Largest Wealth Transfer in History is Coming

According to a study just published by Wealth-X and National Financial Partners, $16 trillion of wealth belonging to 211,275 "ultra-high net worth" individuals will be passed on to the next generation over the next 30 years. $6 trillion of that wealth is located in the United States, and financial "consultancies" such as Wealth-X and NFP are gearing up to help them manage the transfer.

Two-thirds of that wealth was created by entrepreneurs starting businesses, and these entrepreneurs are now faced with questions on the future of their money: how to pay the taxes on a business that generally has little of its value in cash, where does the business go and who will run it, will they be able to continue its success or will they just liquidate it and spend the money? Should some of it go to charity or should a new tax-exempt foundation be created? Will the business have to be sold at fire-sale prices if there isn't the money to pay Uncle Sam?

All good questions that will be answered long before these "ultra-high net worth" individuals pass on, thanks to the efforts of consultancies such as Wealth-X and NFP. The newly-restored federal estate tax levied on them has two exemptions: one, if the deceased gives it to his or her spouse, there is no tax. That is a temporary solution but does buy some time. The other is that assets given away to a charity are exempt from the estate tax.

The estate tax was never designed for these individuals. Instead, the newly-revived estate tax was designed to "touch" those more modestly wealthy individuals with assets in excess of $5 million. Without proper planning, 40 percent of anything above that $5 million will disappear into the maw of the federal government.

Here's the math: an owner of a $10 million estate will pay taxes on $5 million of it, at the 40-percent rate, generating a $2 million tax liability to the IRS. According to the Wealth-X study, there are 1.7 million individuals worldwide with that kind of wealth, totaling more than $50 trillion. Most governments have seen the opportunity and have created their own estate tax laws, some even more draconian than those in the United States. Forty percent of $50 trillion is $20 trillion, more than the entire output of the U.S. economy in a year.

Two proponents of the estate tax, William Gale and Joel Slemrod, have found three good reasons for the state to capture some of that wealth before it passes on: "First, the probate process may reveal information … that is difficult to obtain [otherwise] … but is relevant to societal notions of who should pay tax." In other words, under the force of law, private matters are now made public so that "societal notions" of justice and fair play, from the government's point of view, may be applied to those taxpayers still living.

Secondly, Gale and Slemrod, in their book *Rethinking Estate and Gift Taxation*, claim that such a tax levied at death "may have smaller disincentive effects … [than those that] are imposed during life." Put another way, a dead taxpayer paying taxes will object less than those living.

Finally, in an argument without either substance or clarity, the authors hold: "It is difficult to see any time other than death … to assess the total transfer made…. While death may be unpleasant to contemplate, there are good administrative, equity and efficiency reasons to impose taxes at death, and the asserted costs appear to be overblown."

On the other hand, *Investor's Business Daily* considers the estate tax as punishment for success: "People should not be punished because they work hard, become successful and want to pass on the fruits of their labor … to their children. As has been said, families shouldn't be required to visit the undertaker and the tax collector on the same day."

When renowned economic scholar and historian Benjamin Anderson considered the issue of disincentives imposed by taxes on entrepreneurs, either during life or at death, he told the story of a young man, age 25, who inherited an estate of $12 million in 1905, before either the federal income tax or the estate tax laws had been written. By 1935 he had, with great care and attention, nursed that $12 million into a veritable fortune of $35 million (worth, in today's money, more than $500 million). As Anderson noted:

> [To a still] vigorous man fifty-five years old, the effects of the new taxes were paralyzing. More than three-fourths of any profits which he might have from a new venture would be taken away from him by income taxes. Any losses which he might incur from a new venture would be his own. But further, should he die, his estate would have to pay the federal government $19,602,500, or 65 percent of his estate. How could an estate pay this tax if it were spread out in new ventures, in assets for which no ready market existed, in assets which could not be liquidated without great loss? It was a painful thing to watch him turn his energies from creative production to consultation with tax lawyers as to how he could save as much as possible for his heirs. It was a painful thing to watch a vigorous man of fifty-five turning from creative activities to preparation for death.

The estate tax, which the ultra-high net worth individuals noted by Wealth-X will likely be able largely to avoid, is instead intended to mulct investment capital from other more modestly successful, but vastly more numerous, entrepreneurs at their deaths, all in the name of "fairness," "justice," and "equity." That capital, instead of being invested in ongoing businesses, will be squandered instead by politicians buying votes from those dependent on the largess of government, using funds taken by force from their rightful owners.

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