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The Death Tax: Another Obama Tax Hike Target

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President Barack Obama recently unveiled yet another round of tax hikes. This latest one, which would increase the death tax on family farms and small businesses, would raise $60 billion more over 10 years for the reserve fund to help pay for the President's massive health care spending.

This troubling trend is likely just the beginning of higher taxes as far as the eye can see. President Obama will want even more revenue to reduce massive projected deficits and fund government expansion into areas like health care reform and the environment. With no indication that he plans to restrain spending, higher tax burdens for all Americans are inevitable, despite the President's repeated claims that he will not raise taxes on anyone making under $250,000 a year.

President Obama should stop hiking taxes and restrain spending immediately. The economy is in a precarious position and cannot afford the damage tax hikes will inflict.

Death Tax the Newest Target. Under current law, the death tax expires for 2010 but comes back in full force for 2011 and beyond. President Obama's budget assumes that Congress will not let the death tax die and will extend it permanently at 2009 levels—a 45 percent rate and $3.5 million exemption.

President Obama then targets tax increases through the death tax in two ways:

1. *Disallowing recipients from claiming higher basis costs.* Under current law, when recipients of willed property eventually sell inherited or gifted items, they can claim a higher cost for them than the donor estate claimed when paying the death tax. This provision lowers the capital gains tax liability for the recipient.

   A recipient's base cost of property transferred at the donor's death, or by gift, should equal the value of the item at the time of the donor's death or when he gave it as a gift. Closing this loophole and equalizing the values is sound tax policy, but the additional revenue should be used to lower other taxes; it should not be a revenue raiser. Since the additional revenue would go into the health care reserve fund and not to lower other taxes, it is nothing more than a revenue grab.

2. *Increasing taxes on family farms and businesses.* Current law allows the recipients of certain assets—such as family-owned businesses or farms—to discount those assets' value to account for the fact that it is difficult to sell them in order to pay the death tax. The Obama Administration would disallow this discount and force families to pay the death tax on the full value of the assets, even though there would be no new cash generated to pay the tax.

   Disallowing the discount of difficult-to-sell property is a burden on families that cannot raise the

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necessary money to pay the death tax on those assets. Instead, Congress and the Obama Administration should re-institute the discount and allow families to spread the cost of the death tax over several years.

Closing loopholes in the death tax would be unnecessary if Congress rightly repealed this harmful tax. It stifles economic growth because it discourages saving and investment and undermines job creation and wage growth.[1] Rather than dealing with real and perceived loopholes individually, Congress should abolish them by killing the death tax for good.

Tax Hikes Really Add Up. On top of the death tax increases, President Obama has signed into law a tax hike on cigarettes, which falls hardest on the poorest Americans. This legislation increased the tax on a pack of cigarettes from $0.39 per pack to $1.00 and broke President Obama's pledge not to raise taxes on anyone making less than $250,000 a year. The tax could raise $33 billion over the next four-and-a-half years.[2]

The President has also proposed several new tax hikes in his budget:

- *Tax hikes for high-earners.* President Obama would raise the income and investment taxes of those making over $250,000.[3]
- *Energy tax.* He would also create a cap-and-trade program that would raise the taxes on energy for every American and inflict substantial damage on the economy.[4]
- *Tax hikes on international businesses.* President Obama targeted U.S. businesses operating internationally by proposing to raise the taxes on the income they earn overseas. This tax increase would severely damage the international competitiveness of U.S. businesses.[5]

When President Obama originally released his "Budget Blueprint" in February, it increased taxes by $1,368 billion over 10 years.[6] But when he released the full details of his budget in May, it increased taxes $1,779 billion even after tax cuts are factored in.[7] Thus the Obama Administration has increased its tax hikes by $411 billion in just three months.

After factoring in the cigarette tax hike, the tab totals $1,812 billion over the next 10 years. This means that under Obama's tax plan, every household in America would face $15,359 in higher taxes over the next 10 years.

How Much Higher Could Taxes Rise? If projected deficits are an indication of how much more revenue Congress and the Obama Administration might target, the amount of needed revenue could be immense. The Office of Management and Budget estimates the deficit for 2009 to be $1,841 billion.[8] That is more than four times larger than the 2008 deficit of $459 billion, which was then an all-time high. During the entire 10-year span of the Obama budget proposal, the deficit never dips below $512 billion.

Using the Obama budget as a conservative estimate, additional tax hikes of $60,237 per house-

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2. Gerald Prante and Joseph Henchman, "Funding S-CHIP with Federal Cigarette Tax Increase is Poor Tax Policy," Tax Foundation *Fiscal Fact* No. 158, January 15, 2009, at *http://www.taxfoundation.org/news/show/24208.html* (May 11, 2009).
3. J. D. Foster, "Obama Budget's Tax Proposals: Wrong and Risky," Heritage Foundation *WebMemo* No. 2362, March 25, 2009, at *http://www.heritage.org/Research/Economy/wm2362.cfm#_ftnref2*.
4. William W. Beach, David Kreutzer, Karen Campbell, and Ben Lieberman, "Son of Waxman–Markey: More Politics Makes for a More Costly Bill," Heritage Foundation *WebMemo* No. 2450, June 16, 2009, at *http://www.heritage.org/Research/EnergyandEnvironment/wm2450.cfm*.
5. J. D. Foster and Curtis S. Dubay, "Obama International Tax Plan Would Weaken Global Competitiveness," Heritage Foundation *WebMemo* No. 2426, May 5, 2009, at *http://www.heritage.org/Research/Taxes/wm2426.cfm*.
6. Foster, "Obama Budget's Tax Proposals."
7. Office of Management and Budget, "Updated Summary Tables"; U.S. Department of Treasury, "General Explanations of the Administration's Fiscal Year 2010 Revenue Proposals."
8. Office of Management and Budget, *Updated Summary Tables*, Table S-1.

hold would be necessary to balance the budget over the next 10 years. Taxes would need to increase an additional $21,339 per household just to get the average deficit over the next 10 years down to it previous record high.

Tax Hikes Threaten Economy. Because of the more than 3 million jobs lost since he made his pledge to create 3.5 million jobs by 2010, President Obama must now create a total of 6.5 million jobs to meet his stated goal.[9] Increasing taxes will only destroy more jobs and make it harder for him close this deep jobs deficit.

Congress and the President should stop hiking taxes and instead begin seriously reducing spending and cutting taxes. Tax hikes at any time are economically harmful, but proposing them during this severe recession is irresponsible and threatens to slow, or even prevent, recovery.[10]

First, Stop Digging. Congress and the Administration should take these actions immediately:

- Drop their proposals to raise taxes,
- Permanently extend the 2001 and 2003 tax cuts for all taxpayers—not just for those making less than $250,000,
- Abolish the death tax, and
- Lower top rates on income and investments.

These steps will provide a needed boost to the ailing economy and actually create the jobs President Obama pledged his recovery plan would produce.11 Of course, these tax cuts will necessitate deep spending cuts—yet another reason to pass them—and a course correction on President Obama's spending binge.

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9. J. D. Foster, "Obama Jobs Deficit Grows by Another 563,000," Heritage Foundation *WebMemo* No. 2430, May 8, 2009, at *http://www.heritage.org/Research/Economy/wm2430.cfm*; see also Rea S. Hederman, Jr., and James Sherk, "Heritage Jobs Report: May Report Shows Small Silver Lining," Heritage Foundation *WebMemo* No. 2467, June 5, 2009, at *http://www.heritage.org/Research/economy/wm2467.cfm*.

10. Martin Feldstein, "Tax Increases Could Kill the Recovery," *The Wall Street Journal*, May 13, 2009, at *http://online.wsj.com/article/SB124217336075913063.html* (May 13, 2009).

11. J. D. Foster and William W. Beach, "Economic Recovery: How Best to End the Recession," Heritage Foundation *WebMemo* No. 2191, January 7, 2009, at *http://www.heritage.org/Research/Economy/wm2191.cfm.*