

## **Differing federal estate tax perceptions: political party affiliation and ideological philosophy**

David Moen  
University of South Dakota

Thomas Davies  
University of South Dakota

Angeline Lavin  
University of South Dakota

### **ABSTRACT**

The federal estate in its present form can be traced back to 1916. Over the years it has been coupled with the federal gift tax, although they were decoupled in 2001, which resulted in the repeal of the death tax in 2010. The tax was reinstated for two years beginning in 2011 under compromise legislation, and included a \$5 million dollar exemption and 35% maximum tax rate. The exemption is set to drop by \$4 million and the rate to increase to 55% in 2013 absent further legislation. The existence of the testamentary tax remains a significant issue which is expected to impact the 2012 presidential election. This paper explores taxpayer perceptions of the federal estate tax, based upon their political party affiliation as well as their ideological philosophy.

Keywords: Federal estate tax, political party affiliation, ideological philosophy, taxation, taxpayer perceptions

## **INTRODUCTION**

In November, voters will go to the polls to elect the next president of the United States, expected to be either Democratic incumbent Barack Obama or Republican challenger Mitt Romney. If one listens at all to today's political commentators, one can surmise that the future of this country will be forever shaped by the outcome of the election. Those who closely follow political happenings can quite easily get the impression that there is a distinct split along party lines, at least in Washington, between the two political parties on a number of issues including taxes. It seems that the unwillingness to compromise by many elected officials on both sides has become more frequent and threatens to bring the government, and hence progress on many fronts, to a standstill. What perhaps is not clear is whether this divide extends beyond the capitol city to the voters, and whether elected officials are truly representing the interests of their constituents when they fail to reach common ground.

While it might be considered risky to generalize about the philosophies that reflect the beliefs of the two major political parties, historically Democrats have tended to have a more liberal perspective, while Republicans have traditionally been more conservative. Of course there are exceptions to the rule and moderates make up a part of both parties. Republicans tend to favor a smaller government as well as free markets, while Democrats may be characterized as supportive of more governmental involvement in programs that benefit the lower economic classes. Thus with respect to taxes, Democrats tend to support a progressive system whereby one's tax liability is based on his or her ability to pay. On the other hand, Republicans are against taxing the wealthy at higher levels due to their belief that such policy reduces investment and job creation. Thus, in general, Washington commentary would suggest that Democrats and liberals would support retaining the estate tax which applies more frequently to the wealthy, while Republicans and conservatives would favor repealing the tax or at the very least, limiting its reach. This paper offers insight as to whether perception is consistent with reality when it comes to the citizenry's perception of the death tax, and whether these perceptions may offer insight as to the election outcome in November.

## **HISTORY OF THE ESTATE TAX AND LITERATURE REVIEW**

The rudiments of today's federal estate tax can be traced back to 1916, although the taxation of testamentary transfers, i.e., those taking place at death, has been traced back to ancient Egypt (Jacobson, Raub and Johnson, 2007). This was followed by the passage of the gift tax in 1932, which initially provided for lower rates when making lifetime transfers. In 1976, Congress established a unified taxation system which essentially consolidated these two wealth taxes and applied the same set of rules to gratuitous transfers. These two systems were later decoupled in 2001 when the Economic Growth and Tax Relief Reconciliation Act (EGTRA) was passed. Over the next several years, the estate tax's exemption amount (the value of property which escapes taxation) was increased and the tax rate decreased, which ultimately culminated in its repeal in 2010. However, a sunset provision in EGTRA provided for the reinstatement of the death tax in 2011, absent further action by Washington. A Congressional compromise reached at the end of 2010, effective for two years starting in 2011, set the exemption at \$5,000,000 and the tax rate at 35%. If no further legislative action occurs, the estate tax exemption is scheduled to drop to \$1,000,000, and the estate tax rate is scheduled to increase to 55% effective January 1, 2013. Generally the fair market value of any property remaining after certain allowable

deductions in essence serves as the base for the tax after the addition of prior (post-1976) taxable gifts.

Congress's 2010 actions which reinstated the estate tax has generated considerable discussion that has continued to this day, and which is further fueled by the rhetoric that has accompanied the upcoming national election this November. An examination of the literature offers insight as to the arguments proffered both in favor of and against the tax. Not surprisingly, arguments made on both sides of the issue are quickly countered by the opposition in hopes of swaying public opinion and ultimately influencing the outcome of the debate and perhaps even the next national election.

### **The Estate Tax**

Those who support the imposition of the estate tax argue that it is highly progressive and impacts only the wealthiest individuals – typically less than 2% of the population annually on average (Congressional Budget Office, 2009). The estate tax in fact has been described as the most progressive of all federal taxes (Slemrod, 2006). However, opponents of the tax believe the actual economic burden of the tax is much wider and impacts not only the decedent and his or her heirs but also wage earners in general (Tax Foundation, 2006). This occurs, it is suggested, because the estate tax incents people to consume more and save less in order to avoid the application of the tax, which ultimately reduces the amount of capital being invested in business ventures. Reduced investment, in turn, negatively impacts productivity, which results in lower wages for all workers (Tax Foundation, 2006). Opponents of the tax also express concern that while the incidence of the tax may not be overly broad now, the reach of the tax, if the 2013 changes come to fruition, will quickly grow to include more taxpayers than intended, similar to what has happened with respect to the alternative minimum tax (Davies, 2010).

There also are some significant misconceptions surrounding the estate tax, which might potentially escalate the negative attitudes and concerns about it. In 2002 a nationwide telephone survey pertaining to taxes was jointly sponsored by National Public Radio, the Henry J. Kaiser Family Foundation, and Harvard University's Kennedy School of Government. The survey reached a sample of 1,339 individuals at least 18 years of age. According to the survey, 82% of respondents who expressed an opinion favored elimination of the estate tax. In his analysis, Slemrod found that 49% of the survey respondents thought that "most families" had to pay the estate tax, which is not the case. Support for the elimination of the estate tax was highest among those aged 65 and older but was not significantly associated with gender, race, education or income level. Slemrod, using linear probability regression, further concluded that the majority of respondents would oppose the estate tax even in the absence of the misconception (2006). This supported Bartels' (2006) earlier study which reported that almost 70 percent of the public favored repeal in 2002. The estate tax does not appear to be well liked by US citizens, according to these findings.

Estate tax proponents have argued that the revenue being generated by the tax is of critical importance today given the extended economic downturn, and that its repeal or relaxation would result in the loss of billions of dollars of revenue and contribute further to the national debt by increasing the amount of interest payments on borrowed funds (Center on Budget and Public Priorities, 2009). In contrast, some who oppose the tax counter by arguing that its imposition produces relatively little funding for the government, and may instead actually negatively impact total federal revenue due to taxpayer efforts to avoid the tax (Tax Foundation,

2006). This outcome can occur when those at risk for the tax reduce their taxable estates by making gifts to those in lower tax brackets, contributing to charities, and selling off assets during their lifetimes to take advantage of capital gain tax rates which are lower than those rates applicable under the death tax. (Tax Foundation, 2006). It is also argued that the costs of complying with the law by the government and taxpayers exceed the revenue generated from the tax, making it inefficient (Citizens, 2000). Similarly, those against the tax believe efforts to avoid the tax cause excessive consumption and discourage entrepreneurship (Tax Foundation, 2006). Those who support the tax counter that the tax helps ensure that those who have benefited the most from public goods pay their fair share of the cost needed to provide such services, and that the tax is necessary to prevent the concentration of power in the hands of the wealthy (Americans, 2010). In addition, proponents suggest that the estate tax encourages charitable giving and reaches income (which arises from the increasing value of retained property) which would otherwise escape taxation (Americans, 2010). Opponents claim instead that tax laws likely have little influence on charitable giving and that America is the land of opportunity where hard work allows people to get ahead (Saxton, 1998).

Fatemi, Hasseldine, and Hite (2008) also studied tax preferences toward the estate tax in an attempt to contribute to the debate on whether the tax should be repealed. Their study showed that the majority of subjects disagreed that the federal estate tax was a good way to raise revenue. More specifically, respondents did not think that the estate tax was fair or that it helped the poor, and did not want to keep the current estate tax system.

### **Politics and Philosophy**

Considering the arguments made by both opponents and proponents of the estate tax, it is not unreasonable to think that Republicans are more likely to fall on one side of the issue while Democrats are more likely to be on the other. Ackerman and Altshuler (2006) write that gaining bi-partisan support for changes in tax law is difficult and the likely reason that the President's Advisory Panel on Federal Tax Reform appointed by President George W. Bush did not propose dramatic reforms or a sweeping change to the current system. The Panel did not believe that sweeping change would have a chance of being enacted by Congress. Therefore, the recommendations that were put forth in the Panel's 2005 report were the result of compromise, so the Panel could put forth a unanimous report, and compromise served as a constraint that dramatically impacted the Panel's recommendations in the 2005 report (Ackerman and Altshuler, 2006). This political constraint, which tends to create a bias to maintain the status quo, is also noted by Burman, Gale, Leiserson, and Rohaly (2007). In their study of the Alternative Minimum Tax (AMT), they wrote that while the regular income tax contains features that are inefficient or inequitable, it is difficult to directly modify the existing income tax structure or shut it down for political reasons.

Bartels (2006) used the 2002 National Election Study data and found that approximately 68% of the respondents favored repeal of the estate tax. Bartels divided the sample various ways and found that support for repeal was fairly consistent across the board – including among those with family incomes below \$50,000 as well as among those who said differences in income among the rich and poor had increased in the past 20 years and thought it was a bad thing. Bartels concluded that opinions about the estate tax were virtually unrelated to circumstances and values and led him to conclude that these opinions were the product of partisan attachment and ideology. The data showed that Republicans and especially conservatives were more likely

than Democrats and liberals to support repeal of the estate tax. In fact, some even go so far as to suggest that opposition to the estate tax, which is the most progressive federal tax and is paid by relatively few taxpayers, is the result of American politics in the 1990's (Bartels, 2006).

Birney, Graetz and Shapiro (2006) studied the role of public opinion in the 2001 repeal of the federal estate tax in order to better understand how estate tax repeal became a mainstream priority in the late 20<sup>th</sup> century and garnered support from Democrats as well as Republicans. In their interviews of stakeholders including Congressmen, Senators, journalists, political aides, and interest group representatives, among others, they found that interest groups put forth much effort to identify public opinion on the issue and then used that information to shape politicians' perceptions of public opinion on the estate tax and garner support for a long-standing conservative priority. The ultimate outcome was the temporary repeal of the estate tax, which was passed with bi-partisan support.

Krupnikov, Levine, Lupia, and Prior (2006) undertook a study to determine if the wide support for repeal of the estate tax in the late 20<sup>th</sup> century was the result of citizen ignorance. They used the same data that Slemrod used in his 2006 study but also looked at the impact of information (knowledge of how many families are actually subject to the estate tax) on the decision. They found that individuals who understand the number of families affected by the estate tax are less likely to support repeal. Nonetheless, Republicans are still more likely to support estate tax repeal than Democrats. In addition, they found that even among those who understand the number of families impacted by the estate tax, 50% of Democrats and 84% of Republicans still support repeal. Overall, this conclusion also suggests that opinions about the estate tax do depend on political party affiliation.

Economic concerns here and abroad continue to weigh heavily on the minds of voters especially in light of less than expected job creation in recent months. Citizens who fear a continuing recession remain uncertain about their financial futures, which in turn may influence public perception of the government and the use of its taxing power. Many political pundits predict that the state of the economy may be a deciding factor in the outcome of the upcoming election; the issue of taxes in general, and specifically who is called upon to pay them, may play a part in who is ultimately chosen to lead the nation. This study seeks to shed additional light on the perceptions citizens have toward the federal estate tax, based upon their political and ideological perspectives.

## **PRESENT STUDY**

Undergraduate and graduate students taking select fall 2011 business and accounting classes at a mid-sized Midwestern university were given the opportunity to participate in a research study and earn extra credit points by administering up to five (including completing one themselves) questionnaires on the federal estate tax. Students who participated in the survey process were asked to adhere to several rules. The student could ask no more than one other student to complete a survey, as long as the student had not already completed the survey and met the other conditions explained herein. No more than two surveys could be completed by a member of the student's immediate family (parents, grandparents, children, grandchildren, brothers and sisters). In addition, no more than one survey could be completed by an employee of the university. Further, survey participants needed to be at least 18 years of age as well as required to have filed a federal income tax return. Students were encouraged to seek diversity in survey participants, including differences where possible in gender, age, education, profession,

and income level. Students were encouraged to ask people from outside of the college community to participate. Students were also asked to verify that the people they asked to complete the survey had not completed it for someone else. To encourage compliance with the guidelines, a log was provided for students to submit the names and addresses of the individuals who had completed surveys. This identifying information was not recorded on the surveys themselves.

In total, 593 usable surveys were returned. Participants were asked to answer the substantive federal estate tax statements which are shown in Table 2 (Appendix). The participants were asked to respond to the first 13 questions by filling in the appropriate circle, as the items relate to the federal estate tax, where 1 = Strongly agree, 2 = Somewhat agree, 3 = Neither agree nor disagree/neutral, 4 = Somewhat disagree, and 5 = Strongly disagree. For the next four questions, several answer choices were given from which to choose.

In addition to the 17 substantive questions shown in Table 2, several demographic questions were also included in the survey. One of those demographic questions asked respondents to indicate their political party affiliation. Thirty-six percent of the respondents identified themselves as being affiliated with the Republican Party, 28% with the Democrat Party, 15% as Independents, and 21% responded that they did not belong to a political party. Another demographic question asked respondents to indicate their ideological philosophy (conservative, moderate, or liberal). Forty-nine percent of the respondents described themselves as moderates, 36% as conservatives, and 15% as liberals.

### **Political Party Affiliation**

Table 1 (Appendix) summarizes the observed relationship between political party affiliation and ideological philosophy. Note, for example, that 11.7% of the respondents who identified themselves as Democrats indicated that their ideological philosophy was conservative, while 66.0% of Republicans indicated that their ideological philosophy was conservative. In contrast, 37.7% of the Democrats responded that their ideological philosophy was liberal, but only 1.4% of the Republicans responded that their ideological philosophy was liberal. Approximately 51% of the Democrats, 67% of the Independents, 33% of the Republicans, and 66% with no political party affiliation responded that their ideological philosophy was moderate.

For both the political party and ideological philosophy demographic questions, the responses to the 17 federal estate tax statements were tabulated and statistically analyzed using the Pearson Chi-Square test of independence. With regard to political party affiliation, the null hypothesis for the chi-square test is that the response provided to a statement is independent of political party, and the alternative hypothesis is that the response provided to the statement is not independent of (or depends upon) political party. As indicated in Table 2 found in the Appendix, statistically significant differences were identified for statements 1, 5, 10, and 12. That is, the null hypothesis is rejected for these four statements. These statistically significant differences are described more fully below.

For statement 1 in Table 2 (Appendix), “It is appropriate for the federal government to collect a tax on the value of property accumulated by taxpayers at the time of their death,” only a small percentage (5.8%) of all respondents selected the “strongly agree” category. Nevertheless, survey participants who identified themselves as being affiliated with the Democrat Party strongly agreed to the statement more than what would be expected under the assumption of independence, while Republicans strongly agreed less than what would be expected.

Independents and individuals not belonging to a political party selected the “strongly agree” category fairly closely to what would be expected under the assumption of independence (10.0% of the Democrats, 3.4% of the Independents, 1.9% of the Republicans, and 8.5% with no political party affiliation responded “strongly agree.”) A much larger percentage of respondents overall (34.9%) selected the “strongly disagree” category for statement 1. However, fewer Democrats than expected selected this option, while more Republicans than expected selected “strongly disagree”. Independents and individuals not belonging to a political party selected “strongly disagree” very closely to what would be expected under the assumption of independence between the response provided and political party affiliation (30.6% of the Democrats, 33.3% of the Independents, 37.8% of the Republicans, and 33.1% with no political party affiliation responded “strongly disagree.”) The p-value associated with the chi-square test for statement 1 was 0.023.

For statement 5 in Table 2 (Appendix), “A person’s estate tax liability should be based on his/her ability to pay,” 15.5% of all respondents selected the “strongly agree” category. Survey participants who identified themselves as being affiliated with the Democrat Party strongly agreed to the statement more than what one would expect under the assumption of independence, while Republicans, Independents, and individuals with no political party affiliation strongly agreed less than what would be expected (26.1% of the Democrats, 10.3% of the Independents, 12.4% of the Republicans, and 12.7% with no political party affiliation responded “strongly agree.”) Overall, 20.6% of the survey participants selected the “strongly disagree” category for statement 5. Fewer than expected Democrats and those persons with no political party affiliation selected this option, while more Republicans than expected selected “strongly disagree.” Independents selected “strongly disagree” very closely to what would be expected under the assumption of independence between the response provided and political party affiliation (14.9% of the Democrats, 19.5% of the Independents, 26.3% of the Republicans, and 15.3% with no political party affiliation responded “strongly disagree.”) The p-value associated with the chi-square test for statement 5 was 0.004.

For statement 10 in Table 2 (Appendix), “Only wealthy taxpayers should be subject to the federal estate tax upon their death,” a small percent of all respondents (8.1%) selected the “strongly agree” category. However, participants who identified themselves as being affiliated with the Democrat Party strongly agreed to the statement more than what would be expected under the assumption of independence, while Independents and individuals with no political party affiliation strongly agreed less than what would be expected. Republicans selected the “strongly agree” category fairly closely to what would be expected under the assumption of independence (14.2% of the Democrats, 3.4% of the Independents, 7.2% of the Republicans, and 5.1% with no political party affiliation responded “strongly agree.”) Overall, 30.1% of the survey participants selected the “strongly disagree” category for statement 10. Fewer than expected Democrats selected this option, while more Republicans than expected selected “strongly disagree”. Independents and individuals not belonging to a political party selected “strongly disagree” fairly closely to what would be expected under the assumption of independence between the response provided and political party affiliation (21.6% of the Democrats, 26.4% of the Independents, 38.8% of the Republicans, and 28.8% with no political party affiliation responded “strongly disagree.”) The p-value associated with the chi-square test for statement 10 was 0.003.

For statement 12 in Table 2 (Appendix), “The more property the decedent owns at death, the higher the federal estate tax rates should be,” only 7.1% of all respondents selected the

“strongly agree” category. Survey participants who identified themselves as being affiliated with the Democrat Party strongly agreed to the statement more than what would be expected under the assumption of independence, while Republicans and Independents strongly agreed less than what would be expected. Individuals not belonging to a political party selected the “strongly agree” category fairly closely to what would be expected under the assumption of independence (13.0% of the Democrats, 2.3% of the Independents, 4.3% of the Republicans, and 8.5% with no political party affiliation responded “strongly agree.”) In contrast, 30.7% of all respondents selected the “strongly disagree” category for statement 12. Fewer than expected Democrats and those persons with no political party affiliation selected this option, while more Republicans than expected selected “strongly disagree”. Independents selected “strongly disagree” very closely to what would be expected under the assumption of independence between the response provided and political party affiliation (23.0% of the Democrats, 28.7% of the Independents, 39.4% of the Republicans, and 25.4% with no political party affiliation responded “strongly disagree.”) The p-value associated with the chi-square test for statement 12 was 0.005.

### **Ideological Philosophy**

In the case of ideological philosophy, the null hypothesis for the chi-square test is that the response provided to a statement is independent of ideological philosophy, and the alternative hypothesis is that the response provided to the statement is not independent of (or depends upon) ideological philosophy. As indicated in Table 2 (Appendix), statistically significant differences were identified for statements 1, 5, 10, 11, 12, and 16. That is, the null hypothesis is rejected for these six statements. These statistically significant differences are described in more detail below.

As was noted earlier in the political party affiliation discussion, only 5.8% of all respondents selected the “strongly agree” category for statement 1, “It is appropriate for the federal government to collect a tax on the value of property accumulated by taxpayers at the time of their death.” Survey participants who identified themselves as moderates or liberals strongly agreed to the statement more than what would be expected under the assumption of independence, while conservatives strongly agreed less than what would be expected (1.4% of the conservatives, 7.3% of the moderates, and 10.7% of the liberals responded “strongly agree.”) 34.9% of all respondents selected the “strongly disagree” category for statement 1. More conservatives than expected selected this option, while fewer moderates than expected selected “strongly disagree”. Liberals selected “strongly disagree” fairly closely to what would be expected under the assumption of independence between the response provided and ideological philosophy (42.3% of the conservatives, 30.8% of the moderates, and 32.1% of the liberals responded “strongly disagree.”) The p-value associated with the chi-square test for statement 1 was 0.006.

For statement 5 in Table 2 (Appendix), “A person’s estate tax liability should be based on his/her ability to pay,” 15.5% of all respondents selected the “strongly agree” category. Survey participants who identified themselves as liberals strongly agreed to the statement more than what would be expected under the assumption of independence, while conservatives strongly agreed less than what would be expected. Moderates selected “strongly agree” fairly closely to what one would expect under the assumption of independence between the response provided and ideological philosophy (12.4% of the conservatives, 14.7% of the moderates, and 28.6% of the liberals responded “strongly agree.”) 20.6% of all survey participants selected the “strongly

disagree” category for statement 5. Fewer moderates and liberals than expected selected this option, while more conservatives than expected selected “strongly disagree” (27.8% of the conservatives, 17.1% of the moderates, and 13.1% of the liberals responded “strongly disagree.”) The p-value associated with the chi-square test for statement 5 was 0.001.

For statement 10 in Table 2 (Appendix), “Only wealthy taxpayers should be subject to the federal estate tax upon their death,” a small percent of all respondents (8.1%) selected the “strongly agree” category. However, participants who identified themselves as liberals strongly agreed to the statement more than what would be expected under the assumption of independence, while conservatives strongly agreed less than what would be expected. Moderates selected the “strongly agree” category fairly closely to what would be expected under the assumption of independence (5.7% of the conservatives, 7.3% of the moderates, and 16.5% of the liberals responded “strongly agree.”) Overall, 30.1% of the survey participants selected the “strongly disagree” category for statement 10. Fewer than expected moderates selected this option, while more conservatives than expected selected “strongly disagree.” Liberals selected “strongly disagree” fairly closely to what would be expected under the assumption of independence between the response provided and ideological philosophy (41.1% of the conservatives, 23.8% of the moderates, and 25.9% of the liberals responded “strongly disagree.”) The p-value associated with the chi-square test for statement 10 was 0.000.

For statement 11 in Table 2 (Appendix), “The federal estate tax unfairly taxes decedents who have paid income and other taxes during their lifetimes,” 32.7% of all respondents selected the “strongly agree” category. Survey participants who identified themselves as conservatives strongly agreed to the statement more than what would be expected under the assumption of independence, while moderates and liberals selected the “strongly agree” category fairly closely to what would be expected (38.3% of the conservatives, 29.5% of the moderates, and 29.4% of the liberals responded “strongly agree.”) Only 6.1% of all respondents selected the “strongly disagree” category for statement 11. Fewer than expected conservatives selected this category, while more liberals than expected selected “strongly disagree.” Moderates selected “strongly disagree” fairly closely to what would be expected (2.4% of the conservatives, 7.0% of the moderates, and 11.8% of the liberals responded “strongly disagree.”) The p-value associated with the chi-square test for statement 11 was 0.037.

For statement 12 in Table 2 (Appendix), “The more property the decedent owns at death, the higher the federal estate tax rates should be,” only 7.1% of all respondents selected the “strongly agree” category. Survey participants who identified themselves as liberals strongly agreed to the statement more than what would be expected under the assumption of independence, while conservatives strongly agreed less than what would be expected. Moderates selected the “strongly agree” category fairly closely to what would be expected under the assumption of independence (4.3% of the conservatives, 7.7% of the moderates, and 11.8% of the liberals responded “strongly agree.”) 30.7% of all respondents selected the “strongly disagree” category for statement 12. Fewer than expected moderates selected this option, while more conservatives than expected selected “strongly disagree”. Liberals selected “strongly disagree” very closely to what would be expected under the assumption of independence between the response provided and ideological philosophy (39.1% of the conservatives, 24.5% of the moderates, and 30.6% of the liberals responded “strongly disagree.”) The p-value associated with the chi-square test for statement 12 was 0.030.

Statement 16 in Table 2 (Appendix) asks the following question: “Assuming you are supportive of the federal estate tax, what should be the maximum applicable tax rate?” 38.7% of

all respondents indicated that they were not in favor of a federal estate tax. However, among those who did indicate support for the federal estate tax, 22.6 % selected “10% or less” as the appropriate maximum tax rate category, 46.1% selected “Over 10% but not more than 25%”, 27.2% selected “More than 25% but not more than 50%”, and 4.1% selected “More than 50%.” Survey participants who identified themselves as conservatives selected “10% or less” more than what would be expected under the assumption of independence, while liberals selected “10% or less” less than what would be expected. Moderates selected the “10% or less” category fairly closely to what would be expected (29.4% of the conservatives, 21.3% of the moderates, and 13.2% of the liberals responded “10% or less.”) All three groups (conservatives, moderates, and liberals) selected the “Over 10% but not more than 25%” category fairly closely to what would be expected (43.1% of the conservatives, 48.6% of the moderates, and 43.4% of the liberals responded “Over 10% but not more than 25%.”) Conservatives and moderates selected the “More than 25% but not more than 50%” category as would be expected; however, liberals selected this category more frequently than expected. (27.5% of the conservatives, 24.6% of the moderates, and 35.8% of the liberals responded “More than 25% but not more than 50%.”) For the “More than 50%” category, no conservatives choose this category (certainly less than expected under the assumption of independence), but more liberals than expected chose this highest tax rate category. Moderates responded about as would be expected (0.0% of the conservatives, 5.5% of the moderates, and 7.5% of the liberals responded “More than 50%.”) The p-value associated with the chi-square test for statement 16 was 0.032.

### Summary of Similarities

Not surprisingly, the summary of results above illustrates numerous similarities in a person’s response to a statement based on his/her political party affiliation and ideological philosophy. In fact, when considering respondents who answered either Republican or Democrat to the political party affiliation demographic question and those who answered either conservative or liberal to the ideological philosophy question, there is a strong positive correlation equal to +0.785.

For the four statements that were found to be statistically significant based on the demographic questions about political party affiliation and ideological philosophy, Table 3 (Appendix) provides a summary of the similarities for Republicans versus conservatives and for Democrats versus liberals. (The table’s column headings are: R = Republican, C = Conservative, D = Democrat, and L = Liberal.)

### FURTHER ANALYSIS

In addition to the tests of independence, statistical tests were conducted to determine whether or not the proportion of responses associated with the political party affiliation demographic category (Democrat, No Political Party Affiliation, Independent, and Republican) differed from one another. The visual display in Table 4 (Appendix) summarizes the “strongly agree” (SA) and “strongly disagree” (SD) responses for statements 1, 5, 10, and 12 for this demographic using a 0.05 level of significance. Consider the following explanations to assist in the interpretation of these visual displays. When a line joins two demographic categories, the proportions are not significantly different. Thus, for the “strongly agree” category in statement 1, the proportions for Democrats and individuals with no political party affiliation who

responded “strongly agree” are not significantly different, and similarly, the proportions for Independents and Republicans who responded “strongly agree” are not significantly different. However, there is a significant difference in the proportion of “strongly agrees” between these two groupings, because there is a break in the line between “No Party Affiliation” and “Independent.” For the “strongly disagree” category in statement 1, since there is no break in the line, there is no statistical evidence of a significant difference in the proportion of responses across all four demographic categories.

Statistical tests were also conducted to determine whether or not the proportion of responses associated with the ideological philosophy demographic category (Conservative, Moderate, and Liberal) differed from one another. The visual display in Table 5 (Appendix) summarizes the “strongly agree” (SA) and “strongly disagree” (SD) responses for statements 1, 5, 10, 11, and 12 for this demographic using a 0.05 level of significance. Statement 16 responses are summarized using the four tax rate categories.

## CONCLUSIONS

Individuals who are affiliated with different political parties and who subscribe to different ideological philosophies also tend to have different views of many issues, especially fiscal ones. As a result, there continues to be considerable national debate as to the merits of the federal estate tax. In light of the upcoming presidential election, there is a strong likelihood that the discussion will continue at least in the short term as to whether the tax should be repealed or at least modified, and depending on the outcome of the election, the country may once again see one or more changes being made to the transfer tax system. Those who support the estate tax argue that it is highly progressive and impacts only the wealthiest individuals, while opponents of the tax believe the actual economic burden of the tax is much wider. Consistent with expectations, a conservative ideology was more prevalent among Republicans in the sample used in this study, and a liberal perspective was more prevalent among Democrats. It is interesting to note that the majority of Democrats, Independents and those respondents with no political party affiliation indicated that they subscribed to a moderate ideological philosophy. The Republicans were the outliers, with only 33% of them indicating that they were moderates.

Responses to the 17 federal estate tax statements that were included in this survey were statistically analyzed; the analysis revealed that in the case of four of the statements, the responses were not independent of political party or ideological philosophy. In other words, the response depended upon the respondent’s political party or ideological philosophy. Statistical differences were identified for the following four statements:

- It is appropriate for the federal government to collect a tax on the value of property accumulated by taxpayers at the time of their death.
- A person’s estate tax liability should be based on his/her ability to pay.
- Only wealthy taxpayers should be subject to the federal estate tax upon their death.
- The more property the decedent owns at death, the higher the federal estate tax rates should be.

In addition to the four statements included above, the following two responses also differed by ideological philosophy (but not by political party).

- The federal estate tax unfairly taxes decedents who have paid income and other taxes during their lifetimes

- Assuming you are supportive of the federal estate tax, what should be the maximum applicable tax rate?
  - a. 10% or less
  - b. Over 10% but not more than 25%
  - c. More than 25% but not more than 50%
  - d. More than 50%
  - e. I am not in favor of a federal estate tax

These results illustrate numerous similarities in a person's response to a statement based on his/her political party affiliation and ideological philosophy. There was a +0.785 correlation between respondents who answered either Republican or Democrat to the political party affiliation demographic question and those who answered either conservative or liberal to the ideological philosophy question.

With increasing frequency, the news media is reporting that the United States will soon face a "fiscal cliff." This is likely to continue as the 2012 presidential election draws near. As with many fiscal and tax-related issues, this study provides evidence that individuals with different political party affiliations and different ideological philosophies have different views regarding the federal estate tax. While the estate tax does not generate a significant amount of revenue for the government in relative terms, pressure may certainly be felt by newly elected public officials to not only reduce government spending but also maintain or increase tax revenue. These results suggest that the outcome of the presidential and Congressional elections may, indeed, have an impact on the future decisions with respect to the federal estate tax as there appear to be differences of opinion along both political party and ideological philosophy lines. The question remains whether these differences can be set aside in a consolidated effort to find long range solutions to our country's fiscal challenges.

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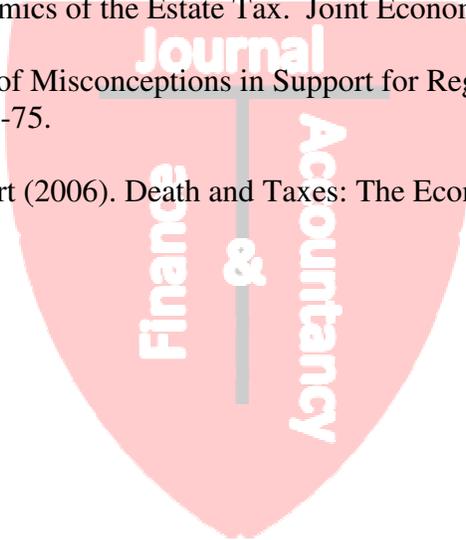
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## APPENDIX

TABLE 1  
Observed Relationship between Political Party Affiliation and Ideological Philosophy

	Democrat	Independent	Republican	No Party Affiliation
Conservative	11.7%	23.3%	66.0%	23.7%
Moderate	50.6%	67.4%	32.5%	65.8%
Liberal	37.7%	9.3%	1.4%	10.5%

TABLE 2  
Statistically Significant Difference in Responses  
Based on Political Party and Ideological Philosophy

Statement	Political Party Affiliation	Ideological Philosophy
1. It is appropriate for the federal government to collect a tax on the value of property accumulated by taxpayers at the time of their death.	*	**
2. At the time of death, most taxpayers are subject to the federal estate tax.		
3. The federal estate tax should be a significant source of revenue for the government.		
4. All taxpayers who have accumulated property during their lifetimes should be subject to the federal estate tax.		
5. A person's estate tax liability should be based on his/her ability to pay.	**	**
6. Property that the decedent transfers to his or her spouse should not be subject to the estate tax.		
7. Property that the decedent transfers to his or her children should not be subject to the estate tax.		
8. Property that the decedent transfers to other (more distant) relatives should not be subject to the estate tax.		
9. Property that the decedent transfers to charity should not be subject to the estate tax.		
10. Only wealthy taxpayers should be subject to the federal estate tax upon their death.	**	**
11. The federal estate tax unfairly taxes decedents who have paid income and other taxes during their lifetimes.		*
12. The more property the decedent owns at death, the higher the federal estate tax rates should be.	**	*
13. There should be at least a minimum amount of property exempt from the federal estate tax.		
14. If you agree with the statement in question 13, what should be the		

<p>amount of the exemption?</p> <ul style="list-style-type: none"> <li>a. \$500,000 or less</li> <li>b. Over \$500,000 but not more than \$1,000,000</li> <li>c. Over \$1,000,000 but not more than \$5,000,000</li> <li>d. Some other amount</li> <li>e. Amount should depend on the individual decedent's circumstances</li> </ul>		
<p>15. Assuming you are supportive of the federal estate tax, what should be the <u>minimum</u> applicable tax rate?</p> <ul style="list-style-type: none"> <li>a. 10% or less</li> <li>b. Over 10% but not more than 25%</li> <li>c. More than 25% but not more than 50%</li> <li>d. More than 50%</li> <li>e. I am not in favor of the federal estate tax</li> </ul>		
<p>16. Assuming you are supportive of the federal estate tax, what should be the <u>maximum</u> applicable tax rate?</p> <ul style="list-style-type: none"> <li>b. 10% or less</li> <li>c. Over 10% but not more than 25%</li> <li>d. More than 25% but not more than 50%</li> <li>e. More than 50%</li> <li>f. I am not in favor of a federal estate tax</li> </ul>		*
<p>17. If you believe a federal estate tax is appropriate, the applicable <i>exemption</i> and <i>tax rates</i> should...</p> <ul style="list-style-type: none"> <li>a. remain consistent through time</li> <li>b. be adjusted for inflation annually</li> <li>c. change based on economic conditions</li> <li>d. I am not in favor of a federal estate tax</li> </ul>		

\* Significant at the 0.05 level

\*\* Significant at the 0.01 level

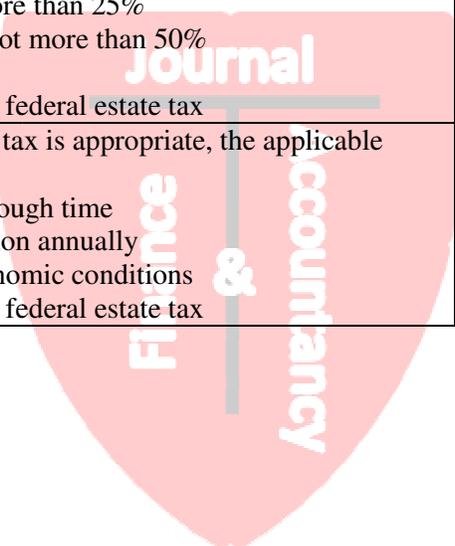


TABLE 3  
Similarities between Political Party Affiliation and Ideological Philosophy

Statement	Strongly Agree					Strongly Disagree			
	R	C	D	L		R	C	D	L
1	LTE*	LTE	MTE**	MTE		MTE	MTE	LTE	As expected
5	LTE	LTE	MTE	MTE		MTE	MTE	LTE	LTE
10	As expected	LTE	MTE	MTE		MTE	MTE	LTE	As expected
12	LTE	LTE	MTE	MTE		MTE	MTE	LTE	As expected

\* LTE = Fewer responses than expected (less than expected) under the assumption of independence

\*\* MTE = More responses than expected under the assumption of independence

TABLE 4  
Political Party Affiliation

Statement	Democrat	No Party Affiliation	Independent	Republican
1 (SA)	_____	_____	_____	_____
1 (SD)	_____	_____	_____	_____
5 (SA)	_____	_____	_____	_____
5 (SD)	_____	_____	_____	_____
10 (SA)	_____	_____	_____	_____
10 (SD)	_____	_____	_____	_____
12 (SA)	_____	_____	_____	_____
12 (SD)	_____	_____	_____	_____

TABLE 5  
Ideological Philosophy

Statement	Conservative	Moderate	Liberal
1 (SA)	_____	_____	_____
1 (SD)	_____	_____	_____
Statement 5 (SA)	_____	_____	_____
5 (SD)	_____	_____	_____
Statement 10 (SA)	_____	_____	_____
10 (SD)	_____	_____	_____
Statement 11 (SA)	_____	_____	_____
11 (SD)	_____	_____	_____
Statement 12 (SA)	_____	_____	_____
12 (SD)	_____	_____	_____
Statement 16 (10% or less)	_____	_____	_____
16 (10 – 25%)	_____	_____	_____
16 (25 – 50%)	_____	_____	_____
16 (Over 50%)	_____	_____	_____

