TAXING COMMUNITY-CREATED VALUES BY THE BACK DOOR

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A recent (April 8, 2001) story in the New York Times explains that inheritance taxes affect "almost no working farmers" in the United States. The political rhetoric sounded by the enemies of the inheritance tax apparently has little attachment to reality. There are two things that ought to concern Common Ground members. First is that the inheritance (or "death") tax fails to distinguish between earned and unearned income. Second is whether, given the exemptions built into the existing tax structure, an inherent progressivity imposed on unearned incomes is achieved.

The data seems to tell the story: only the wealthiest 2 percent of taxpayers in the United States are potentially subject to estate taxes - fewer than 50,000 out of a population of over 280 million. Half of the revenue collected annually comes from just 3,000 people with taxable estates above $5 million. The first $1.35 million of net worth is exempt from Federal estate taxation, with a rate of 43 percent on the marginal net worth over $1.35 million up to $3 million, and 55 percent above $3 million.

Farmers are able to pass on a $4.1 million farm to heirs without paying an estate tax (provided the estate is utilized as a working farm for at least 10 years). The reality is that only absentee owners of farmland and farms, whose estates include farms but also include assets worth millions more, ostensibly fall within the reach of the estate tax.

The support for elimination of the estate tax is coming mostly from the Republicans. The Times story quoted U.S. Senator Charles E. Grassley of Iowa as saying, "I do not think that the function of government is to redistribute wealth." Well, we know, don't we, that one of the most consistent actions of government has been to redistribute wealth - from producers to non-producers, from those who labor and make use of capital goods to those who have made effective use of the political machinery to secure and protect privileges for themselves.

In answer to the question, "What is fair and equitable?" I would suggest that we advocate substituting the inheritance tax with a very heavy tax on land owners whenever they transfer by sale, lease, estate or gift (except to the community) control over land. All other assets should be exempted from any form of transfer taxes. These land values, as we know, are nothing more than capitalized imputed location rent that should have been remitted to the community all along. A revenue sharing formula that divides the tax revenue between the federal, state and local governments would need to be worked out based on the proportional value of public goods brought to the land. As more and more communities begin to collect something approaching the full location rental value of land parcels, this new tax will eventually produce less and less revenue; then, finally, at some point in the distant future when public policy and wisdom have coincided, there might be no capitalized land values to be taxed.