

TABLE OF CONTENTS

List of Exhibits	II
I A Very Short History of the Federal Estate Tax	2
The Tax Act of 2001	2
2 The Federal Estate Today	3
A Note on State Estate Taxes	3
3 The Great Debate	4
The Reform Side of the Debate	4
The Repeal Side of the Debate	4
The Pros and Cons	5
The American Way: Giving Something Back or Making What You Can	5
Penalizing Success	6
Reform vs. Repeal	6
Estate Tax Revenue	7
The Fineprint	8
The Impact of the Estate Tax on Farmers and Small-Business Owners	9
The Estate Tax and “Double” Taxation	10
The Estate Tax and Charitable Giving	10
4 Our Research	11
Reform or Repeal?	11
The Exemption vs. the Tax Rate	12
Farmers and Small-Businessmen	13
Other Issues That Are Top-of-Mind	14
Shades of Opinion	16
A New Economic Aristocracy?	16
The Role of the Wealthy	18
The Ultra-Affluent as Targets	21
The Estate Tax and the Economy	21
What the Wealthy Have Done	24
Having More, Spending More	26
Giving, Planning, and Politicking	27
5 What’s Next?	28
Sources	29
Author Biographies	30

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LIST OF EXHIBITS

<i>Exhibit 1:</i>	
Preference for repeal or reform	11
<i>Exhibit 1A:</i>	
Preference for repeal or reform (by net worth)	12
<i>Exhibit 1B:</i>	
Preference for repeal or reform (by source of wealth)	12
<i>Exhibit 2:</i>	
What's more important, raising the exemption or lowering the tax rate?	12
<i>Exhibit 2A:</i>	
What's more important, raising the exemption or lowering the tax rate (by net worth)?	12
<i>Exhibit 2B:</i>	
What's more important, raising the exemption or lowering the tax rate (by source of wealth)?	13
<i>Exhibit 3:</i>	
Personally know someone who had to sell their farm or business to pay estate taxes	13
<i>Exhibit 3A:</i>	
Personally know someone who had to sell their farm or business to pay estate taxes (by net worth)	13
<i>Exhibit 3B:</i>	
Personally know someone who had to sell their farm or business to pay estate taxes (by source of wealth)	13
<i>Exhibit 3C:</i>	
Personally know someone who had to sell their farm or business to pay estate taxes (repealers vs. reformers)	14
<i>Exhibit 4:</i>	
What's more important, the repeal/reform of the estate tax or...?	14
<i>Exhibit 4A:</i>	
What's more important, the repeal/reform of the estate tax or ... (by net worth)?	15
<i>Exhibit 4B:</i>	
What's more important, the repeal/reform of the estate tax or... (by source of wealth)?	15
<i>Exhibit 4C:</i>	
What's more important, the repeal/reform of the estate tax or ... (repealers vs. reformers)?	15

LIST OF EXHIBITS (CONTINUED)

<i>Exhibit 5:</i>	
I strongly believe...	16
<i>Exhibit 5A:</i>	
I strongly believe... (by net worth)	17
<i>Exhibit 5B:</i>	
I strongly believe ... (by source of wealth)	17
<i>Exhibit 5C:</i>	
I strongly believe ... (repealers vs. reformers)	18
<i>Exhibit 6:</i>	
I strongly believe ...	19
<i>Exhibit 6A:</i>	
I strongly believe ... (by net worth)	19
<i>Exhibit 6B:</i>	
I strongly believe ... (by source of wealth)	20
<i>Exhibit 6C:</i>	
I strongly believe ... (repealers vs. reformers)	20
<i>Exhibit 7:</i>	
The economic impact of repeal or reform.	22
<i>Exhibit 7A:</i>	
The economic impact of repeal or reform (by net worth)	22
<i>Exhibit 7B:</i>	
The economic impact of repeal or reform (by source of wealth)	23
<i>Exhibit 7C:</i>	
The economic impact of repeal or reform (repealers vs. reformers)	23
<i>Exhibit 8:</i>	
Actions taken	24
<i>Exhibit 8A:</i>	
Actions taken (by net worth)	25
<i>Exhibit 8B:</i>	
Actions taken (by source of wealth)	25
<i>Exhibit 8C:</i>	
Actions taken (repealers vs. reformers)	26
<i>Exhibit 9:</i>	
The affluent on the affluent.	27
<i>Exhibit 9A:</i>	
The affluent on the affluent (by net worth)	27
<i>Exhibit 9B:</i>	
The affluent on the affluent (by source of wealth)	27
<i>Exhibit 9C:</i>	
The affluent on the affluent (repealers vs. reformers)	28

The fate of the federal estate or “death” tax – whether it should be repealed, reformed, or left as is – has been a subject of fierce debate for years. And while there has recently been talk on an impending compromise, not for the first time, the issue remains controversial and contentious.

That’s hardly surprising as it would be difficult to come up with a more potent formula for discord than taxes + death + politics. But the breadth of the debate and the range of “informed” opinion is truly startling. Both sides, for example, cite Paris Hilton as the proof of their argument, on the one hand because reform or repeal would only benefit those in her lofty tax bracket – and punish those who had to pick up the revenue shortfall – on the other hand because the estate tax as it is today made her who she is.

In fact, depending on which side of the argument one comes down on, the repeal or reform of the estate tax will/will not favor the super-rich; will/will not increase the federal budget deficit; will/will not be the death knell for tax-deductible charitable giving; will/will not discriminate against farmers and small-business owners; will/will not lead to a “trickle down” effect – and so on, and so on.

While we’re not going to take a position for or against, we recently conducted a survey among 483 American millionaires, the people most likely to pay the estate tax. Here are some of our key findings:

71.8% of the respondents said the federal estate tax is “unfair”;

77.6% wanted to reform the federal estate tax;

22.4% wanted to repeal the federal estate tax;

71.8% believed that any repeal/reform of the estate tax wouldn’t be permanent;

48.7% believed wealthier Americans should shoulder a larger share of the tax burden; and

54.0% employed various legal strategies and structures to shelter their wealth because of the estate tax.

However, as we shall see, not even the affluent march in lockstep on this contentious issue, and there are considerable differences of opinion when they’re further divided into groups based on their total net worth, whether they made their money or inherited it, and whether they believe the federal estate tax should be repealed or simply reformed.

I

A Very Short History of the Federal Estate Tax

The federal estate tax as we know it came to be in 1916 and, except for the fluctuating tax rate and exemption level, it has remained essentially unchanged ever since.

The estate tax is popular with most Democratic Congressmen, who see it as a social equalizer and revenue-raiser, and poison to most Republicans, who see it as an un-American punishment for success.

The federal estate tax is almost as old as the United States itself, with the first version having been levied back in 1797. However, it was unlike today's incarnation in that it was very modest, merely requiring a stamp on wills, and it was also temporary, repealed in 1802 after helping to pay off the debt for the new country's undeclared naval war with France. A similar tax was levied during the Civil War and the Spanish-American War, again to pay off debt, but each time it was repealed shortly after the war ended.

In the early 20th century, a number of events conspired to lead to what would become the first permanent federal estate tax, including a dramatic fall-off in tariff revenues and the feeling that, in the wake of the America's Gilded Age, the gap between the rich and poor was too wide and should be addressed. Thus the Revenue Act of 1916, which introduced the modern day income tax as well as the federal estate tax.

In its initial form, taxpayers had an exemption of \$50,000 with tax rates starting at 1% and going as high as 10% for estates over \$5 million. The estate tax rate was increased when America entered World War I but, more importantly, it was not repealed when the war ended. In fact, the rate was increased again in 1924, the same year that the gift tax was introduced.

Through the 1940's, the federal estate continued to be seen as a way to redistribute wealth, particularly by President Franklin Delano Roosevelt, under whom it climbed to 77%. The tax rate and exemption subsequently rose and fell depending on which party was in power – the estate tax has typically been popular with most Democrats, who see it as a social equalizer and revenue-raiser, and anathema to most Republicans, who see it as an un-American punishment for success and a deterrent to savings and investment. It was not until 2001, however, during the first term of our current President George W. Bush, that Congress sought to reshape the estate tax.

THE TAX ACT OF 2001

In 2001, the federal estate tax exemption was \$675,000 per individual and the maximum rate of taxation was 55%. As a result of the Economic Growth and Tax Relief Reconciliation Act of 2001, the exemption level has been gradually rising (it is \$1.5 million in 2005) toward a \$3.5 million high in 2009. The tax rate, meanwhile, has been declining (it is now 47%) and will reach a low of 45% in 2007, staying there through 2009. In 2010, there will be no estate tax at all, but it is scheduled to return in 2011 with an individual exemption of \$1 million and a top rate of 55%*. However, one of the few points that both sides of the debate agree on is that that's a long shot: Sometime between now and 2011, the federal estate tax will either be repealed or be reformed. In fact, on June 22nd of this year, *The Wall Street Journal* reported that Congress was "nearing a compromise that would permanently wipe out estate taxes for all but the wealthiest Americans."

**Capital gains on federal estate taxes are currently computed on a step-up basis. That means, for example, that someone who inherits GE stock purchased in 1920 computes any subsequent capital gain of the stock's value from date the stock was inherited, not the date it was purchased. In 2010, however (the year that there will be no estate tax if the current law is unchanged), the step-up basis will be temporarily replaced by a carry-over basis, meaning that capital gains in that year will be based on the original purchase price. Even so, transfers below \$1.3 million and interspousal transfers of \$3 million will be exempt, effectively allowing \$5.6 million of capital gains per couple to escape estate tax.*

2

The Federal Estate Tax Today

The federal estate tax
is paid by the wealthiest
2% of Americans.

The executor of an estate must file a federal estate tax return within nine months of a person's death if the gross estate exceeds an exempted amount, right now \$1.5 million for an individual or \$3 million for a couple. The estate tax allows deductions for transfers to a surviving spouse, charitable gifts, debts, funeral expenses, and administrative fees. In fact, about 90% of married decedents who file estate tax returns avoid the tax entirely because of the spousal deduction. In addition, as we shall see, the effective rate – the actual rate paid – is often far lower than the official rate because of estate planning.

The federal estate tax is highly progressive, meaning the more money one has, the more one (in theory) pays. And it should also be noted that, whether one believes in sharing the wealth or not, the estate tax is indeed the special burden of the affluent. According to the IRS, about 66,000 estate tax returns were filed in 2003 (the last year for which IRS data are available), of which less than half were taxable. Most were for deaths in 2002 when the exemption was \$1 million. Overall, less than 3% of decedents had to file and less than 1.5% paid any estate tax. The Urban-Brookings Tax Policy Center estimates that about 37,000 federal estate tax returns were filed in 2004 of which almost 19,000 were taxable with total revenue of \$17.6 billion. In sum, very few Americans – the wealthiest 2%, by most estimates – pay federal estate taxes, and one-third of the burden falls on the richest one in one thousand.

Furthermore, if the current tax bill were to remain unchanged until 2009, when the individual exemption is scheduled to reach \$3.5 million, only about 7,000 estates a year, 0.3% of all estates, would be subject to estate tax. And, as noted, very few people pay at the maximum rate or anything close to it. In 2003, according to the IRS, the estimated effective estate tax rate was only 18.6%, a testament to the number of deductions and tax-shielding strategies available, and that rate has probably been dropping since as the tax rate has fallen and the exemption has risen. (The effective rate in 2003 was 29% for estates in the \$5-10 million range and 16.5% for estates of over \$20 million.) Indeed, some economists suggest that the amount of money spent on such strategies and estate tax revenues all but cancel each other out.

A NOTE ON STATE ESTATE TAXES

The time may come when
people pay higher estate
taxes at the state level
than at the federal level.

Until recently, state estate taxes have never been much of an issue. That's because, prior to 2005, the federal estate tax included a credit for state estate taxes, which were refunded by the federal government at rates of up to 16%. Each state would only tax each estate as much as the federal government was willing to pay in credits. In other words, from the taxpayer's standpoint, it was a wash.

However, the credits were phased out by the 2001 tax bill and replaced with a deduction for estate taxes, so that states have lost estate tax revenue. One way for states to get some of that revenue back is to "uncouple" from the federal estate tax and set their own rates – and a number have done so (as of June 1, 2005, 18 states and the District of Columbia). What that means for the broader estate tax picture will be hard to discern until the dust settles at the federal level, but some estates may one day pay more to the state they live in than to the federal government.

3

The Great Debate

In the great estate tax debate, there's only one point that both sides agree on: Sometime between now and 2011, when the federal estate tax is scheduled to revert to its pre-2001 rate and exemption, it will either be repealed or reformed.

In April, the U.S. House of Representatives voted to approve the Death Tax Repeal Permanency Act for the third time in four years. Repeal is an avowed goal of President Bush and the Republican-controlled Congress, but the bill has yet to make its way past the Senate and the Democratic minority, which has – so far – had the votes to thwart repeal. When the issue was last before the Senate it was backed by 54 senators, just short of the 60 needed to undo a filibuster by the Democrats. This year, Senate Minority Leader Harry Reid (D-Nevada) has said, “We believe that there should be a change in the estate tax, and we are working toward that goal.” And in June, Charles Grassley (R-Iowa), a long-time proponent of repeal and chairman of the Senate Finance Committee, said, “If neither side is too picky... we will get something done.” But the points of contention are myriad and there has been, so far, little sign of a middle ground. The debate, as *The New York Times* recently noted, “is as old as the tax system itself.” The main issues are as follows:

THE REFORM SIDE OF THE DEBATE

- It's fiscally imprudent to repeal the estate tax and lose the revenue when the federal budget deficit is at an all-time high;
- The revenue lost through repeal would have to be replaced by new taxes or fees or result in a cutback of government programs, with either option hurting middle-class Americans;
- Repeal would result in a dramatic falloff in the amount of money given to charities each year;
- There should not be an economic aristocracy created by inherited money; and
- It's the “American Way” for the affluent to give something back.

THE REPEAL SIDE OF THE DEBATE

- The estate tax unfairly targets the affluent;
- The estate tax obliges people to spend money and give it to heirs during their lifetimes;
- The estate tax discourages savings and investment;
- The estate tax is a form of “double” taxation;
- The estate tax punishes farmers and small-business owners who might have to sell their assets to meet their estate tax obligations;
- Repealing the estate tax would lead to a “trickle down” effect as affluent Americans would step up their investment in business and the economy;
- Any estate tax revenues are all but offset by the money spent on tax-sheltering strategies; and
- The estate tax is counter to the “American Dream” where success is open to all comers.

Though a compromise is said to be looming, the repealers and reformers have yet to cede any ground.

It's a sign of just how convoluted the arguments for repeal and reform of the federal estate tax have become that both sides invoke Paris Hilton to make their cases.

THE PROS AND CONS

As a frame of reference for our research, in which we addressed many of these points of contention, we will now review some of the main arguments, pro and con. It should be noted, however, that it's hard to even objectively cite the facts given the conflicting rhetoric, politicking, and polls. We've already mentioned the Paris Hilton paradox which somehow cites her as an argument both for and against repeal. Here are some other examples of just how complicated and contentious the debate can be. When translating the original 1916 tax on estates of \$50,000 into today's dollars, a pro-reform website estimates that \$50,000 would be \$850,000 while the pro-repeal Heritage Foundation puts the figure at \$11.5 million (in an effort to show that the estate tax was never intended to be aimed at anyone but the very affluent). Each side of the debate also cites the best-selling book *The Millionaire Next Door*, the reformers because it makes the case that inheritances are a disincentive to work and save, the repealers because it demonstrates that most millionaires earn rather than inherit their wealth. Lastly, the projections of the Tax Policy Center, cited by both sides, has been described by *The New York Times* as nonpartisan and by *The Wall Street Journal* as a "left-leaning think tank." Given that shaky framework, here is a recap of the key arguments.

THE AMERICAN WAY: GIVING SOMETHING BACK OR MAKING WHAT YOU CAN

Whether one believes that the wealthy should give something back or that the freedom to be rich — and untaxed — is a byproduct of democracy will dictate which side of the estate tax argument one comes down on.

At the core of the debate over the estate tax is the fundamental question of which version of the American Dream will win out: the one where there's no inequality or aristocracy and where the better-off believe it's their obligation to give something back, or the one where every man and woman, whatever their bloodline and background, are entitled to as much success — and as much money — as they can achieve.

Back in 1906, when proposing a federal estate tax, President Theodore Roosevelt said, "The man of great wealth owes a particular obligation to the United States because he derives special advantages from the mere existence of government." Indeed, the tax of 1916 was spurred by the feeling that America shook off the British aristocracy and didn't want to give birth to a new, moneyed version, let alone one based on inheritance rather than hard work. Spreading the wealth was one way to make sure that happened. As Teddy's cousin FDR would say some years later, "Such inherited economic power is as inconsistent with the ideals of this generation as inherited political power was inconsistent with the ideals of the generation which established our government."

The estate tax has found a more surprising advocate in recent years in billionaire Warren Buffett. "We have come closer to a true meritocracy than anywhere else around the world," he has said. "You have mobility so people with talents can be put to the best use. Without the estate tax, you in effect will have an aristocracy of wealth, which means you pass down the ability to command the resources of the nation based on heredity rather than merit." He also said, "If you take the CEOs of the Fortune 500 companies and put in the eldest son of every one of those who ran the place in 1975, the American economy would not run as well as letting the Jack Welch, who started out with nothing, rise to the top of General Electric."

For repealers, freedom and democracy mean that anyone should be able to become a millionaire and not be punished for their efforts by having to pay estate taxes.

PENALIZING SUCCESS

The flip side is that the freedom for anyone to become a millionaire is precisely what makes America great, and the estate tax is little more than a penalty for success that should be repealed. And it's a testament to the PR savvy of the repealers – and a natural antipathy towards any kind of taxes – that Republican pollsters can claim that most Americans support repeal. Opponents of repeal contend the polls are slanted, that the estate tax is provocatively called a “death” tax, and that respondents are only asked whether they are for or against. Indeed, one survey claims that when the questions are adjusted to include consequences and options, the results are reversed, with a majority of Americans voting for reform, not repeal.

The success the GOP has had in shaping the argument is addressed in a recent book, *Death By a Thousand Cuts*, one of whose authors served in the Treasury Department under the current president's father. The estate tax repeal movement, the authors write, “is a mystery about politics and persuasion... A law that constituted the blandest kind of common sense for most of the 20th century was transformed, in the space of a little more than a decade, into the supposed enemy of hardworking citizens all over this country.”

What the millionaires think:

48.7% thought the wealthy should bear a larger share of the tax burden

39.8% believed the wealthy owe the government for living in a society where wealth is possible

3.3% said that reform or repeal of the estate tax would lead to an economic aristocracy

Whether it's reform or repeal, victory will come down to who can arouse public sentiment on their behalf – and muster the most votes in Congress.

REFORM VS. REPEAL

As the Republicans and Democrats try and hash out a compromise over the estate tax, the main question is: Will it be repeal or reform?

The pro-repeal Heritage Foundation maintains that “High compliance costs along with distortions to economic activity warrant outright elimination of estate taxes before the sunset occurs.” Further, a strong economy and an outdated tax code have “extended the reach of estate taxes well into the middle class.” And, “because the estate tax falls on assets, it reduces incentives to save and invest and, therefore, hampers growth.” Repeal would increase economic growth by rewarding those who build great fortunes and creating incentives for them to invest more.

Along the same lines, *The Wall Street Journal* has referred to the “punitive nature of the estate tax” which “encourages consumption over saving.” *The Journal* also notes that an aristocracy of wealth already exists because the super-rich use offshore accounts and tax-sheltered foundations. “It's the heirs – the thrifty dentist, the canny investor, the small-business millionaire – who are typically devastated by the act.” (As an aside, it might be noted that Newt Gingrich's 1994 Contract With America called for reform, not repeal.)

Repealers see the loss of estate tax revenue as one more step towards a less-bloated government while reformers see new taxes and a cutback in key services.

On the other side of the argument, *The Washington Post* calls repeal “convoluted,” “dishonest,” and “a \$290 million tax break for the richest sliver of Americans.”

The argument for reform rather than repeal is summed up by the Tax Policy Center:

Repealing the estate tax would exacerbate the national debt, reduce the progressivity of the tax system, and discourage philanthropy. Retaining the estate tax while raising the exemption and reducing tax rates could substantially decrease the revenue loss, retain an important element of progressivity, and maintain incentives for charitable giving and bequests. Raising the exemption could also effectively spare virtually all family-owned farms and small businesses from the tax.

The Tax Policy Center also recommends that the government makes it easier to pay the estate tax without having to resort to costly planning and concludes that, “Retargeting the estate tax to very wealthy households and lowering its rates would blunt much of the criticism against it while retaining many of its advantages.”

So what’s next? If the Senate can muster enough votes, and the mid-term election year of 2006 may force some Democrats to defect, the estate tax could be repealed this year. In the meantime, the Democrats are lobbying for reform. As noted, there’s been talk of a compromise being reached by summer’s end. But the two sides remain some distance apart – the GOP wants a \$10 million exemption and a 15% tax rate, the Democrats want a \$3-5 million exemption and a higher tax rate. And, officially at least, the Bush White House is still championing repeal, not reform.

What the millionaires think:

96.1% said that either repeal or reform would be sound tax and fiscal policy

77.6% thought the federal estate tax should be reformed

22.4% believed the federal estate tax should be repealed

While both sides agree that revenue will be lost if the estate tax is repealed, the estimates are miles – and billions of dollars – apart.

ESTATE TAX REVENUE

It’s hardly surprising that the two sides of the debate are miles – or billions – apart when it comes to estimating how much revenue will be lost if the estate tax is repealed, with the figure ranging from \$290 billion to nearly \$1 trillion over the first ten years of repeal.

Those in favor of repeal argue that government spending is bloated in any case and the estate tax may at best be a break-even proposition since, according to one report cited in *The Wall Street Journal*, “For every dollar of tax revenue raised by the estate tax, another dollar is squandered in the economy simply to comply with or avoid the tax.”

The reformers argue that, with the federal deficit steadily rising since the tax bill of 2001 and, with the new pressure on Medicare and Social Security as the Baby Boomers become senior citizens, no source of revenue should be overlooked. Further, they contend, the shortfall will be made up by raising income tax, sales tax, or other taxes; further cuts in government services; or increasing the rate at which we borrow from foreign creditors (which would have to be repaid with interest which could, in turn, also lead to tax increases and service cuts).

Reducing the tax rate to 15% is an option endorsed by some repealers, but the reformers counter that such a cut would result in an effective tax rate of only 5-6%.

Responsible Wealth, a group of affluent Americans, led by William Gates Sr., has argued that the revenue lost to repeal “will inevitably be made up either by increasing taxes on those less able to pay or by cutting Social Security, Medicare, environmental protection and many other programs so important to our nation’s continued well-being.”

As *The New York Times* concluded, “Repeal of the estate tax was deemed too expensive in 2001, when the government was still enjoying the Clinton-era budget surplus. So it stands to reason that it’s out of the question today.”

THE FINEPRINT

Of course, reforming rather than repealing the estate tax would salvage some revenue – if the two sides can agree on the fineprint.

One option floated by the Republicans, for example, would fix the estate tax rate at the current capital gains tax rate of 15%. Senator Rick Santorum (R-Penn) has candidly referred favorably to such an approach as a “variation of permanent repeal.”

Reducing the rate wouldn’t lower the number of estates subject to estate tax but would provide a tax windfall to extremely large estates. (The way to reduce the number is to raise the exemption.) Reducing the rate would also help those at the top most. For example, if the tax was lowered to 15% with a \$3.5 million exemption, the 8% of taxable estates worth more than \$20 million would receive 52% of the benefits.

Furthermore, reducing the rate to 15% would preserve only a fraction of the revenue that would be lost to repeal. A 15% rate and an exemption of \$3.5 million, for example, would preserve only 13% of the projected revenue.

Reducing the rate to 15% would also lower the effective rate. The Tax Policy Center estimates that if the rate is reduced to 15% and the exemption level is from \$2-3.5 million, the effective rate would fall to 5-6%. The rate would have to be 35-40% to capture an effective rate of 15%.

However, if the tax survived under current law as in 2008, with 45% and a \$2 million exemption, 68% of the revenue collected would be preserved. If the rate and exemption scheduled for 2009 were maintained, 45% and \$3.5 million respectively, 44% of the revenue would be saved. Moreover, only 0.3% of all people expected to die in 2011 would face any tax if it were retained at its 2009 level, according to the Tax Policy Center. That is, the estates of 997 out of 1,000 people who die would be exempt.

Lastly, the Chief Actuary of the Social Security Administration has estimated that maintaining the estate tax at 2009 levels would raise enough to cover more than one-quarter of the Social Security shortfall over the next 75 years.

What the millionaires think:

66.5% thought that repeal or reform would increase the federal budget deficit

19.7% said that repeal or reform would increase U.S. economic growth

17.2% believed that repeal or reform would lead to other taxes or user fees

Farmers and small-business owners are, depending on who's doing the talking, either unfairly targeted by the estate tax or all but beyond its reach.

THE IMPACT OF THE ESTATE TAX ON FARMERS AND SMALL-BUSINESS OWNERS

Another argument for repeal has been that the estate tax forces farmers and small-business owners to sell their assets or their businesses at fire-sale prices to pay estate taxes. President Bush, for instance, has said, "To keep farms in the family, we are going to get rid of the death tax." And Senator Grassley, a farmer himself and chairman of the Senate Finance Committee, has said that because of the estate tax, "The product of a life's work leaches away like seeds in poor soil."

According to a 2001 article in *The New York Times*, however, written before estate tax rates began to go down, IRS data showed that almost no working farmers paid estate tax and they were more worried about crop prices. Furthermore, "Even one of the leading advocates for repeal of estate taxes, the American Farm Bureau Federation, said it could not cite a single example of a farm lost because of estate taxes." The overwhelming majority of beneficiaries, *The Times* concluded, are the heirs of people who made their fortunes through their businesses and investments in securities and real estates.

The Tax Policy Center estimates that 440 taxable estates, about 2% of all taxable estates, were primarily made up of farm or business assets in 2004. Small farms and businesses, those valued at less than \$5 million, made up less than 2% of taxable returns and 0.5% of tax liability. And, "relatively minor changes could exempt virtually all small farms and family-owned businesses."

In addition, family-owned farms and closely-held businesses "receive especially generous treatment" under the estate tax, though some say the code is complex to the point of being ineffectual. They have a special formula that reduces the value substantially as long as heirs hold on to businesses for at least 10 years and many farms and businesses may also pay their estate taxes in installments over time.

What the millionaires think:

0.8% said they personally knew someone who had sold a business or farm to pay federal estate taxes

The question is whether an estate's assets are being taxed twice or whether they're ever been taxed at all.

THE ESTATE TAX AND "DOUBLE" TAXATION

Repealers also make the argument that the estate tax is unfair because taxpayers are, in effect, billed twice, once in the form of income tax and again in estate taxes. It has been pointed out, however, that a substantial portion of estates (by one estimate, 37% of estates worth more than \$1 million and 56% of estates worth more than \$10 million) is made up of stock and real estate which has not been subject to capital gains taxes as it has not been sold. Further, stocks are inherited on a stepped-up basis, meaning that the heirs would only pay capital gains on the stock from the day it was inherited, not the day it was purchased. That's why some argue that, rather than being double taxation, the estate tax is in fact first-time taxation of assets that have appreciated and would go untaxed if gifted or bequeathed.

What the millionaires think:

74.7% think the federal estate tax is a form of "double" taxation

THE ESTATE TAX AND CHARITABLE GIVING

Under the current law, unlimited deductions for charitable giving can reduce or even eliminate estate tax liability. If the assets of an estate are subject to a 55% estate tax rate, a charitable contribution of \$100 reduces the tax bill by \$55, since bequests are exempt from taxation, and the contribution costs the estate \$45. Without the tax, a bequest of \$100 would reduce bequests to other beneficiaries by \$100. That explains why both the government and the repealers agree that the repeal of the estate tax will reduce the amount of money donated to charity each year; they just don't agree how much will be lost.

A 2004 Congressional Budget Office (CBO) study of the effect of the estate tax on charitable giving concluded that elimination would cause giving to fall. The CBO estimates that had repeal been in effect in 2000, charitable contributions would have been reduced by \$13-to-25 billion. Repeal, and the loss of revenue, could also indirectly result in the federal government giving less money to nonprofits.

According to a separate study conducted by the Tax Policy Center, charities could lose as much as \$10 billion a year if the estate tax is repealed permanently, about the same total as all of the grants made by America's 82 largest foundations in 2003.

Reformers note that since Congress began the current rollback of the estate tax in 2001, there was a \$2.8 billion falloff in bequests to philanthropies from 2002 to 2003, the first decline since 1998. However, as repealers point out, that drop also coincided with a rough patch for the stock market.

Reformers and repealers agree the elimination of the estate tax would reduce charitable giving; they just don't agree as to how much.

What the millionaires think:

29.8% thought that repeal or reform would reduce charitable giving

4

Our Research

Our research showed us that American millionaires do not march in lockstep when it comes to their take on the federal estate tax, with differences of opinion based on their level of affluence, the source of their wealth, and their position vis-à-vis reform and repeal.

The goal of our research into the federal estate tax was straightforward: We wanted to find out what affluent Americans thought about the estate tax, as well as where they stood on the many points of contention that fuel the debate over its fate. We also wanted to see how their opinions changed, or remained the same, when we further segmented the respondents into groups based on their level of affluence, whether or not they were self-made or had inherited their money, and whether they were for repeal or for reform.

To get that information we surveyed 483 affluent individuals, all of whom were familiar with the debate over the federal estate tax. As a group, they had an average net worth of over \$10 million, so they are the people most likely to have to pay – and most likely to try and avoid – the estate tax. The largest segment, 58.1% or 281 respondents had a net-worth of from \$1 million to \$10 million (the affluent); 28.6% or 138 respondents had from \$10 million to \$20 million (the very affluent); and the remaining 13.3% or 64 respondents, had a net worth of more than \$20 million (the ultra-affluent).

As for the source of their wealth, the majority, 82.6%, were self-made millionaires while the other 16.8% inherited their money.

REFORM OR REPEAL?

Our first question was whether they believed the estate tax should be repealed or reformed, and the respondents came down squarely on the repeal side of the argument, as you can see by the exhibit below. The percentages changed dramatically however, when we segmented the respondents by net-worth and source of wealth. Regarding repeal vs. reform, in particular, there was a near-reversal in opinion when the respondents were separated by net worth. That's understandable because no matter how much the estate tax is reformed, the wealthiest Americans believe that they will not be exempt and will pay the lion's share. Those in the \$1-10 million range, in contrast, realize that they might not pay any estate tax at all if reform leads to a much higher exemption. Inheritors were slightly more likely to vote for repeal than self-made millionaires, but two out of three were still in the reform camp.

Exhibit 1

Preference for repeal or reform

Believe the federal estate tax should be reformed	77.6%
Believe the federal estate tax should be repealed	22.4%

Exhibit 1A

Preference for repeal or reform (by net worth)		\$1-10M	\$10-20M	\$20M+
	For reform	93.2%	73.2%	18.7%
	For repeal	6.8%	26.8%	81.3%

Exhibit 1B

Preference for repeal or reform (by source of wealth)		Self-made	Inheritors
	For reform	79.9%	66.7%
	For repeal	20.1%	33.3%

THE EXEMPTION VS. THE TAX RATE

We then asked the 375 millionaires in favor of reform what, assuming the estate tax was changed, was more important, raising the exemption or lowering the tax rate. Again there was a strong majority, this time in favor of raising the exemption, because that might mean some of them would not have to pay estate taxes at all (and the effective tax rate, as we have seen, is typically far lower than the real rate). When segmented by net worth, the results all but flip-flopped once again because the ultra-affluent realized that they were likely to be beyond the reach of any exemption.

Exhibit 2

What's more important, raising the exemption or lowering the tax rate?	Raising the exemption	82.7%
	Lowering the tax rate	17.3%

Exhibit 2A

What's more important, raising the exemption or lowering the tax rate (by net worth)?		\$1-10M	\$10-20M	\$20M+
	Raising the exemption	88.5%	76.2%	8.3%
	Lowering the rates	11.5%	23.8%	91.7%

Exhibit 2B

**What's more important,
raising the exemption or
lowering the tax rate
(by source of wealth)?**

Raising the exemption
Lowering the rates

Self-made	Inheritors
84.1%	74.1%
15.9%	25.9%

FARMERS AND SMALL-BUSINESSMEN

Based on our millionaires, the possibility that farmers and small-businessmen might suffer unfairly because of the estate tax was very much a non-issue. Even when we segmented the respondents by source of wealth, less than 1.0% of self-made millionaires, those most likely to know of fellow businessmen who might have been in such a situation, responded affirmatively.

What was also telling is that, estate tax or not, the affluent who knew the businesses that needed to be sold to pay estate taxes didn't believe the businesses would have survived in any case due to poor succession planning and/or new management.

Exhibit 3

**Personally know someone
who had to sell their farm or
business to pay estate taxes**

Yes
No

0.8%
99.2%

Exhibit 3A

**Personally know someone
who had to sell their farm or
business to pay estate taxes
(by net worth)**

Yes
No

\$1-10M	\$10-20M	\$20M+
1.1%	0.0%	1.6%
98.9%	100.0%	98.4%

Exhibit 3B

**Personally know someone
who had to sell their farm or
business to pay estate taxes
(by source of wealth)**

Yes
No

Self-made	Inheritors
1.0%	0.0%
99.0%	100.0%

Exhibit 3C

**Personally know someone
who had to sell their farm or
business to pay estate taxes
(repealers vs. reformers)**

Yes

No

Repealers Reformers

0.0%

1.1%

100.0%

98.9%

OTHER ISSUES THAT ARE TOP-OF-MIND

To see how important the estate tax was when compared with other key concerns about the way the federal government spends money or levies taxes, we asked our millionaires if there was any issue that was more important than repeal/reform of the federal estate tax and there was one: 78.5% said it was more important to reduce the federal income tax.

When further segmented, the percentages once again shifted, group by group. When looked at by net worth, for example, interest in reducing income tax decreased as net worth increased, perhaps because the wealthiest suspect that, barring repeal, they will always be singled out to pay estate taxes. Two other issues were cited as more important than the estate tax by more than half of those with \$1-10 million, including increased funding for schools and repairing the alternative minimum tax (of no interest whatsoever to the ultra-affluent). No issue resonated with even one-third of the ultra-affluent, with using the money from the estate tax for cancer research at the top at only 29.7%.

Exhibit 4

**What's more important,
the repeal/reform of the
estate tax or...?**

Reducing federal income taxes

78.5%

Fixing the alternative minimum tax

47.2%

Increasing funding for schools

37.7%

Use the money from estate tax for cancer research

33.5%

Use estate tax revenues to decrease the budget deficit

20.3%

Use estate tax revenues to bolster Social Security

14.9%

Exhibit 4A

**What's more important,
the repeal/reform of the
estate tax or...
(by net worth)?**

	\$1-10M	\$10-20M	\$20M+
Reducing federal income taxes	98.2%	62.3%	26.6%
Fixing the alternative minimum tax	66.5%	29.7%	0.0%
Increasing funding for schools	53.0%	18.8%	10.9%
Use the money from estate tax for cancer research	33.5%	35.5%	29.7%
Use estate tax revenues to decrease the budget deficit	22.8%	18.8%	12.5%
Use estate tax revenues to bolster Social Security	19.9%	11.6%	0.0%

Exhibit 4B

**What's more important,
the repeal/reform of the
estate tax or...
(by source of wealth)?**

	Self-made	Inheritors
Reducing federal income taxes	84.8%	46.9%
Fixing the alternative minimum tax	51.2%	27.2%
Increasing funding for schools	40.3%	24.7%
Use the money from estate tax for cancer research	33.8%	33.3%
Use estate tax revenues to decrease the budget deficit	16.7%	38.3%
Use estate tax revenues to bolster Social Security	14.9%	14.8%

Exhibit 4C

**What's more important,
the repeal/reform of the
estate tax or...
(repealers vs. reformers)?**

	Repealers	Reformers
Reducing federal income taxes	68.5%	81.3%
Fixing the alternative minimum tax	14.8%	56.5%
Increasing funding for schools	8.3%	46.1%
Use the money from estate tax for cancer research	28.7%	34.9%
Use estate tax revenues to decrease the budget deficit	1.9%	25.6%
Use estate tax revenues to bolster Social Security	13.0%	15.5%

SHADES OF OPINION

When segmented by source of wealth, just over half of the self-made millionaires thought that fixing the alternative minimum tax was more important than reforming or repealing the estate tax. None of the inheritors ranked any other concern above estate tax reform or repeal.

For the respondents who were segmented based on their stance regarding reform or repeal, reducing income taxes was the top issue for each group, though a majority of the reformers also tabbed reducing the alternative minimum tax as a key concern.

A NEW ECONOMIC ARISTOCRACY?

The debate over the estate tax is larded with bombast about the creation of a new economic aristocracy and a widening gap between the wealthy and the rest of America. The affluent are not sympathetic to this argument, regardless of how they might be segmented.

Disagreeing with one of the key arguments for repeal, only 3.1% believed that the estate tax was a disincentive to hard work and saving. Further, 93.6% believed that anyone in America can become a millionaire, which makes sense given the fact that the majority of the respondents were self-made millionaires, a perception that's at the heart of the "American Dream."

Exhibit 5

I strongly believe ...

Reform/repeal will make it harder for the average person to become wealthy	11.8%
Reform/repeal will increase wealth inequality in the U.S.	10.1%
Reform/repeal will result in a nation of "haves" and "have nots"	9.1%
Reform/repeal will lead to an economic aristocracy	3.3%
Repealing the estate tax is an attack on the "American Dream"	1.7%
Repeal/reform will move the country closer to class warfare	7.7%
The estate tax is a disincentive for people to work and save	3.1%
Anyone in the U.S. can become a millionaire	93.6%

Exhibit 5A

**I strongly believe ...
(by net worth)**

	\$1-10M	\$10-20M	\$20M+
Reform/repeal will make it harder for the average person to become wealthy	11.7%	12.3%	10.9%
Reform/repeal will increase wealth inequality in the U.S.	10.3%	10.1%	9.4%
Reform/repeal will result in a nation of "haves" and "have nots"	9.6%	8.7%	7.8%
Reform/repeal will lead to an economic aristocracy	3.2%	3.6%	3.1%
Repealing the estate tax is an attack on the "American Dream"	1.8%	1.4%	1.6%
Repeal/reform will move the country closer to class warfare	8.2%	7.2%	6.3%
The estate tax is a disincentive for people to work and save	3.9%	2.9%	0.0%
Anyone in the U.S. can become a millionaire	91.8%	95.7%	96.9%

Exhibit 5B

**I strongly believe ...
(by source of wealth)**

	Self-made	Inheritors
Reform/repeal will make it harder for the average person to become wealthy	7.7%	32.1%
Reform/repeal will increase wealth inequality in the U.S.	6.5%	27.2%
Reform/repeal will result in a nation of "haves" and "have nots"	5.7%	24.7%
Reform/repeal will lead to an economic aristocracy	0.7%	16.0%
Repealing the estate tax is an attack on the "American Dream"	0.7%	6.2%
Repeal/reform will move the country closer to class warfare	1.5%	25.9%
The estate tax is a disincentive for people to work and save	0.5%	16.0%
Anyone in the U.S. can become a millionaire	96.8%	77.8%

Exhibit 5C

**I strongly believe ...
(repealers vs. reformers)**

Repealers Reformers

Reform/repeal will make it harder for the average person to become wealthy	1.9%	14.7%
Reform/repeal will increase wealth inequality in the U.S.	0.0%	13.1%
Reform/repeal will result in a nation of "haves" and "have nots"	0.0%	11.7%
Reform/repeal will lead to an economic aristocracy	0.0%	4.3%
Repealing the estate tax is an attack on the "American Dream"	0.9%	1.9%
Repeal/reform will move the country closer to class warfare	0.0%	9.9%
The estate tax is a disincentive for people to work and save	0.9%	3.7%
Anyone in the U.S. can become a millionaire	96.3%	92.8%

The only differences of opinion within segmented groups were those between the self-made millionaires and the inheritors. Despite being the very group that's at the root of the argument – that is, that people should earn rather than inherit their wealth – the inheritors were the only ones who had any concerns at all about a wealth gap (though it never rose to even one-third of the respondents), perhaps because they had first-hand knowledge of how people who inherited money lived and spent.

THE ROLE OF THE WEALTHY

When asked about the lively and ongoing debate over the role of the wealthy in America and whether or not they should give something – as in more than less-affluent Americans – back, the respondents showed signs of disagreement.

When taken as a group, the majority agreed that the federal estate tax was “unfair” because it discriminated against the affluent and because it was a form of “double” taxation that their fellow Americans in a lower tax bracket were not subject to. This in part explains why only 15.7% felt the tax system was tilted to their advantage. However, almost half of them agreed that a progressive tax system was a good thing and a nearly identical percentage believed that the wealthy should indeed bear a larger share of the tax burden. Furthermore, echoing the Roosevelts, more than one-third thought that estate taxes were the price one should pay for living in a country that made affluence possible. Finally, while they agreed that reform or repeal was a good idea – that something, *anything*, had to be done – they also showed how little faith they have in politicians, with nearly three-quarters saying that any fix would be temporary.

*Exhibit 6***I strongly believe...**

The federal estate tax is “unfair”	71.8%
The estate tax is a form of “double” taxation	74.7%
A progressive tax system is good for the country	48.2%
The wealthy should bear a larger share of the tax burden	48.7%
The wealthy owe the government for living in a society where wealth is possible	39.8%
The tax code is tilted to benefit the wealthy	15.7%
Inheritors have an unfair advantage	24.0%
Repeal/reform is sound tax and fiscal policy	96.1%
Any repeal/reform of the estate tax will not be permanent	71.8%

*Exhibit 6A***I strongly believe...
(by net worth)**

	\$1-10M	\$10-20M	\$20M+
The federal estate tax is “unfair”	68.3%	73.2%	84.4%
The estate tax is a form of “double” taxation	72.2%	77.5%	79.7%
A progressive tax system is good for the country	57.3%	42.8%	20.3%
The wealthy should bear a larger share of the tax burden	58.4%	42.0%	20.3%
The wealthy owe the government for living in a society where wealth is possible	43.1%	39.1%	26.6%
The tax code is tilted to benefit the wealthy	17.4%	13.8%	12.5%
Inheritors have an unfair advantage	25.6%	22.5%	20.3%
Repeal/reform is sound tax and fiscal policy	95.7%	96.4%	96.9%
Any repeal/reform of the estate tax will not be permanent	69.0%	73.9%	79.7%

*Exhibit 6B***I strongly believe...
(by source of wealth)****Self-made Inheritors**

The federal estate tax is “unfair”	78.1%	28.4%
The estate tax is a form of “double” taxation	76.4%	66.7%
A progressive tax system is good for the country	43.3%	72.8%
The wealthy should bear a larger share of the tax burden	43.8%	72.8%
The wealthy owe the government for living in a society where wealth is possible	32.6%	75.3%
The tax code is tilted to benefit the wealthy	7.5%	56.8%
Inheritors have an unfair advantage	26.6%	11.1%
Repeal/reform is sound tax and fiscal policy	96.8%	92.6%
Any repeal/reform of the estate tax will not be permanent	76.9%	46.9%

*Exhibit 6C***I strongly believe...
(repealers vs. reformers)****Repealers Reformers**

The federal estate tax is “unfair”	99.1%	61.3%
The estate tax is a form of “double” taxation	96.3%	68.5%
A progressive tax system is good for the country	17.6%	57.1%
The wealthy should bear a larger share of the tax burden	11.1%	59.5%
The wealthy owe the government for living in a society where wealth is possible	21.3%	45.1%
The tax code is tilted to benefit the wealthy	7.4%	18.1%
Inheritors have an unfair advantage	8.3%	28.0%
Repeal/reform is sound tax and fiscal policy	100.0%	94.9%
Any repeal/reform of the estate tax will not be permanent	36.1%	82.1%

THE ULTRA-AFFLUENT AS TARGETS

When segmented, some of the differences of opinion became more distinct. For example, the ultra-affluent were more likely to feel discriminated against by the estate tax than the less affluent respondents, and they were far less happy about double taxation. They were also less likely to feel that they owed society because of their affluence or that they should have to bear a larger tax burden simply because they were more successful.

Those with inherited wealth, who had been affluent longer than their self-made peers and who also had greater experience with philanthropy, sharply disagreed with self-made millionaires on a number of fronts. Almost two-thirds of inheritors, for instance, believed that a progressive tax system was a good thing and a minority felt the estate tax was unfair, the only segment to feel that way. They were also the only segment that believed the tax code was tilted in their favor. They did not feel that inheritors had an unfair advantage, but nearly three-quarters believed that the affluent should bear a larger share of the tax burden and just over three-quarters thought the wealthy owed the government for being able to live in a society where they could become affluent.

There were also sharply divergent views between the reformers and repealers. In each case, a majority believed the estate tax was unfair and a double form of taxation, though repealers were far more likely to feel that way. However, a majority of reformers believed in a progressive tax system compared to less than one in five of the repealers. And reformers were more likely to think that the wealthy had a role to play than the repealers. Repealers were far more likely to believe that any change to the estate tax would be permanent.

THE ESTATE TAX AND THE ECONOMY

Just what impact repeal or reform of the estate tax might have on the economy is another contentious issue and one that will shape any changes or compromises that might be made. In our survey, the respondents did not see any major impact. The notable exception was the budget deficit, where almost two-thirds believed that reform or repeal would swell the already record-high figure. They did not believe that reform or repeal would lead to any new taxes or fees to make up the shortfall. And nearly one-quarter thought there would be a “trickle down” effect as affluent Americans would have more money to spend and invest.

*Exhibit 7***The economic impact
of repeal or reform**

Repeal/reform will increase economic growth	19.7%
Repeal/reform will reduce economic growth	5.6%
Repeal/reform will increase the budget deficit	66.5%
Repeal/reform will lower the budget deficit in the long term	13.5%
Repeal/reform will result in job creation	24.8%
Repeal/reform will result in job loss	8.7%
Repeal/reform will result in unintended and negative financial consequences	9.5%
Repeal/reform will lead to other taxes or user fees	17.2%

*Exhibit 7A***The economic impact
of repeal or reform
(by net worth)**

	\$1-10M	\$10-20M	\$20M+
Repeal/reform will increase economic growth	12.8%	27.5%	32.8%
Repeal/reform will reduce economic growth	5.7%	6.5%	3.1%
Repeal/reform will increase the budget deficit	65.5%	65.9%	71.9%
Repeal/reform will lower the budget deficit in the long term	10.3%	15.9%	21.9%
Repeal/reform will result in job creation	27.4%	23.2%	17.2%
Repeal/reform will result in job loss	9.3%	8.7%	6.3%
Repeal/reform will result in unintended and negative financial consequences	11.0%	8.0%	6.3%
Repeal/reform will lead to other taxes or user fees	19.9%	13.8%	12.5%

Exhibit 7B

**The economic impact
of repeal or reform
(by source of wealth)**

	Self-made	Inheritors
Repeal/reform will increase economic growth	21.6%	9.9%
Repeal/reform will reduce economic growth	2.7%	19.8%
Repeal/reform will increase the budget deficit	65.4%	71.6%
Repeal/reform will lower the budget deficit in the long term	15.2%	4.9%
Repeal/reform will result in job creation	27.6%	11.1%
Repeal/reform will result in job loss	2.2%	40.7%
Repeal/reform will result in unintended and negative financial consequences	2.5%	44.4%
Repeal/reform will lead to other taxes or user fees	12.2%	42.0%

Exhibit 7C

**The economic impact
of repeal or reform
(repealers vs. reformers)**

	Repealers	Reformers
Repeal/reform will increase economic growth	51.9%	10.4%
Repeal/reform will reduce economic growth	2.8%	6.4%
Repeal/reform will increase the budget deficit	43.5%	73.1%
Repeal/reform will lower the budget deficit in the long term	53.7%	1.9%
Repeal/reform will result in job creation	48.1%	18.1%
Repeal/reform will result in job loss	3.7%	10.1%
Repeal/reform will result in unintended and negative financial consequences	1.9%	11.7%
Repeal/reform will lead to other taxes or user fees	8.3%	19.7%

When segmented, the various groups only differed on a handful of answers. The ultra-affluent, for instance, were more likely to say that repeal or reform would increase economic growth. Inheritors were more likely to think that there would be some new taxes or fees to make up for the shortfall, that jobs would be lost, that economic growth would be stunted and, most dramatically, that there would be unintended consequences to reform or repeal, with nearly half feeling that way.

Reformers, for their part, were more likely than repealers to think the budget deficit would increase and new taxes would be levied. Repealers were far more upbeat about the prospects for economic growth, job creation, and a lower deficit (in the long run).

WHAT THE WEALTHY HAVE DONE

So far, many of the questions we posed to our millionaires were predicated on their opinions as to what might happen if the estate tax was reformed or repealed. We also asked them a number of questions about actions they had already taken, all of which relate to the estate tax debate.

For instance, repealers argue that the estate tax forces the affluent to spend and transfer money during their lifetimes to avoid having it taxed after they’ve died. Yet very few of our respondents had done so. Repealers have also contended that as much money is spent avoiding estate taxes as paying them, and though we couldn’t fix a dollar figure, a majority said they did employ various strategies and structures – presumably pricey – to avoid the estate tax, while a near majority said they did the same for income taxes. Only a handful of the respondents had been activists, as measured by contributions or time volunteered. Almost half, however, said they had spoken to a politician about the estate tax.

<i>Exhibit 8</i>		
Actions taken	Increased discretionary spending because of the estate tax	0.4%
	Transfer more assets during their lifetime because of the tax	4.3%
	Employ various strategies and legal structures because of estate tax	54.0%
	Employ various strategies and legal structures because of income tax	46.2%
	Contributed money to a political org. or nonprofit to support/oppose the estate tax	2.3%
	Volunteered at a political org. or nonprofit to support/oppose the estate tax	0.4%
	Talked to a politician about the estate tax	43.3%

*Exhibit 8A***Actions taken
(by net worth)**

	\$1-10M	\$10-20M	\$20M+
Increased discretionary spending because of the estate tax	0.0%	1.4%	0.0%
Transfer more assets during their lifetime because of the tax	2.1%	8.0%	6.3%
Employ various strategies and legal structures because of estate tax	38.8%	58.7%	85.9%
Employ various strategies and legal structures because of income tax	31.0%	75.4%	92.2%
Contributed money to a political org. or nonprofit to support/oppose the estate tax	1.1%	1.4%	9.4%
Volunteered at a political org. or nonprofit to support/oppose the estate tax	0.4%	0.7%	0.0%
Talked to a politician about the estate tax	29.9%	57.2%	71.9%

*Exhibit 8B***Actions taken
(by source of wealth)**

	Self-made	Inheritors
Increased discretionary spending because of the estate tax	0.0%	2.5%
Transfer more assets during their lifetime because of the tax	3.2%	9.9%
Employ various strategies and legal structures because of estate tax	61.7%	16.0%
Employ various strategies and legal structures because of income tax	53.2%	11.1%
Contributed money to a political org. or nonprofit to support/oppose the estate tax	1.2%	7.4%
Volunteered at a political org. or nonprofit to support/oppose the estate tax	0.0%	2.5%
Talked to a politician about the estate tax	47.5%	22.2%

*Exhibit 8C***Actions taken
(repealers vs. reformers)****Repealers Reformers**

Increased discretionary spending because of the estate tax	0.9%	0.3%
Transfer more assets during their lifetime because of the tax	16.7%	0.8%
Employ various strategies and legal structures because of estate tax	53.7%	54.1%
Employ various strategies and legal structures because of income tax	45.4%	46.4%
Contributed money to a political org. or nonprofit to support/oppose the estate tax	9.3%	0.3%
Volunteered at a political or nonprofit organization to support/oppose the estate tax	0.0%	0.5%
Talked to a politician about the estate tax	76.9%	33.6%

HAVING MORE, SPENDING MORE

When the respondents were segmented by wealth, the ultra-wealthy stood out by spending far more money than the less affluent to avoid paying estate and income taxes – more than twice as much as those with \$1-10 million. As a measure of their considerable clout, they were also far more likely to have spoken to a politician, with almost three-quarters saying they had done so compared to less than one-third of the \$1-10 million segment.

Self-made millionaires were more likely to have spent money on estate and income tax-avoidance strategies than inheritors, perhaps because they were able to use their businesses to explore such opportunities. They were also twice as likely as inheritors to have spoken to a politician about the estate tax.

As for the repealers and reformers, there was only one big difference: repealers were twice as likely to have spoken to a politician, an indication of their fervency.

GIVING, PLANNING, AND POLITICKING

Finally, we asked the respondents two questions about actions they might take should the estate tax be repealed or reformed, as well as a final question about their political clout.

When asked if reform or repeal would reduce their charitable giving, less than one-third said that would be the case (though nonprofits would argue that one-third could add up to billions). Further, less than one-third felt that reform or repeal would mean an end to costly estate planning, indicating that the affluent still expect to spend money to that end whether or not there is an estate tax. Lastly, we asked them if they felt that the wealthy wielded too much political power, and the answer was a resounding “no.”

Exhibit 9

The affluent on the affluent	Reform/repeal will reduce charitable giving	29.8%
	Reform/repeal will end costly estate planning	28.8%
	The wealthy have too much political power	5.4%

Exhibit 9A

The affluent on the affluent (by net worth)		\$1-10M	\$10-20M	\$20M+
	Reform/repeal will reduce charitable giving	35.2%	26.8%	12.5%
	Reform/repeal will end costly estate planning	19.9%	34.1%	56.3%
	The wealthy have too much political power	5.7%	5.1%	4.7%

Exhibit 9B

The affluent on the affluent (by source of wealth)		Self-made	Inheritors
	Reform/repeal will reduce charitable giving	28.9%	34.6%
	Reform/repeal will end costly estate planning	28.1%	32.1%
	The wealthy have too much political power	3.0%	17.3%

Exhibit 9C

**The affluent on the affluent
(repealers vs. reformers)**

	Repealers	Reformers
Reform/repeal will reduce charitable giving	7.4%	36.3%
Reform/repeal will end costly estate planning	68.5%	17.3%
The wealthy have too much political power	1.9%	6.4%

When segmented by net worth, more than half of the ultra-affluent thought they would save money on estate planning as compared to less than one in five of those with \$1-10 million, an indication of just how much is spent at the high end on sophisticated strategies. The ultra-affluent were also least likely to cut back on their charitable giving.

Reformers were more likely than repealers to say that they would reduce their charitable giving, positions that support their various causes (repealers, in particular, argue that repeal would have little or no impact on charitable giving). Along the same lines, more than two-thirds of the repealers said that they would spend less on estate planning compared to less than one out of five reformers, responses that are once again shaped by their agendas.

5

What's Next?

The federal estate tax, born in 1916, is unlikely to reach its 100th birthday. Though a source of some revenue, it has become a subject of a high-profile and highly politicized debate, and with mid-term elections coming up in 2006, both sides are incited to do something that will reflect well on their party. What exactly that means, repeal or reform, remains, of course, to be seen.

In the meantime, our research among America's affluent shows that they, though the ones most likely to pay it, are far from monolithic when it comes to their opinions about the estate tax. Most agree that it's "unfair," yet the majority favor reform rather than repeal. Some see the estate tax as a price they should pay for their success, others consider it an unfair penalty for affluence. Some see it as an economic fact of life, still others as nothing more than a reason to spend on tax- and asset-shielding strategies.

They do, however, expect to see a change in the estate tax soon. Only time will tell what shape that change will take and whether or not it will be permanent solution or merely a temporary one born of political expedience.

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