House Votes to Repeal Federal Estate Tax

On Thursday the House voted, 240-179, to repeal the federal estate tax, setting the stage for a confrontation with the Senate and a veto threat by the president. Identical bills were presented in both houses of Congress, by Representative Kevin Brady (R-Texas) and Senator John Thune (R-S.D.). Brady's bill passed with the support of all but three Republicans and the defection of seven Democrats. Thune's bill is expected to die in the Senate.

Said Brady:

> Can you imagine working your whole life to build up a family-owned business and then upon your death Uncle Sam swoops in and takes nearly half of what you spent a lifetime building up for your children and grandchildren?
>
> [The federal estate tax] is, at its heart, an immoral tax.

Those favoring keeping the tax in place complain that Brady's got it all wrong. Only 5,400 of the estates of the 2.6 million people expected to die in 2015 will face any type of estate tax, and it won't be anything like half. The tax is levied only on amounts in excess of $5.3 million, and the tax on amounts over that start at just 18 percent, gradually increasing to 40 percent on a million dollars or more above that exemption.

Besides, say its supporters, the government needs the money. If the government doesn't get the money, it will have to borrow even more, which places an increased burden on lower income taxpayers. In addition, it's only "fair" that the wealthy pay the tax; they can afford it, and it keeps wealth from piling up in families from generation to generation.

In the world where Thune lives, in South Dakota, the most valuable agricultural products are cattle, corn, soybeans, wheat, and hogs, and are produced by farms that often exceed the $5.3 million exemption. Said Thune:

> [Repeal of the estate tax] will finally give farmers, ranchers, and family business owners the peace of mind of knowing that they no longer have to spend substantial sums on planning to minimize their death-tax liability.

Representative Tom Price (R-Ga.), a cosponsor of Brady's bill, expressed his support for repeal this way:

> One ought not to have to pay the undertaker and the IRS on the same day. It makes absolutely no sense for people to pay taxes on their earnings and property their entire life, only to have their children pay additional taxes on the exact same property when their parents pass away.

Ah, but that's another myth, according to supporters of the tax. They roll out statistics that show that estates large enough to pay the tax are largely made up of investments that avoided tax during the owner's life, through capital gains exemptions. Without the estate tax, they complain, the government wouldn't get anything at all!

The president not only would veto any bill repealing the tax, should one somehow make it to his desk, he would rather see a lower exemption to, say, $3.5 million, forcing more wealthy taxpayers to ante-up when they die. He wants to raise the estate tax from its current maximum of 40 percent to 45 percent. And he wants to eliminate the "step-up in basis" — what he calls the "trust fund baby loophole" — altogether. This, of course, is entirely consistent with his anti-capitalist worldview.

When economic historian Benjamin Anderson wrote *Economics and the Public Welfare* in 1949, he saw the real-world impact of the relatively recently enacted income and estate taxes on a young man who had inherited some money:

> Reasonably typical is the case of one rich man who, at the age of 25, had inherited an estate of about $12 million — some thirty years before these 1935 taxes came. He had nursed his $12 million into an estate of about $30 million during those thirty years. He had done it by a kind of activity particularly helpful and useful in the country [by] financing new inventions and new explorations [and] purchasing shares in new and promising businesses.
>
> He had taken a great many risks, knowing that many of them would turn out badly, but counting on a few of them to turn out well enough so that the profits on the successful ones would offset the much more numerous losses on the unsuccessful ones…
>
> [Now] a vigorous man fifty-five years old, the effects of the new taxes were paralyzing. More than three-fourths of any profits which he might have from a new venture would be taken away from him by income taxes. Any losses which he might incur from a new venture would be his own.
>
> But further, if he should die, his estate would have to pay the federal government and the state of New York [more than] 65 percent of the estate.
>
> How could an estate pay this tax if it were spread out in new ventures, in assets for which no steady market existed, in assets which could not be liquidated without great loss?
>
> It was a painful thing to watch him turn his energies from creative production to consultation with tax lawyers as to how he could save as much as possible for his heirs.
>
> It was a painful thing to watch a vigorous man of fifty-five turning from creative activities to preparation for death.

Added Anderson:

> One may well raise the question as to just what good it did to the people of the United States to put this man in this position.

Although the House repeal bill looks to have a dismal future in the Senate, it sets the stage for a serious conversation in 2017 when it's possible that Republicans who understand how the capitalist system works will extend their majorities in both houses of Congress, along with one in the White House whose agenda, to put it kindly, isn't to extinguish the capitalist system but to enhance and nourish it.

A graduate of an Ivy League school and a former investment advisor, Bob is a regular contributor to The New American *magazine and blogs frequently at www.LightFromTheRight.com, primarily on economics and politics.*