post-gazette.com
Pittsburgh Post-Gazette

The estate tax, R.I.P.: Contrary to popular belief, the estate tax concentrates wealth

Wednesday, February 10, 2010
By Antony Davies and Pavel Yakovlev

When the clock ran out on 2009 there was one bit of good economic news: the death (temporary as it may be) of the federal estate tax.

As a result of the tax reforms passed early in the last decade, the estate tax expired at the end of 2009. The House of Representatives had voted to extend the tax at the 2009 rate of 45 percent on all assets above $3.5 million, but the legislation stalled in the Senate. Leaders of both houses have promised early action on estate tax legislation in the new session of Congress; if they don't act, the tax will automatically reappear in 2011 at a 55 percent rate, with the $3.5 million exemption reduced to $1 million.

While the congressional leadership wants to lock in the rates established by the House bill, other Democrats have joined with Republican colleagues and small-business advocates in calling for a significant reduction or permanent repeal of the tax. Those favoring repeal have the right idea.

We have studied the impact of this tax and have found that the claim that the estate tax helps prevent the rise of a "moneyed aristocracy" is dead wrong. The tax in fact contributes to wealth concentration by making it harder for the non-wealthy to accumulate wealth.

It has these effects because the death tax reduces the number of small businesses and increases the market share of large corporations, further concentrating wealth in the hands of the powerful. In fact, our research shows that increases in estate taxes have caused as many as 6,000 small, family-owned businesses a year to be liquidated or absorbed by larger firms.

Indeed, the economic burden of the estate tax is likely to be spread across many members of society. The Urban-Brookings Tax Policy Center, for instance, estimates that 305,000 estate tax returns will be filed between 2007 and 2012, and of these, 130,000 will be taxed. Moreover, research also suggests that, among people subject to the tax, wealthier individuals are more likely to create foundations to shelter their estates than are less wealthy individuals, thereby removing their wealth from the tax base.

In addition to causing as many as 6,000 businesses to be liquidated or absorbed by larger corporations, the estate tax also reduces government revenues. For every dollar in revenue the tax raises, state and local governments lose almost $3 in other taxes, we found.

Abolishing the estate tax would move the economy in the opposite direction, our research shows: creating or saving as many as 100,000 businesses annually, adding upwards of two million new jobs to the economy and increasing state tax revenues annually by approximately $9.3 billion.

Given the significant loss in government revenue, politicians who look to estate taxes to help assist low-income Americans who derive the greatest benefit from government services -- $8.21 of government spending for every dollar of taxes paid in 2004 -- must face the obvious: The tax achieves the opposite of its intended purpose.

The estate tax provides a clear case study in the law of unintended consequences and deserves to stay dead. Congress should see that the tax stays buried forever.

Antony Davies is an associate professor of economics (daviesa@duq.edu) and **Pavel Yakovlev** is an assistant professor of economics (yakovlevp@duq.edu) at Duquesne University. They are co-authors of the recent report, "Myths and Realities Surrounding the Death Tax," published by the American Family Business Foundation. The opinions expressed here are their own.

Cartoonist Rob Rogers does "Rob's Rough," an early look at his work and his creative process, exclusively at PG+, a members-only web site of the Pittsburgh Post-Gazette. Our introduction to PG+ gives you all the details.

First published on February 10, 2010 at 12:00 am