Death Tax Deception

March 21, 2001

Congressional Republicans have signaled that they are willing to compromise the death-tax provision of President Bush's tax-cut proposal. This offers a splendid opportunity to get it right.
Those who are campaigning for a cut in the death tax are not impressed with the worries of Bill H. Gates Sr., George Soros and Warren Buffett that repealing the death tax might discourage wealthy people from giving money to charitable foundations. In fact, those foundations are mostly private slush funds that the super rich use to promote liberal causes and enhance their own political influence.

Bill Gates, for example, put $25 billion into his private foundation which his father runs. When Bill Gates dies, the $25 billion will be exempt from the estate tax even though his family could retain control of that extraordinary pile of cash far into future generations.

That same estate plan has been profitably used by many of the super rich including Buffett, Soros, the Rockefellers, the Fords, David Packard, and others. Extraordinary amounts of money escaped death taxes through their foundations that are notorious for promoting leftwing causes.

Bill Clinton is also working the foundation racket. His Little Rock library (which doesn't have any books) raises tax-deductible money from Marc, Denise and other super Rich in order to enable Bill and Hillary to continue to live and travel in the royal style to which they have become accustomed at taxpayers' expense.

While "only" two percent of estates now pay the estate tax, that's twice as many as when the first George Bush was President. The number of taxable estates will double again before George W's plan fully takes effect in 2009, thus wiping out the life savings of millions of Americans who die before then.

About 90 percent of federal estate tax returns filed are for estates of $2.5 million or less. These Americans aren't rich enough to escape the death tax through private foundations, so they usually have to sell their small business or farm to pay the death tax (at rates up to 55 percent).

Congress assured us it solved the problem of small businesses and farms in the Tax Reform Act of 1997, but that "reform" turned out to be "all hat and no cattle." It is so complex that only about 3 percent of estates qualify, and even those are in danger of the government re- visiting the case and collecting the original tax plus interest.

Instead of the present plan to cut the death tax rates for all in small incremental steps stretched out over many years, President Bush and Congress should compromise by raising the exemption to $10 million. This would be really meaningful to the very people who deserve a tax cut, the people who have labored hard over a lifetime to build up a family business, family farm, or other family property.

President Bush and the American people should be on guard against a devious plan by Congress to issue press releases bragging that they are cutting the tax paid by the person who dies -- while the fine print in the legislation substitutes a brand new tax on the heirs who inherit the property from the deceased. The dishonesty of this chicanery is exceeded only by the secrecy of the effort to keep it out of public discussion until the tax law is passed.

Ever since the 16th Amendment gave Congress the power to tax incomes in 1913, no federal tax has ever been levied on the heirs who receive property from the deceased. The heirs have always received a fresh start (sometimes called "stepped-up basis") in the appreciated property their parents left them.

It's bad enough that some in Congress want to sabotage President Bush's promise to repeal the death tax by substituting taxes on the children who receive the property (a device called "carryover basis"). But they should not be allowed to get by with pious platitudes claiming that they repealed the death tax.

Once before, during the Jimmy Carter regime, Congress surreptitiously wrote carryover basis into the law. When the public found out how complicated and burdensome it was, they kicked up such an uproar that it had to be delayed, and delayed, and then repealed in 1980.

Public reaction was comparable to what happened when seniors belatedly discovered they were going to have to pay big premiums to get the "catastrophic" health care that Congress had bragged about passing. Senior citizens storming and blocking then Ways and Means Chairman Dan Rostenkowski's automobile became a memorable news photo in 1988.

The deception in the death tax shenanigans is headed for a similar donnybrook. Congress should be honest with the American people: just raise the death tax exemption to $10 million and don't doubledeal us by imposing a new post-death tax.