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## Estate-Tax Redux Skews Its Reality

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Like a zombie reemerging from the crypt in an old Hollywood "B" movie, the estate-tax debate returns to Washington this week.

And just as with those old horror flicks, the story will be suffused with fantasy and pumped up with cheap theatrics to frighten and titillate the innocent.

Republicans in the House of Representatives have said they plan to permanently repeal what they derisively call the "death tax" on multimillion-dollar estates. Cooler heads are expected to prevail in the Senate, however, and there is even talk of a bipartisan compromise that could end this melodrama, at least for now.

As Washington stories go, there aren't many like this one. Over just a few years, starting in the 1990s, the estate tax went from an issue almost nobody cared about to the top of the nation's tax agenda.

Pressed by a coalition of ultra-wealthy families and antitax ideologues, Congress and President Bush passed legislation in 2001 ! to actually repeal the tax - in 2010. But only for one year.

In 2011, the tax returns to its 2001 level, unless Congress acts again to make repeal permanent. Which it can't do without aggravating the federal budget deficit by several hundred billion dollars.

Wealthy in a tizzy

The resulting uncertainty is aggravating a lot of wealthy people and their families, not to mention the armies of lawyers, accountants, charities and insurance companies whose lives depend in some measure upon the estate tax.

But the real mystery, according to Michael Graetz and Ian Shapiro, is how abolishing a tax that 98 percent of Americans would never pay anyway became such a popular cause in the first place.

"For almost a century, the estate tax affected only the richest 1 or 2 percent of citizens, encouraged charity, and placed no burden on the vast majority of Americans," Graetz and Shapiro wrote in their book, "Death by a Thousand Cuts."

Estate-tax opp! onents managed to replace that perception with the comic-book-esque im age of an evil federal government reaching beyond the grave to grab the assets of hard-working entrepreneurs and their families.

"Real-life" farmers and business owners were brought to Washington to testify about the threat they faced and the bitter hardship of tax planning. Polls were commissioned and "grassroots" organizations founded to demonstrate that large numbers of Americans believed that taxing dead people was unfair.

In short, opponents turned the debate over the estate tax into a moral crusade - the ironic opposite of what took place in the early 20th century.

Immoral not to tax

Back then, estate-tax supporters such as Andrew Carnegie believed it was immoral not to tax large estates - that allowing people to inherit unlimited wealth was unhealthy both for the heirs and for a democratic society.

But this time, supporters essentially ignored morality. Liberals were caught off guard by the sudden drive for repeal, and responded with! boring fiscal arguments about how repeal would increase the deficit.

Other influential groups that stood to lose if the tax were repealed - such as large charities and universities, and insurance companies selling estate-tax-planning policies - were generally silent.

"The insurance industry, which had a lot to lose, didn't take a position" on repeal, Graetz told me. "Because of their close connections to the Republicans, their own leadership refused to step forward."

More broadly, Graetz said the estate-tax issue resonated far beyond the tiny number of people who actually stood to gain from repeal. "It was the late 1990s; housing prices were going up and stocks were booming, so everybody thought they were going to be wealthy," he said.

But as 2010 gets closer, the practical problems of repeal are becoming unavoidable. Even some Republicans are talking about accepting a modified version of the tax on the very wealthiest families and estates.

In the end, repealing a tax on our dreams may be a luxury we can't really afford.

Memo:  
The Economy

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