

Terry Neese: Estate tax could be death to small business

By: Terry Neese
OpEd Contributor
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Although health care is dominating the discussion in Washington and throughout the country, Congress will also be deciding on a number of other issues in November. For example, the proposed changes on the estate tax issue could have just as much of an effect on Americans and the economy.

Also known as the "death tax," the large (as much as 45 percent) federal tax on the property of the deceased is scheduled to be repealed for the year 2010, only to return in 2011 at the rate of 55 percent. Although the Senate passed an amendment back in April to reduce the tax to 35 percent, little to no attention has been paid to it in the House. That changes this week when the House Small Business Committee holds a hearing on the issue.

While supporters of the death tax claim that it is a voluntary tax only affecting the wealthiest Americans, there are several reasons why lower- and middle-class Americans, especially small-business owners, need to be concerned if it is not repealed.

First, the death tax is based on the faulty assumption that inheritances are a major source of wealth inequality. However, as the National Bureau of Economic Research

found, the distribution of wealth changes over time for various reasons, including how much people earn and save throughout their lifetime, the number of children they had to support, and the rate of return on their savings.

In 2007, among the wealthiest 1 percent (average of \$32 million per household), only 17 percent of their wealth came from bequests. Among the wealthiest 5 percent, 92.5 percent of their wealth came from earnings and thrift.

Second, supporters claim that the death tax accomplishes two purposes: (1) Raising revenue for the federal government and (2) redistributing American wealth more equally. However, it fails to do both. According to the Heritage Foundation (in a study done before the 2001 act), if the death tax were repealed:

- The U.S. economy would average as much as \$11 billion per year in extra output.
- An average of 145,000 new jobs could be created, and personal income could rise by an average of \$8 billion per year above current projections.
- The federal budget deficit would decline because the increased revenues generated by extra growth would more than compensate for the meager revenues raised by the death tax.

Lower- and middle-class Americans, especially small-business owners, still bear the burden of the estate tax.

For example, Douglas Stinson, a tree farmer from Toledo, Wash., told the House Ways

and Means Committee that the household income of the average tree farmer is less than \$50,000, but the typical tree farm can be valued at more than \$2 million. The result many times is that the heirs have to sell the farm or business to pay the estate tax. Stinson said 25,000 acres of prime forest land in Washington is converted to other uses each year, primarily to raise money to pay estate taxes.

Small-business owners and other middle-class Americans must not be deceived by the misleading claims of estate tax supporters. Even if the tax is repealed for 2010, the increase in 2011 will only further impede productivity. If Congress truly wants to stimulate the economy, it should not ignore the estate tax, and instead end its use permanently.

Terry Neese is an entrepreneur and a distinguished fellow at the National Center for Policy Analysis, where she heads the organization's Family Policy Center.