June 12, 2006 The U.S. Senate had a golden opportunity to repeal the federal estate tax last week, but fell a few votes short. I fear that vote might represent the high-water mark in the movement to get rid of this destructive tax once and for all. Fortunately, estate taxes no longer devour 60% of some individuals' wealth when they die. Congress passed legislation in 2001 that reduced estate tax rates and increased the amount of assets exempt from the tax. Yet Congress has been unable to abolish the estate tax altogether, and due to a political compromise the old rates will be back in effect come 2011 unless Congress acts first. The estate tax raises very little money. In fact, even at its height the estate tax accounted for only a little more than 1% of federal revenues. A congressional Joint Economic committee report estimates that Americans spend as much avoiding estate taxes—paying attorneys and accountants—as they do paying estate taxes. A study by a Stanford professor concluded that "True revenues associated with estate taxation may well have been near zero, or even negative." It's no longer a matter of tax policy or economics—the arguments in favor of the estate tax have all been demolished. Instead, the estate tax survives purely because of politics.

The real motivation behind the estate tax is a deep-seated hostility to property rights, and a misguided fear of family dynasties. But people don't keep money in mattresses anymore. Money inherited from an estate is either spent, saved, or invested—all of which are better for the economy than sending it to Washington, where bureaucratic overhead consumes at least 50 cents of every dollar. If you truly own your property, you have the right to dispose of it any way you wish. You can sell it, give it away, or direct who will receive it when you die. This control is the essence of property rights. If you can't control what happens to your property, you don't really own it. That's why the estate tax is so destructive. Since people don't want the government controlling their property when they die, they twist themselves into pretzels finding ways to avoid turning assets over to the IRS. Some create elaborate trusts to minimize their taxes, supporting the economically wasteful estate-planning industry. Others simply lose their entrepreneurial spark, stop working, and spend their money-- succumbing to a "die broke" attitude. Again, the issue is control. People who have worked hard to build wealth simply cannot stand to see government take a big chunk of their assets when they die, so they do anything they can--even economically harmful things—to prevent it. This is what supporters of the estate tax cannot seem to understand. For smaller, family-owned farms and ranches, the estate tax is especially threatening. Such operations may be worth several million dollars when the value of land, livestock, buildings, and equipment are considered. Yet when the owner dies, his heirs often do not have liquid cash to pay a hefty tax bill. As a result, all or part of the family business may be sold to pay the IRS. This has accelerated the trend toward corporate ownership of American farms and ranches. As William Beach at the Heritage Foundation summarizes, the estate tax does four things-- all of which are bad for the economy and frankly un-American: First, it discourages savings and investment. Second, it undermines job creation and wage growth. Third, it stifles investment. Forth, it contradicts a central premise of American life, namely, building wealth and "getting ahead." For all of these reasons, it's time to get rid of the estate tax once and for all.