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Is Repealing the Estate Tax Unethical?

One of government's most important roles is to tax its citizens for the cost of its operations and services as well as for the tasks that citizens can't provide feasibly by themselves. The 10th Amendment to the U.S. Constitution provides that all powers not specifically assigned to the federal government are reserved for the states. As ratified, the Constitution provides that all taxes have to be assessed in proportion to population. Only after ratification of the 16th Amendment in 1913 was it possible for the government to base taxes on income or any other element not based on population.

The ethical justification for levying taxes based on income or wealth is that individuals and corporations receive benefits from the social, political, and economic institutions that have been created under the oversight of the government and thus have an obligation to finance them. Further, those achieving more from the use of these institutions have an obligation to pay a larger amount.

The origins of the specific provisions of the income tax code, the major source of federal government revenue, are obscure. While the federal income tax code's main intent is to provide revenue for the federal government, it also is used frequently to direct the behavior of businesses and individuals in an attempt to achieve social, economic, and political goals. Thus, the income tax code is rightly viewed as complex, difficult to administer, and rife with opportunities for evasion. Some observers have indicated that perhaps the days of self-declaration of income subject to taxation may have to end.

Estate taxes have been part of the tax structure of the United States since its earliest days—and continuously since 1916 and World War I. The latest adjustments to the federal estate tax were made at the time of the 2001 tax cuts. As with other cuts made at that time, the estate tax reductions were made temporary as a budget gimmick to hold down the perceived cost of the total 2001 tax-cut package.

Under the present rules, the levels where an estate avoids taxation will rise to $3.5 million for an individual or $7 million for a couple. This level represents about the largest 0.3% of all estates. These are the wealthiest of all Americans. Although proponents of a repeal of the estate tax call it a "death tax," even the IRS describes it as a tax on the transfer of wealth to the next generation, as all bequests to charities or a spouse aren't taxed. It is a wealth-transfer tax and nothing more.

A compelling argument for retaining the estate tax is that repealing it would allow the creation of an economic aristocracy, which runs counter to the American belief in equal opportunity. Beneficiaries born to great wealth would have much less economic incentive to pursue productive endeavors. For example, Paris Hilton seems to enjoy ostensibly spending her considerable inherited wealth.

The repeal of the tax would also add to the federal deficit. According to the Congressional Budget Office, the revenue loss would amount to $290 billion over 10 years. This is a significant amount now being paid by the super-well-off families—think Gallo, Mars, and others—that would have to be assumed by middle class families. Repeal would also cost various states as much as $9 billion per year, according to the Center for Budget and Policy Priorities.

Another persuasive reason for retaining the estate tax, reformed if desirable, is the fact that repealing the estate tax would significantly and adversely impact the level of charitable giving. Different groups have estimated varying amounts, but reduction estimates by the Congressional Budget Office run from $13 billion to $25 billion per year. Thus, the repeal of the estate tax would have a devastating impact on charitable giving to colleges, hospitals, museums, land conservancies, and organizations that assist the poor and disadvantaged. Bequests to philanthropies in the first year after the 2001 rollback of rates declined for the first time since 1998, proof that the presence of the estate tax motivates giving.

An argument given by those in favor of repeal is that income tax is already paid for estate assets when they were earned. Thus, the argument goes, the estate tax represents a form of double taxation. The premise for this argument isn't true, however, because as much as 50% of many estates, if not most, are composed of securities, real estate, and other assets whose market values have appreciated over time but were never taxed because they were never sold to an outside party. Under the current law, the tax basis for future gains will be revalued upward to market value without attracting any income tax when passed to heirs. Consequently, a significant portion of estate assets would never be taxed. Equity demands that some kind of estate tax, at least equivalent in amount to the capital gains tax, be paid on the transfer of appreciated assets to heirs.

Additional false arguments for repealing the estate tax include assertions that family farms and small businesses are being hurt badly. Yet repeal supporters have been hard pressed to find any but the largest corporate farms that attracted any estate tax. In recent years, only a handful of small businesses took advantage of the mitigating provisions of the current estate tax regulations that provide for higher exemption amounts and long-term deferral of any tax payments.

Repeal proponents have used politically attractive half-truths to advance their case instead of the balanced and reasoned factual appeal that the IMA Standards of Ethical Conduct require from management accountants and financial managers. Wealth and power concentrated in the hands of a few tend to undermine the economy, corrupt democracy, and deepen the racial divide. Any governmental action that greatly increases the concentration of wealth should be viewed as unethical.

In summary, America, the land of equal opportunity, doesn't need a tax cut that only benefits the super rich at the cost of other taxpayers. The fact that charitable organizations would be significantly hurt magnifies the need to retain some form of an estate tax. ■

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