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Republicans seek to put estate tax out to pasture

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Republican plans to abolish the estate tax are reviving an argument that Democrats say is fiction. Donald Trump's party says that the tax, levied on transfers of wealth when a person dies, forces the children of recently deceased farmers to sell cherished land to raise money to pay it. But Democrats — and some tax experts — say the claim does not stand up.

Neil Harl, a professor of agriculture and economics at Iowa State University, has spent more than 50 years looking for examples of forced sales. He has found plenty of cases of children who sold family farms after a parent's death, but says that was because they did not want to be family farmers.

"I've never yet seen a farm that had to be sold because of federal estate tax," he says. "A lot of people promoting the repeal are using farmers as their reasoning and it just doesn't wash."

The truth about forced sales matters because it will figure in the debate over estate tax in 2017, if Republicans follow through on their vows to scrap what some on the right call a "death tax" or even a "grave robber tax". The party that is about to take full control of the White House and Congress says the tax punishes hard work, savings and success.

The GOP has not put a repeal at the centre of its tax plans, preferring instead to highlight its desire to slash the corporate tax rate. But a House Republican plan, which will provide a template for tax reforms to be hammered out with Mr Trump, says the estate tax "can result in double, and potentially even triple, taxation on small businesses and family farms".

Democrats fiercely oppose any repeal, arguing that the estate tax is the only purely progressive tax the US has because it falls squarely on the rich, thus going some small way towards rebalancing what they see as the iniquities of income distribution.

The spectre of farms sold against the will of the bereaved, Democrats say, is a cover story to disguise how abolishing the estate tax would help the families of Republicans' multimillionaire friends.

Roberton Williams, senior fellow at the Tax Policy Center, a left-leaning think-tank, says: “People having to worry about where their next meal comes from are not affected by the estate tax.”

For more than three decades up until 1976, only estates worth less than \$60,000 were exempt from the tax. Since then the exemption has gone up in leaps and bounds, so in 2016 an individual could leave \$5.45m to his or her heirs and pay no estate tax. Any assets above that threshold are taxed at a top rate of 40 per cent.

No tax is paid on portions of an estate that are transferred to a spouse or passed to charity. It is not unheard of for estates to give just enough to charity to bring the value of the remaining assets down to under the trigger threshold, thus avoiding estate tax entirely. (That has made the charitable sector a big advocate for keeping the tax.)

With roughly 2.5m people dying each year in the US, the estates of only about 5,000 — just 1 in 500 — have to pay the estate tax, the Tax Policy Center estimates. Of those, only about 50 are farms or other small businesses.

Larry Summers, a Democrat and former US Treasury secretary, has warned that repealing the estate tax would contribute to a rise in the US national debt and do more long-term harm than many other Republican tax ideas.

“It would provide a window for the very rich to use gift and trust structures to ensure that their wealth passes without tax not just to their children but to their grandchildren and great grandchildren, regardless of subsequent legislation,” he wrote in the Financial Times this month.

Democrats have campaigned to make the estate tax more punitive. Hillary Clinton, the party’s nominee for president, adopted a proposal from her erstwhile Democratic rival Bernie Sanders, who wanted a graduated rate that would start at 45 per cent and climb to 65 per cent for estates worth more than \$500m.

Now vanquished Democrats will have to fight hard just to maintain the status quo, using the leverage they have from Republicans’ need to secure a few of their votes to get a tax reform package through Congress.

Republicans say there is no need to fret about the fiscal implications of losing revenue by repealing the estate tax. The House Republican plan, which was created at the instigation of speaker Paul Ryan, notes that the government collects only about \$20bn in revenue from both estate and gift taxes.

Repealing the estate tax is not a new idea for Republicans. Former president George W Bush signed a bill in 2001 that increased the estate tax exemption in a series of big steps and eliminated the tax entirely in 2010, only for it to come back when the legislation expired the following year.

Chris Edwards, tax director at the libertarian Cato Institute, says Mr Trump’s campaign tax plan contained a reasonable compromise: scrap the estate tax, but follow Canada’s example of levying a capital gains tax — Canada does so at 14.5 per cent — on the assets of the person who has died.

The political divide over the estate tax, he says, encapsulates the philosophical differences between Democrats who focus on boosting demand and consumption and Republicans who are more interested in savings and investment.

“Think about Bill Gates or Warren Buffett,” he says. “I want those people to keep their savings invested in growing the economy, not withdrawn and spent on expensive yachts and cars and the like.”