

Break, Don't Spread, Estate Tax Myths

By Peter Fisher

Many people's views on the estate tax are founded on myth and misinformation. The May 3 Gazette editorial, "Why won't the death tax die?", perpetuated those myths. It would have us believe this is a tax on hardworking entrepreneurs, while the really rich pay nothing. This is simply false. The estate tax falls almost entirely on large accumulations of wealth, much of which was never taxed.

Here are the facts: 99 percent of estates owe no estate tax because they are worth less than the current exemption of \$1.5 million (\$3 million for a couple). The exemptions will rise to \$3.5 million and \$7 million in 2009; if that were in effect now, only two-tenths of 1 percent of estates would pay any tax.

According to the Brookings-Urban Institute Tax Policy Center, only about 110 of those estates nationwide would consist primarily of farms and family businesses. Raising the exemptions is not a bad idea; eliminating the tax is.

The estate tax closes a major loophole in the income tax. Capital gains, for example, are not taxed until assets are sold. If not taxed as part of an estate, such income could escape taxation forever.

Estate tax provisions for farms and family-owned businesses can reduce their taxable value by 40 percent to 70 percent. Only one-half of 1 percent of estate taxes in 2004 were paid by small businesses, and that could be eliminated by raising the exemptions. It is a myth that the tax forces large numbers of small businesses to be sold by heirs and that the only solution is to eliminate the tax.

Most troubling about the editorial may be its failure to recognize the relationship between taxes and a good society. One day after blasting the "death tax," a misleading term politicians use to distract voters, a Gazette editorial, "Closing the health insurance gap," expressed concern about the 329,000 Iowans who have no health insurance. "Public policy should be aimed first at uninsured children," it said. Where will we find that money, if not from the folks who have the most? Eliminating the estate tax would be a giveaway of \$200 billion to \$400 billion over 10 years to the richest 5 percent of the population.

President Bush, Congress and others who want more tax cuts — including The Gazette — must take responsibility for the consequences. Rising numbers of uninsured Iowans are at the top of the list.

#

Peter Fisher is the research director of the Iowa Policy Project, a nonpartisan, nonprofit research organization based in Mount Vernon. Iowa Policy Project reports are available to the public, free of charge, on the web at www.iowapolicyproject.org.