

FLORIDA HAS A HUGE STAKE IN THE ‘DEATH TAX’ DEBATE

BY DICK PATTEN

Congress is considering tax legislation that will either put America on the road to recovery or indefinitely prolong the recession. Among tax policies, few have a more acute impact on long-term economic growth than the hated “death tax”—also known as the federal estate and gift tax.

The death tax—whether at the federal or state level—is imposed at death on the assets a person leaves to future generations. These kinds of state and federal taxes inherently discriminate against those who practice frugality and look after future generations, while rewarding those who spend it all in the here and now.

If Congress wants evidence of the impact of death tax repeal, it need look no further than Florida. It has

not had a state estate tax since 2004, when the state tax was decoupled from the federal estate tax.

Thus for five years, Florida has imposed no penalty on those who save their life-earnings and leave them for future generations. It should come as no surprise then that Florida attracts wealthy citizens from across America to relocate on its sunny shores. Most recently, it has been attracting residents of Connecticut in particular. Why?

In 2007 the Connecticut Department of

Revenue Services conducted a study that revealed the reason. The study found that Connecticut’s estate tax drives out its wealthiest residents. In fact, Florida was the number one destination for Connecticut citizens trying to escape that state’s high death



tax. From 2002 through 2006, more than 15,000 residents left Connecticut for the warmer climate—and lower taxes—of Florida.

Even more telling is the demographic profile of those who left Connecticut for Florida. The study found that the average household income of those relocating to Florida was \$70,067, compared to \$45,830 for those moving to Connecticut from Florida.

A survey conducted by the Connecticut Treasurer as part of the 2007 study of tax planners in the state confirmed these findings. Fifty-two percent of surveyed tax-planners reported that the state's high estate tax was the primary reason their wealthy clients left the state. Even more—76 percent—reported that it was at least partially the reason their clients left the state. Finally, 92 percent of tax-planners reported that clients who left the state moved to Florida.

Connecticut is not the only state to learn this lesson the hard way. The *Baltimore Sun* recently reported on a similar trend in Maryland. In May of this year a column by Jay Hancock explained that “Maryland has a complicated relationship with rich people. As one of the wealthiest states in the country, it cultivates more than its share. But they don't like to stick around once they've amassed a pile. At least they don't want to be taxed here.”

It is not difficult for Maryland residents to avoid the death tax, given that many of them are retirees who “already own second homes in

low-tax states...it's hardly a sacrifice spending a few extra months in Sarasota to avoid filing in Maryland.”

The fact that high net-worth taxpayers relocate to lower their liabilities is hardly news to economists, who reported this trend in a 2004 National Bureau of Economic Research study, “Do the Rich Flee from High State Taxes?”

The report found that states lose as many as one out of every three dollars from their estate taxes because “wealthy, elderly people change their state of residence to avoid high state taxes.” As hard as it may be for politicians to grasp, high death taxes send the wrong signals to their most financially successful residents.

Floridians are not yet able to escape the effects of the federal estate tax, since changing one's citizenship is not nearly as easy as relocating to a new state. Instead of encouraging taxpayers to move their wealth geographically, the federal estate tax encourages them to move it chronologically: to spend it before they die.

This economic trend has been documented by even liberal-leaning economists such as Joseph Stiglitz, former Chair of President Clinton's Council of Economic Advisors. Stiglitz wrote in one study that “prohibitively high inheritance tax rates generate no revenue; they simply force the individual to consume his income during his lifetime.” In other words, the death tax encourages consumerism.

Arthur Laffer succinctly summa-

rized this problem in a *Wall Street Journal* op-ed earlier this year: “Today in America you can take your after-tax income and go to Las Vegas and carouse, drink, and smoke, and as far as our government is concerned that’s just fine. But if you take that same after-tax income and leave it to your children and grandchildren, the government will tax that after-tax income one additional time at rates up to 55 percent.”

The effect of misallocating wealth—both from one state to another and from investing in the future to spending on the here and now—has had consequences for economic growth and job-creation. The loss of wealth means the loss of capital and jobs. Without capital, it is very difficult for entrepreneurs to start new businesses or expand old ones.

At the state level, the Connecticut study referenced above found that over the course of four years, growth in employment was little more than one percent a year in states with death taxes, compared to more than two percent a year in states without death taxes. Similarly, growth in real Gross State Product (GSP) was roughly one percent higher in states without an estate tax compared to states with the tax.

At the federal level, Douglas Holtz-Eakin, former director of the Congressional Budget Office,

analyzed the impact of the federal estate tax on the capital of small and family businesses.

In a study for the American Family Business Foundation, he determined that repealing the death tax could spur the creation of 1.5 million jobs in America. That is nearly half the number of jobs that President Obama has promised to “save or create” through the economic stimulus bill. A study by the Family Research Council finds that Florida alone stands to gain 82,000 jobs if the federal estate tax were repealed.

What’s more, according to a recent study by economist Steven Entin, the loss of capital due to the death tax has a substantial impact on our Gross Domestic

Product. Allowing the estate tax to return to a top rate of 55 percent, as some Congressional lawmakers would like to see happen, would reduce GDP by \$183 billion. On the other hand, repealing the estate tax (from its current rate of 45 percent) would add \$119 billion to GDP.

The evidence is clear: Death taxes punish responsibility, confiscate valuable capital, and destroy needed jobs. At the state level, death taxes are only good for the states that do not impose them—states such as Florida. At the federal level, death taxes serve no one’s interest.

As Congress continues debating the future of federal estate tax, it



***“Death taxes
punish
responsibility,
confiscate
valuable capital,
and destroy
needed jobs.”***



should consider Florida's example. Repealing the federal estate tax will encourage high net-worth citizens to save and invest, leading to job creation and a quicker economic recovery.

On the other hand, keeping the death tax will ensure that wealthy taxpayers continue to spend their income now rather than investing in the future.

At this writing, Connecticut was finally realizing the error of its ways and was considering legislation to lower its death tax. We can hope that in the months ahead, Congress will take similar steps—if not approving a full repeal—of this onerous tax. ❧

Dick Patten is the Executive Director of the American Family Business Institute, an organization representing family businesses across the country.

INDEPENDENCE

(Continued from page 29)

and affordable. Plainer still: We've earned it. Today's retirees have weathered our share of tough times. We've lived through world wars and not-so-great depressions. We've overcome every challenge. Our energy security is one of the most important challenges we face. If our government listens to its people and allows us to embrace new, 21st Century technologies that can produce more American energy safely and use what we have more wisely, we will overcome this challenge, too. ❧

James L. Martin is the president of the 60 Plus Association, a nonpartisan seniors-advocacy group with a free-enterprise, less-government, fewer-taxes approach to seniors issues.

TECHNOLOGY *(Continued from page 26)*

12 percent, bringing the total to nearly 4 million students.

Finally, technology shouldn't be merely a resource used periodically in classrooms, but the primary mechanism of transforming our education system into a 21st Century model of student-centered learning. From access to customization to superior content, technology may be the key to helping us keep the promise of a quality education for every Florida student, but the transformation

must commence now. ❧

Patricia Levesque is the Executive Director of the of the Foundation for Florida's Future and the Foundation for Excellence in Education, a non-profit public policy organizations founded by former Florida Governor Jeb Bush to improve the quality of education in Florida and across the nation. For more information on the Foundation for Florida's Future's efforts to transform Florida classrooms through technology, please visit www.floridapromise.org.