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Death Tax at Death's Door?

by Bruce Bartlett

Final repeal of the estate tax is high on the agenda of the White House and congressional Republicans. The repeal measure has already passed the House, but vote counters are not sure if there are 60 votes in the Senate to avoid a filibuster. This has emboldened estate-tax supporters, who want to keep it alive any way possible.

There is a lot of pressure to resolve the issue one way or another this year. Under current law, the estate tax is repealed for one year, 2010, but then comes back again in 2011. This nonsensical law is the result of Senate budget rules that prohibited enactment of permanent repeal in 2001. But the result is to make it almost impossible to do estate planning, since no one has any idea of what tax regime will really exist after 2010. Even many of those who support repeal are willing to keep the tax with lower rates and a higher exemption if they

can get some permanence in return.

Estate-tax supporters are desperate to keep the tax in some form because they know it will be harder to reinstate after it has been out of existence for some time. As long as the tax exists, rates can more easily be raised back up to confiscatory levels the next time Democrats are in power.

One part of the liberal campaign to save the estate tax is to make it seem as if those who favor repeal are a few rich people who have bought off Congress with campaign contributions. This is the theme of two recent books: *Death by a Thousand Cuts*, by Michael Graetz and Ian Shapiro, and *Wealth and Our Commonwealth*, by Bill Gates Sr. and Chuck Collins. (Gates is the father of the Microsoft founder.)

The problem with this theory is that public opinion polls have long shown that most people

don't like the idea of restricting inheritances. As long ago as 1935, 52 percent of Americans thought there should be no limit whatsoever on the amount of money that people are allowed to inherit, including 47 percent of self-identified poor people.

Ever since people were first asked about abolishing the estate tax, strong majorities have favored repeal. A Wirthlin poll in August 1999, which came out well before the estate-tax repeal effort really got going, found that 70 percent of people favored phasing out the estate tax -- 50 percent strongly and 20 percent somewhat. In August 2000, a Pew Research Center poll found that 71 percent of people support the elimination of the inheritance tax -- 28 percent saying they favored the idea and another 43 percent saying they strongly favored it.

The most recent poll was done by the New York

Times in March of this year. It found that 76 percent of people say they oppose any tax on inherited assets. When people were given the option of having the tax apply only to estates of more than \$3.5 million -- far more than the average American could ever hope to have -- 50 percent of people said they still favored complete abolition of the estate tax.

One explanation for these poll results is that people know that wealth is not stagnant -- today's poor may be tomorrow's rich and vice versa. This perception is backed up by empirical research. A 1992 study published by the National Bureau of Economic Research found that between 1967 and 1977, 75 percent of people in the bottom 10 percent of

wealth distribution had risen to a higher bracket, with 1.2 percent rising all the way to the top decile. Forty percent of those in the top decile fell to a lower one.

A 1998 study published by the Brookings Institution found similar results. Between 1984 and 1994, 60 percent of those in the bottom decile of wealth rose to a higher one, including 1.4 percent who went all the way to the top. Forty-seven percent of those in the top decile fell to a lower one.

People perceive this wealth mobility as well. In the New York Times poll previously cited, 80 percent of people said it was possible to start out poor in this country and become rich. And this is a

percentage that has risen over time, contradicting those who claim that American society has become more stratified. In 1983, only 57 percent of people thought it was possible to become rich and 38 percent thought it was not.

The estate tax has never been a significant revenue raiser for the government. Its elimination won't affect the budget meaningfully. Its main purpose is to satisfy the envy of those who want no one to be rich if they themselves can't be. That's a poor justification for tax policy and a sufficient reason to get rid of the "death tax."

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