The Estate Tax Has Nothing to do with Growth

Both ALEC's Economic Outlook Ranking and the SBEC's Small Business Policy Index punish a state for imposing either an inheritance or an estate tax. Nineteen states did so as of 2014. But the estate tax – which is paid only by the ultra-wealthy – doesn't affect economic growth. Those like ALEC and the SBEC pushing for a less progressive tax system reserve special condemnation for the estate tax as it is the most progressive tax of all, but their objections to this tax based on its relationship to economic growth are not backed up by the research.

The federal estate tax as of 2015 exempts the first $5.43 million of an estate ($10.86 million for a couple). As a result of this large exemption, only about 0.13 percent of U.S. adults dying in 2011 had a taxable estate.[1]

Claims about the Estate Tax in *Rich States, Poor States* Have Been Debunked

Nowhere are logic and evidence stretched farther than in the fifth edition of *Rich States, Poor States*, where Laffer and his co-authors devote an entire chapter to estate and inheritance taxes, incorrectly tagging them as "job killers" that "strangle economic growth." They cite a simplistic correlation—states without estate taxes had higher growth— and then claim that this means abolishing the estate tax will produce growth without any proof of causation. They then devote considerable attention to the state of Tennessee, a state that scores very well on most aspects of their Economic Outlook Ranking but has had lackluster economic performance, which they then deduce must be due entirely to the fact that it has an estate tax. They then conclude—with no evidence whatsoever—that if Tennessee had abolished its estate tax it would have grown at the same rate as the average no-income tax state and would therefore have 200,000 to 220,000 more jobs.

This claim has been thoroughly debunked by the Institute on Taxation and Economic Policy, which notes that Laffer is "asserting that no other differences between Tennessee and the other no-income tax states can possibly explain Tennessee's slower economic and employment growth," ignoring many more plausible explanations, including the fact that four of the no-income tax states had booming extractive sectors (Alaska, Wyoming, Nevada and Texas).[2]

What Matters for Growth is the Stock of Real Assets, not Paper Wealth

Laffer and company assert that states with an estate tax are losing "enormous amounts of accumulated wealth," and that this wealth would have created jobs, alleviated poverty, and increased tax revenue, but they fail to explain how this would happen. The wealth held by retirees typically is not the kind of capital normally used in job creation. The wealth that drives prosperity consists of real assets: natural resources, plant and equipment, public infrastructure, human capital, technological knowledge. By contrast, large estates typically consist of real estate, stocks and bonds, mutual funds, and other financial assets which could be located anywhere in the world. The future use of those assets is unaffected by where the person who owned them died.

Finally, the heirs' decisions as to if, where, and how to invest the inherited assets is unaffected by the location of the estate. For example, if a wealthy individual decided to move from Tennessee to Florida in the closing years of his or her life, it would not affect how much the household's heirs, who could be located anywhere in the world, invest in businesses in Tennessee.

1. Urban-Brookings Tax Policy Center, "Taxable Estate Tax Returns as a Percentage of Adult Deaths, Selected Years of Death, 1934-2011," Nov. 30, 2011, at http://www.taxpolicycenter.org/taxfacts/displayafact.cfm?Docid=52&Topic2id=60

2. Institute on Taxation and Economic Policy, "Repealing Estate Tax Will Not Create an Economic Boom," Washington, D.C., April, 2012.