Death tax

[Countries](), [United States]()

The “ Death Tax” or more formally known as the Estate Tax in the United States is a tax imposed on the transfer of the " taxable estate" of a deceased person. After the death of a business owner, the family member who inherits the business is required to pay up to 47 percent in taxes on all assets, including land, building, equipment, and more. Because estate taxes are quite high, this matter has been a subject of heated debate. Those who oppose the “ Death Tax” have found an ally in President George W. Bush who was made the abolition of this tax measure as one of his platforms of government (Death Tax is Killing Family Business).

The Death Tax traces its roots in the early 1900's politicians called for a “ progressive tax” on rich families to prevent them from passing on their wealth from one generation to the next. Eventually enacted in 1916, estate taxes accounted for as much as 9. 7 percent of the federal tax revenue by 1941. Under the Tax Reform Act of 1976, a major overhaul of the death tax system led to rates that ranged from 18 to 70 percent based on the value of the estate.

Subsequent changes in the system capped the estate tax at 55 percent by 1993. Further legislation introduced the phase by phase implementation of the tax rate up to 2011 under the Economic Growth and Tax Relief Reconciliation Act (EGTRRA). EGTRRA is considered as the first step towards the elimination of the death tax. However, the 2001 Act is not permanent and the death tax will come back in 2011 at the previously high and confiscatory level (Death Tax is Killing Family Business).

Arguments for the Estate Tax

Those who call for the preservation of the Estate Tax argue that its abolition would further concentrate the nation's wealth in the hands of the super-rich and that it would also drain resources from strapped states and charities. They also argue that without an estate tax, the heirs of the wealthy are given an unfair advantage over everyone else. Children who inherit their parents' wealth have done nothing to earn it, they say. Taxing them is one way of redistributing income and ensuring a fairer society (Death Tax Deception). Billionaire Warren Buffett, an outspoken critic of efforts to repeal the estate tax, said in a testimony at a Senate Finance Committee meeting that lawmakers would have to attend 200 funerals to be at one where the family of the deceased would owe estate tax (Sahadi).

Among the arguments to preserve the tax are:

a) Abolition of the estate tax would drain the government about US $850 billion in revenues between 2011 and 2021;

b) Repeal would transfer of hundreds of billions of dollars to the trust funds of the nation's wealthiest families while shifting the burden of taxation onto those less able to pay;

c) States stand to lose US$9 billion a year by 2010; and

d) Charitable giving may decline as much as $6 billion a year (Thomas).

Arguments against the Death Tax

Those who seek for the total abolition of the Death Tax say that the estate taxes are unreasonably high causing many heirs who cannot afford to pay them to sell their business, break up or liquidate their assets solely to pay the tax. This, they say, kills jobs and discourages owners from growing their businesses. Pro-abolition supporters argue that the Death Tax no longer fulfils its original intention of raising money from the very wealthy as it now penalizes more and more members of the middle classes. They further argued that society needs a way to transfer wealth from generation to generation, especially as the young now struggle to get a foot on the property ladder (Death Tax is Killing Family Business).

The specific arguments of those who oppose the Death Tax say:

a) It is an ineffective Federal revenue raiser. Abolition proponents say federal revenue generated from death taxes as a percentage of total revenue has been on a steady decline since 1940 and that the unified death and gift tax now brings in less than 1. 1% of total federal revenues. They also say enforcement and administration of this law requires substantial government funds – costing the government up to 65 cents for every dollar collected.

b) The Death Tax is killing American family business. It is argued that 70 percent of all family businesses do not survive through the second generation and 87 percent do not make it to a third generation. It is also said that the staggering costs require redirection of precious capital.

c) The Death Tax Costs Jobs. Proponents argue that nearly 60 percent of business owners report that they would add more jobs over the coming year if the death tax was eliminated. It is also argued that nearly three out of four family business owners reported that long-term growth is made significantly more difficult or impossible by the death tax.

d) Repeal would have a positive impact on the American economy. A repeal of death taxes should lead to revenue growth. A study by the Heritage Foundation found that:

1. The nation's economy would average as much as $11 million per year in extra output.

2. An average of 145, 000 additional jobs would be created.

3. Personal income would rise by an average of US$8 billion per year above current projection.

4. The deficit would actually due to the growth generated by abolishing the death tax (Death Tax Deception).

Conclusion

For Congress to address this matter appropriately, it has to clearly understand the consequences and benefits for both courses of action. To abolish the Death Tax would require ways and means to compensate for huge loses in revenues. On the other hand, preserving the Estate Tax would require assurance that it would still fulfill its intention of raising money from the very wealthy and not from the lower income brackets of society.