Kill the Death Tax

"Soak the rich," while not a publicly-stated theme of the Obama campaign, was certainly one of its sentiments. A substantial percentage of those who voted for Obama seem to believe that there is a fixed amount of wealth in the country, and that if they have less than *"their fair share"* someone who has more must have taken it from them. It does not occur to them that the economic pie can grow (with hard work, low taxes, and minimal government intervention in the economy), enabling everyone to become better off.

Apparently it is not enough to tax the wealthy with federal income taxes (which Obama wants to raise from 35 to 39.6 per cent), corporate income taxes (America has the second highest in the world), Social Security taxes, sales taxes, property taxes, capital gains taxes, and on and on. No, the Obama fans also want to make sure that the federal government gets almost half of what you leave behind when you die.

Changes made during the Bush administration drop the estate tax, in 2009, to 45 per cent on all assets greater than $3,500,000. (The death tax had been as high as 55 per cent, on much smaller amounts.) In 2010 the death tax is scheduled to drop to zero. But on January 1, 2011, all the Bush tax cuts expire… unless they are restored by Obama and the Democrats. The odds of that are as good as the Chicago Cubs winning the 2008 World Series.

Rest assured that the death tax will be back, perhaps at even more confiscatory levels. If Congress takes no action, the tax returns to its pre-Bush levels of 37-55 per cent (depending on the size of the estate). If you expect to die in 2010, try to schedule it for New Years Eve. If you make it past midnight, you could be costing your heirs 55 per cent of what you leave behind. (If you die in California you may want to die before 9 pm… just in case the feds try to apply the Washington, D.C. time zone to the tax rule.)

"*Yes, but that tax only applies to the rich people. Who cares if the widows of those stiffs get stiffed?"*

Beside the fact that such a comment is repugnant on its surface to anyone who believes that America is the nation where anyone can succeed if they apply hard work, ingenuity, and inspiration, it also ignores the reality of the situation. Quite simply, a lot of those "rich people" aren't that wealthy, and the death tax has disastrous consequences for the economy. An example will illustrate the point.

John Smith owns a widget factory in Dearborn, Michigan. His grandfather started the business decades ago. The business is estimated to be worth $10 million, and much of that represents the real estate value of the building and its parking lot. The business itself makes very little profit, mostly because the profit John makes is set aside for repairs to the building and the aging machinery. The company's operating account normally contains about $250,000.

John has about 100 employees, including assembly line workers who make about $35,000 and managers who make as much as $65,000. John pays himself an annual salary of $100,000. His son Steve is the plant manager, and his daughter Susan is the company accountant and treasurer. John pays each of them $65,000 per year.

John is married to Mary. They own a house that has no mortgage; they made the final, 360th payment on that loan a few years earlier. The house is worth no more than $300,000. John had about $500,000 in the stock market, but that investment dropped to $320,000 by the end of 2008. He also has about $15,000 in savings and checking accounts at the local bank.

Many would consider John and Mary well off, but probably not filthy rich. On paper, John owns a $10 million business. In practice, he's a typical American entrepreneur, who works hard for the sake of his family, and to provide jobs for 100 workers – all of whom he considers his friends.

Unexpectedly, John dies of a heart attack in 2009. After the funeral, reality sets in for Mary. She has to pay the estate taxes, and what her accountant daughter Susan tells her is not good news.

John's taxable estate includes the following:

Widget company	$10,000,000
Company operating account	$ 250,000
House	$ 300,000
Stocks	$ 320,000
Personal bank accounts	$ 15,000
Total estate	$10,885,000

(For the sake of simplicity the value of John's two cars, his home's furnishings, and other minor assets have not been considered here.)

The death tax on John's estate is 45 per cent of all assets greater than $3.5 million:

Estate	$10,885,000
Subtract tax threshold	$ 3,500,000
Amount subject to tax	$ 7,885,000
Taxable rate	x45%
Death tax due	$ 3,323,250

Mary Smith must come up with $3,323,250 to pay the estate tax caused by her husband's untimely death. The problem is that Mary does not have $3 million. She can sell all of her husband's stocks, but that will yield only $320,000. *(It will actually yield less than that because she will have to pay capital gains taxes on the sale of the stock.)* The widget company has $250,000 in its operating account – but if that is withdrawn the company will have no funds for day to day operations (which, of course, is why it's called an operating account). Even if Mary sells her house and moves into an apartment she won't be able to come up with anywhere near the $3 million-plus the federal government is demanding.

Mary's children, Steve and Susan, are willing to continue running the company. They, however, are married and have children in high school. With college educations to pay for soon, neither Steve nor Susan can contribute much toward the $3 million tax bill.

There is only one solution: sell the widget company. But it is 2009. The economy is not in the best shape. Obama is President and, with the help of Democrat majorities in the House and the Senate, he has gone on a wild spending spree. He is not about to reduce the corporate income tax (the second highest in the world). He threatens to raise the capital gains tax. He is likely to add burdensome "global warming" regulations and taxes that might apply to widget companies. And he will sign legislation giving organized labor additional power (by eliminating secret ballots), allowing a union to organize the employees of the widget company and demand higher wages - which the company cannot afford to pay.

Mary puts the company up for sale. But no one wants to buy the business because the new owner would not only have to come up with the $10 million sale price, he would also have to hope he can stay in business despite the roadblocks placed in his way by Obama and his cohorts in Congress. Mary has no takers for her business.

Mary eventually finds a buyer, but only after she drops her asking price from $10 million to $3 million. Desperate for cash to pay the death tax, Mary has no choice. She sells the business for $3 million, sells all of her stocks, liquidates her bank accounts, and just barely comes up with enough to pay the (now delinquent and therefore higher) death tax.

But the buyer has no intention of keeping the widget business going. The factory's doors are closed and 100 employees lose their jobs, including Mary's son Steve and daughter Susan. Those who need widgets will now have to order them from China.

Three weeks later the bulldozers arrive. The factory is leveled and, in its place, rises an enormous Islamic mosque - paid for by wealthy Saudis.

For the sake of the United States of America, let's hope that America's businessmen live a long time…

Don Fredrick
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