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The Inherited Wealth Lobby

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The good news is that 44 senators had the backbone to resist an intense lobbying campaign to repeal the inheritance tax. The bad news is that the issue is still there to be demagogued. The shame is that a consensus exists on reforming the tax, but those who say they care so much about small businesses and farmers won't let that happen.

First, the good news. The Senate's vote on Wednesday blocking full repeal of the estate tax marks the first major step away from the fiscal irresponsibility embodied in the 2001 tax cut. Six of the 12 Democratic senators who had supported the original tax cut said this new tax break for very wealthy Americans was too much.

Two of the six, Sens. Tim Johnson of South Dakota and Jean Carnahan of Missouri, had the guts to vote no even though they face tough reelection campaigns this fall. Two Republicans, Sens. Lincoln Chafee of Rhode Island and John McCain of Arizona, also stood up to the inherited-wealth lobby and helped keep supporters of repeal from getting the 60 votes they needed under the rules.

That this vote happened at all reflects the astonishing irresponsibility of the original tax bill. Trying to appear fiscally responsible, the Senate reduced the size of President Bush's original tax cut proposal. But instead of making hard choices last year about which tax cuts to enact, Congress packed in one cut after another and then artificially made the total cost of the tax cut look smaller than it was. Wrapping their real intentions behind the fiscal version of Harry Potter's invisibility cloak, the politicians made all the tax cuts disappear by the end of the 10-year life of the bill.

Thus, under current law, the inheritance tax will be gone in 2010, but back in full force in 2011.

"It's hard for me to explain why they repealed it but didn't repeal it," President Bush told the 14th Annual World Pork Expo in Des Moines last week. But Bush signed the bill, so what does he mean by "they"? If he was so concerned about the bill's irrationality, he could have sent it back to Congress.

You have to give the inherited-wealth lobby credit. First it took a part of the tax law historically and properly known as "the estate tax" or "the inheritance tax" and rebaptized it as "the death tax." Death should not be a taxable event, the lobby says over and over.

But the "taxable event" here is not death. It's the passing on of wealth -- often great wealth -- to the next generation, which may or may not have done anything to earn it. Ah, but the repealers insisted that the real issue had to do with small-business people and farmers. Because the evil taxman was lurking, children could not take over the family business.

Now, most of us think that if sons and daughters are prepared to work hard to keep a family enterprise going, the government should not get in the way. But the number of cases in which the inheritance tax had anything to do with breaking up family endeavors was exceedingly small, and Congress had already passed protections for them.

Moreover, defenders of the inheritance tax came to realize -- belatedly, it's true -- that inflation, the real estate boom and the rise of a mass upper-middle class had subjected many more families to inheritance levies than was originally intended. For both substantive and, it should be said, political reasons, even longtime supporters of

the tax are prepared to reform it.

And here's where the shame comes in. Opponents of repeal offered alternatives this week -- to cut the tax rate; to raise the assets freed from the tax to \$3.5 million (which means \$7 million for couples); and to put in stronger protections for family enterprises. Other proposals would raise the ceiling to \$4 million.

Such alternatives could have provided real certainty in the tax code right now and guaranteed that only the very wealthy would ever have extensive dealings with estate lawyers.

But the moderate alternatives have been rejected by politicians who will be satisfied only with the complete repeal of the inheritance tax. In so doing, they are stiffing even the upper middle class in order to stand up for the beneficiaries of *less than one half of 1 percent* of all estates.

Opponents of repealing the inheritance tax shouldn't shy away from this issue. They should make their case with confidence. They are prepared to protect the overwhelming majority of Americans from estate taxes. But the inherited-wealth lobby and its political allies won't let them do it.

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