sometimes triple, tax on the after-tax life savings of Americans, it is unfair. Its confiscatory rates of over 50% (second only to those of Japan) are punitive. Its complexity (over 80 pages of the Internal Revenue Code, plus hundreds of pages of regulations and untold volumes of case law) wreaks needless economic destruction. It raises negligible, possibly even negative, revenue. It is time for the Death Tax to die—permanently.