NEED TO KNOW

AMERICANS FOR PROSPERITY FOUNDATION

THE DEATH TAX: DOUBLE TAXATION AT ITS WORST

The death tax is levied on the transfer of assets after death and is currently at a 40 percent rate with a $5.45 million exemption (5). Many states also levy a death tax, though attempts at repeal on the state level are ongoing. Some state legislatures repealed their state's death taxes, and other states are moving towards repeal as well. Since the late eighteenth century, federal death taxes have arisen in various forms as a source of funding for U.S. war efforts—to increase naval support in 1797 and to fund the Civil War, the Spanish-American War, and WWI. With the exception of the final case, the death tax.

ARGUMENTS IN FAVOR OF DEATH TAXES

Proponents argue that death taxes must remain because it is a significant source of federal revenue. However, studies dispute this. In 2014, the death taxes raised $19.3 billion, .6% of the total federal revenue (3). This must be considered in light of its negative impact on the American economy.

It is also posited that repealing death taxes would negatively affect charitable giving. This argument is based on the assumption that tax breaks are the sole motivator for charitable giving and is entirely at odds with studies' revelations about the basis of charitable giving. In numerous studies, including one by the American Enterprise Institute's President Arthur Brooks, scholars find that charitable contributions are most often made for religious and altruistic reasons.

It is also believed that death taxes aid in economic leveling. Not only is this argument fundamentally at odds with free market principles, but, particularly in the case of the death tax, it is inaccurate. Though proponents hope death taxes prevent the uppermost class from passing on their wealth to undeserving descendants, in fact they most negatively hamper the efforts of America's middle class. Unlike the upper class, middle class entrepreneurs cannot afford to hire the estate planners that aid in lessening the tax's impact. Furthermore, studies from the U.S. Department of Treasury demonstrates that economic status is constantly churning—the lower class is highly mobile, and the rich do not long remain in the uppermost tier.

DEATH TAXES HARM OUR ECONOMY

Death taxes impose a number of costs on the American economy. First, the death tax captures over one third of a deceased individual's assets above the exemption threshold. In light of this fact, Americans are tempted to spend rather than save for loved-ones' futures, and the capital that could have been invested in business ventures is spent on consumption instead. The Joint Economic Committee found that the current death tax takes $1.1 trillion in capital stock out of the economy, meaning fewer jobs and lower wages (4).

QUICK FACTS

- The Joint Economic Committee found that the Death Tax has destroyed roughly $1.1 trillion in capital stock in the economy (1).
- Ending the Death Tax would add $119 billion to GDP and boost workers' income by $79 billion (2).

NOTABLE & QUOTABLE

"[The death tax] is double taxation. You've worked your whole life, paid taxes, and then Uncle Sam comes in and takes it again. It's the number one reason why small businesses don't pass their business down to their kids—number one rea- son why our family farms are disappearing."

- **Congressman Kevin Brady**, Vice-Chairman of the Joint Economic Committee

Second, death tax compliance alone consumes significant amounts of capital, time and labor—these resources are absorbed by financial estate planners, enforcement and administrative responsibilities created by the tax. Rather than pouring resources into such proceedings, it would be far more profitable for Americans to expand their business or support their descendants.

Too often death taxes impose severe burdens on American small businesses and farm owners when they are passed on to descendants. Many times the result is drastic cost cutting or a loss of the business entirely.

Finally, the vast majority of American small business and farm owners must attempt to rectify their death taxes without estate planning assistance. Too often, this results in drastic cost cutting in a family business, or a loss of the business entirely. This has real jobs impact: former Congressional Budget Office Director Douglas Holts-Eakin estimates that the current death tax has destroyed over 850,000 jobs.

CONCLUSION

Amid concerns over the propensity of Americans to spend and the need to save, a tax that directly punishes those who save is highly detrimental. The Founding Fathers considered seizing estates so pernicious they even forbade it for those convicted of treason; yet today the same effect is achieved through the tax code and imposed on those who have merely achieved the American dream.

Endnotes:
1. Cost and Consequences of the Federal Estate Tax," Joint Economic Committee, June 2012
2. Entin, Stephen "Economic Impact of the Estate Tax: Effects of Various Possible Reform Options, "Washington, D.C: American Family Business Foundation, 2009)
3. Death Tax Stats http://taxfoundation.org/blog/estate-tax-provides-less-one-percent-federal-revenue
4. Cost and Consequences of the Federal Estate Tax," Joint Economic Committee, June 2012
5. IRS Overview of Death Tax https://www.irs.gov/businesses/small-businesses-self-employed/estate-tax