Why the Estate Tax Should Concern Us All

During the week of August 7th presidential candidates Hillary Clinton and Donald Trump revealed their respective tax policies in major speeches made to partisan audiences. While the presentations contained such jargon such are marginal rates, inversions and expenditures, the programs can be summarized as follows: the wealthy and corporate America will bear the brunt of paying for Mrs. Clinton's progressive agenda in the form of higher taxes, while these two groups will see their taxes reduced under a Trump regime. This is the choice Americans face in November.

The federal tax rate on income over $467,000 for a married couple is presently 39.6%. Mr. Trump would cut this top rate to 33%, while Mrs. Clinton would add a 4% surcharge for income over $5 million, leaving the top earners with a 44% tax rate. She would also try to adopt legislation so that those with income over $1 million pay at least 30%, by limiting the value of tax deductions and requiring longer periods to secure lower long term capital gains rates.

The most transparent way in which Mr. Trump and Mrs. Clinton differ on tax policy is on the estate tax, which Mr. Trump wants to eliminate altogether while Mrs. Clinton wants to force more families to pay, and on a higher portion of their assets to boot. The subject of estate taxes itself does not receive that much attention; most Americans tolerate it in the spirit of "the estate tax only affects the rich and they can afford to pay". Currently, when a person dies the first $5.45 million of the estate is exempt from *federal* estate taxation, with $10.9 million for a married couple. Assets above these levels are then generally taxed at 40% before being passed on to heirs. Mrs. Clinton wants to raise this rate to 45%, lower an individual's exemption to $3.5 million and dispense with the rule that the amount excluded be adjusted annually to reflect inflation. (A number of tax figures are changed each year based on the average CPI for the preceding 12 month interim) This waiver is not insignificant, as the well-off could no longer assume that some of the appreciation in their net worth will be offset by higher cost-of-living expenses. For the most prosperous, she would apply a 50% rate on estates of $10 million, 55% over $50 million and 65% on estates with assets above $500 million. Mrs. Clinton also wants to end the step up in basis on stock valuations, engendering substantial capital gains taxes for a wider swath of the population.

We should not be so quick to dismiss the estate tax as a burden borne strictly by the affluent; the rates and amounts precluded have been changed numerous times over the past 20 years, and it should not come as surprise when a government $19 trillion in debt lowers the threshold again and again and again. Additionally, 16 states have their own estate taxes, some with much lower exemption levels, so that those who would typically be considered "middle class" are not immune from an estate tax if they live on one of these areas. For example, residents of New Jersey are exposed to 16% tax if their estates are greater than $675,000. [New York's estate tax exemption by way of comparison is $3,125,000] Thus the estate of a home owner in a middle class Jersey Shore community with an adequate retirement fund would have a tax liability at his demise. To top it off, if the deceased bequeaths his home and savings to someone other than a spouse, child or parent, that recipient will have to pay an inheritance tax. Are these the people Mrs. Clinton has in mind when preaching about the evils of income disparity and the necessity of higher taxes?

The negative aspects of the estate tax have been detailed elsewhere, but are worth noting here: It wrongly penalizes personal attributes highly valued in America, namely industry and thrift. It fails to generate much revenue. It can be avoided with some prudent tax planning. It is harmful to the interests of family owned businesses and farmers. It taxes income twice. Those who favor an estate tax assert it reduces concentrations of wealth and ensures that undeserving heirs do not profit at the expense of a fair and equitable society. A progressive, consistent spending tax, rather than an estate tax, would be more harmful to the likes of Paris Hilton and others we are quick to demonize. Some claim that any tax breaks should go to the lower and middle classes rather than the wealthy. We as Americans would be better served by maintaining existing tax rates (or lowering for all) and living within our means. Our economy features a large degree of mobility, and those who want to spread prosperity to the least fortunate should advocate lower government hurdles to wealth creation rather than its arbitrary re-distribution.

Numerous studies suggest that the desire to leave a legacy for one's heirs, rather than just enjoy a comfortable retirement, incentivizes many to continue to invest in their enterprises and save money throughout their lifetimes. All of society benefits when wealth remains invested in a productive economy, rather than being siphoned off into the coffers of bureaucratic agencies. The estate tax is another instance of the government taking money out of our hands and making us make dependent on its inclinations. Mrs. Clinton, in a speech about the estate tax, praised its revenue-raising capabilities and exclaimed "just think about what *we* can do". If you back Mrs. Clinton and her brethren, you are willing to cede your decision- making ability to theirs about how your wealth is best disposed.