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No Taxation without Respiration!

by Jefferson G. Edgens

Summary

The loss of farmland that many Michiganians lament is sometimes due to the effects of the "death tax." If the federal government did away with it, the result might be a "win-win" for citizens, the economy, and Washington too.

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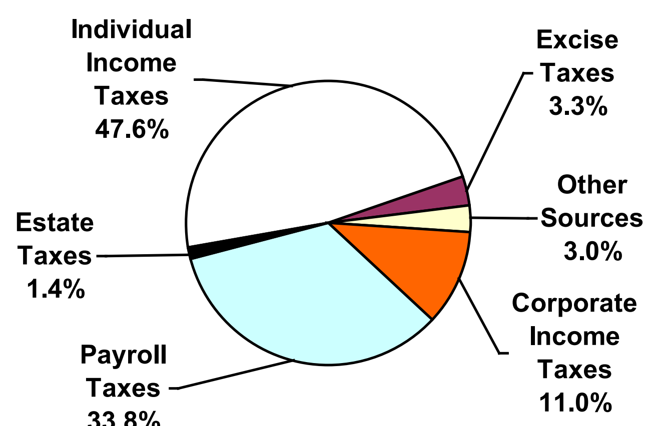
The loss of farmland to nonagricultural uses is a trend that dates back two centuries or more. One big reason for it is the natural growth in productivity: With today's yields, we would be drowning in foodstuffs if almost all of our people were farmers, as was the case when the Constitution was signed and Michigan was still a territory. When farmland loss results not from natural market forces but from bad public policy, however, it ought to become everybody's concern.

A prime example of such bad policy is the estate tax, or "death tax" as it is commonly known. It is a tax paid on a person's entire estate at the time of death. And it is onerous enough that it often forces a family to sell its farm or business just to pay the tax bill.

The current estate tax system is complex and has evolved over time. In 1916 the first federal estate tax was implemented for estates larger than $9 million in today's dollars, with a 10 percent top rate. Many people gave away their estates, but government interpreted generosity as evasion, and the estate tax was augmented with a gift tax in 1924. In 1976 the two tax systems, estate and gift taxes, were combined into one unified tax. The rates begin at 18 percent on taxable estates of less than $10,000 and go as high as 55 percent on taxable estates over $3 million.

Distribution of 1998 Federal Revenues



Source: Joint Economic Committee of Congress

The estate tax raises a tiny portion of overall federal revenues but exacts a heavy toll on families who often must sell the family farm or business in order to pay it.

In a typical recent year, a little over half of the federal government's estate tax revenue came from estates under $5 million. To Washington, the tax doesn't mean much because it generates less than $15 billion yearly, or about 1.4 percent of total revenues. But to farmers, the self-employed, and small and medium-sized businesses that are often owned by minorities and women, it can hit hard.

Farmers are hurt because, theirs being a very land- and capital-intensive industry, they typically reinvest most of their earnings in good years into the farm, quickly increasing

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the worth of the estate. In 1992 the average Saginaw County farm was worth $286,000; by 1997, the average farm's value had reached $459,000, nearly a 62 percent increase in five years. Oakland County farm values nearly doubled to $486,000 or $5,645 per acre. Washtenaw County's average farm value was $500,000 in 1997, or $2,892 per acre.

Multiple studies have concluded that the estate tax is inefficient. Total compliance costs may be as high as 65 cents for every one dollar collected.

Over time, eliminating the estate tax would actually increase federal revenues above current levels.

Finally, the estate tax is harmful because it encourages spending, not saving. It sends a powerful signal that the accumulation of even modest wealth will lead to heavy taxes. When an owner realizes that the estate will take a large tax hit, he or she may spend down the estate or remove the business from the family. Economist William Beach of The Heritage Foundation says that "it makes sense to buy vacations in Aspen, Colorado, or a painting by Rubens instead of investing in new productive equipment or expanding a business."

Beach and his fellow economists used two of the nation's best statistical models to forecast what would happen if the death tax were repealed. They found numerous benefits that would likely flow from the increased incentives to save and invest.

- The U.S. economy would average as much as $11 billion per year in additional economic output;
- Approximately 145,000 new jobs would be created; and
- Personal incomes would rise an average of $8 billion per year above current projections.

Gary and Aldona Robbins, economists at the Institute for Policy Innovation, agree. They assert that over time, eliminating the estate tax would actually increase federal revenues above current levels.

But whether or not repealing the estate tax would produce more economic growth and boost federal revenues is not the highest consideration. The *moral* case for repealing the tax is paramount. Any policy that harshly penalizes hard work, thrift and good husbandry of property is fundamentally immoral. Selling the family farm or a small business just to pay sky-high taxes because a loved one died is a tragic practice that has no place in a free society.

America's founding fathers protested British policy with the cry, "No taxation without representation!" The modern equivalent as it relates to the onerous death tax ought to be, "No taxation without respiration!"

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