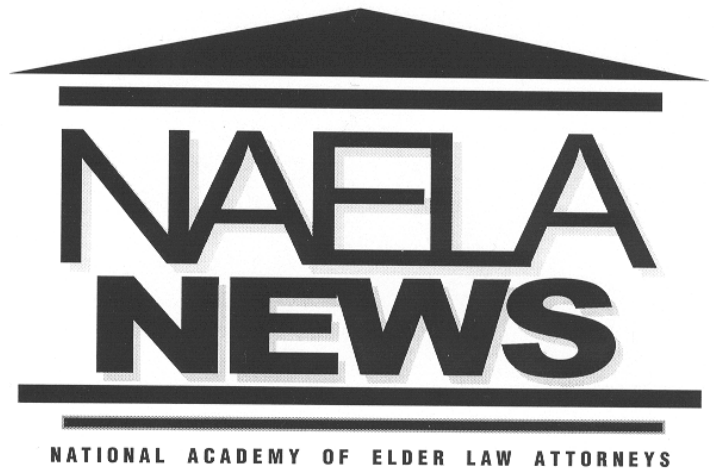


# Reform, Don't Repeal the Estate Tax

By Debra Rahmin Silberstein, Esq.

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A historical review of the estate tax beginning in 1797 shows a consistent pattern of enactment and repeal. Enactment often occurred with the goal of raising revenue for a specific purpose, primarily military spending. Congress once enacted the estate tax to generate revenue for the Civil War. The tax was later repealed and reinstated once again in 1898 to raise revenue for military spending – this time for the Spanish-American War. Congress repealed the tax in 1902 but reinstated it in 1916 to help defray costs of World War I. In the 1920s the goal of the estate tax shifted from increasing revenue for a specific purpose to breaking up concentrations of wealth.

To date, neither goal has been achieved. The revenue generated from the estate tax has decreased as a proportionate share of the total amount of tax revenue. This is a result of the increasing revenue generated from other sources of taxation, notably the payroll tax. In addition, significant increases in exemptions, exclusions and deductions have contributed to the decreasing importance of the estate tax as a revenue source.

Prior to the Tax Reform Act of 1976 (P.L. 94-455) the amount of property transferable at death without being subject to estate tax was \$60,000. The Economic Tax Recovery Act of 1981 (P.L. 97-34), passed under President Ronald Reagan, increased this exemption tenfold to \$600,000. The current exemption is \$1,000,000 per person and will increase incrementally to \$2,500,000 in 2009. The estate tax will be fully repealed in 2010 and today's exemption will be reinstated in 2011. The Economic Tax Recovery Act of 1981 included an unlimited marital deduction that allows a spouse to leave the entire estate to the surviving spouse free of tax. Prior to

1981, the marital deduction was equal to \$250,000, or one-half of the decedent's gross estate. Treating a married couple as a single unit for transfer tax purposes defers and potentially minimizes revenue received. The more significant estate tax changes that benefit the wealthy and reduce the revenue received have occurred most often in times of economic prosperity.

These exemptions, exclusions and deductions benefit the wealthy, enhance asset preservation and minimize the revenue generated from the estate tax. Other, perhaps unintended, policy implications result from these exemptions and exclusions. For example, increasing the amount that an individual can pass free of estate tax has been shown to reduce both lifetime and charitable gifts. The unlimited marital deduction has the effect of disinheriting children. Wealth inequality becomes sedimented in our social structure and limits opportunity for all. It is fairly simple to measure and compare the revenue generated from the estate tax from year to year. However, the true financial impact of the estate tax must also measure the economic consequences of our estate tax policy on individual and group behavior.

No case has been made for repeal of the estate tax. The estimated cost of repeal is \$99.4 billion from 2009-2012 plus \$740 billion from 2013-2022. This is fiscally irresponsible. There has been no showing of a lack of need for these revenues, particularly in a time of budget deficits and the ongoing war on terrorism. There has been no clear evidence of any negative impact on eco-

nomical growth as a result of the estate tax. Recent empirical studies show that technological advances and population growth contribute to economic growth and that wealth concentration does not. In fact, large and continuing disparities of wealth, as we are currently experiencing, have been shown to impede growth.

A strong case can and should be made for reforming the estate tax. The marital deduction can and should be limited for estates above a certain size. Deductions can and should be made available to minor children. The exemption need not be set at a level so high (\$7,000,000 for a married couple in 2009) that only an elite minority of our population is impacted by the tax. The estate tax is a potential source of significant revenue. It is a potential tool for both public and private redistribution of wealth and enhancement of opportunities for all. It is easy to administer and collect, and it is one of the federal government's few and truly progressive forms of taxation. The groundswell of support by a group of wealthy individuals and business leaders (Responsible Wealth, co-founded by Chuck Collins and William Gates, Sr.) for the estate tax is noteworthy.

Recent efforts to fully repeal the estate tax were defeated in the Senate. The vote was 54-44, only six votes shy of the 60 needed for passage. This was a first step towards fiscal responsibility. Congress must consider true reform of the estate tax and the possibility of earmarking estate tax revenue for universal long term care coverage. History does tell us that there is support for the estate tax when there is a specific revenue need for an important and universal social purpose.