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Paul G. Schervish
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CENTER ON WEALTH AND PHILANTHROPY

BOSTON COLLEGE

MCGUINN HALL 515

140 COMMONWEALTH AVENUE

CHESTNUT HILL, MA 02467

TEL: (617) 552-4070

FAX: (617) 552-3903

EMAIL: cwp508@bc.edu

WEBSITE: www.bc.edu/cwp

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Philanthropy Can Thrive Without Estate Tax

By Paul G. Schervish

Now that George W. Bush is headed for the White House, the estate tax and its deduction for charitable bequests are likely to be short-lived, at least as we have known them. In his campaign, Mr. Bush promised to eliminate the tax, and Congress -- with substantial support from Democrats -- is poised to consider revamping, if not abolishing, the levy.

I once was opposed to such a move, counting myself among those who view the estate tax as a catalyst for charitable giving. But I now believe that philanthropy would survive -- and even thrive -- without the tax.

In fact, repealing it would lead to greater national and personal economic growth, encourage charitable giving to be more of a voluntary act than one spurred by tax incentives, and mobilize for charity the increasing affluence and philanthropic inclinations of many Americans.

Instead of resisting repeal, charities and fund raisers might do better to contemplate how to become effective in an environment in which contributions can flow to them through a far less circuitous and expensive route than what the estate tax creates.

The tax, which is levied on estates of \$675,000 or more -- a threshold that is set to rise gradually to \$1-million by 2006 -- escaped intact last summer, when President Clinton vetoed a congressional effort to abolish it over 10 years. Proponents of the tax -- many charity and foundation officials and financial planners among them -- argued that eliminating it would have a devastating effect on philanthropy.

But too many people have uncritically accepted such concerns. In fact, worries about a disastrous impact on charities reflect a misappraisal of the positive effects that a reduction or elimination of the estate tax would have for philanthropy.

For one thing, trends in charitable bequests over the past decade indicate that a growing number of wealthy Americans already are shifting their financial legacies from heirs to charity.

John Havens, my colleague at the Social Welfare Research Institute at Boston College, has calculated that from 1992 to 1997, charitable bequests shot up 110 percent, while the value of estates without a surviving spouse grew 65 percent, and bequests to heirs rose 57 percent. For estates valued at \$20-million or more, the numbers are even starker: Charitable bequests soared 246 percent, while the value of the estates rose 135 percent and bequests to heirs rose 75 percent.

Mr. Havens also found that the mega-wealthy are leaving bigger and bigger proportions of their estates to charity. In 1997, estates without a surviving spouse that were valued at \$20-million or more allocated 49 percent of their assets to charitable bequests, up from 41 percent in 1995 and 34 percent in 1992.

Of course, such data do not prove that charitable giving will continue to increase if the estate tax is phased out. But the numbers are evidence that reducing or eliminating the tax will not necessarily impoverish charities.

Combine that evidence with a study published last year by Bankers Trust Private Banking, for which Mr. Havens and I provided research assistance. In the study, 112 people with assets of \$5-million or more were asked to chart both their expected and desired allocations of their estates to heirs, taxes, and charity.

On average, the respondents expected 16 percent of their estate assets to go to charitable organizations or causes, 47 percent to heirs, and 37 percent to taxes. But what those wealthy people desired was altogether different. They wanted to see 26 percent of their assets go to charity, 64 percent to heirs, and only 9 percent to taxes, with an additional 1 percent to unspecified other purposes.

In other words, if those wealthy people were to get their wish, their 76-percent reduction in taxes would result in a 63-percent increase in charitable bequests.

Moreover, the survey showed that the desire to shift money from taxes to charity is stronger at higher levels of wealth. Respondents with a net worth of \$50-million or more envisioned a greater shift to charity, rather than to heirs, than wealthy people with a net worth below that amount.

Besides such anecdotal evidence, a sound economic argument exists as to why repealing the estate tax could spur more -- and not less -- giving. A key underpinning of that argument is evidence that eliminating the estate tax would produce more income and jobs, giving Americans more resources to pass on to charity.

Aldona and Gary Robbins, senior research fellows at the Institute for Policy Innovation, in Dallas, estimated that abolishing the estate tax would increase the gross domestic product -- a measure of economic activity -- by nearly \$1-trillion during the next decade and create almost 275,000 jobs.

That growth could be extremely beneficial for charitable causes. In 1999, Mr. Havens and I estimated how various rates of annual growth in the gross domestic product would affect wealth and charitable bequests over the next 55 years. According to our most conservative estimate, annual economic growth of 2 percent would result in \$41-trillion being disbursed from estates with no surviving spouse, \$6-trillion of it in the form of charitable bequests. But we estimated that a rise in economic growth to our high-end

projection of 4 percent would result in \$136-trillion in estate assets being disbursed, \$25-trillion of it in charitable bequests.

Repealing or revamping the estate tax in a way that puts an end to economically unproductive estate-tax avoidance schemes would increase the likelihood that U.S. economic growth would be closer to the 4 percent projection than the 2 percent one, thus producing more dollars for charity.

Doing away with the estate tax would increase not only the amount of giving, but also the quality of giving. Indeed, it would be the basis for a new era of spiritual depth in philanthropy, making the voluntary act of charity more fully a work of liberty and humanitarian care, and less the windfall fruit of a convoluted tax strategy.

Certainly repeal of the estate tax will force many nonprofit institutions to become more creative in pursuing bequests. But the benefits of repeal, in the form of increased giving that is spurred by greater affluence and spiritually inspired beneficence, rather than tax policy, are ones that all of philanthropy should embrace.

Paul G. Schervish is professor of sociology and director of the Social Welfare Research Institute at Boston College. He currently is Fulbright Professor of Philanthropy at University College Cork, in Ireland.

Paul G. Schervish's editorial on the potential boon for charitable giving which might result from a repeal of the estate tax appears in the Opinion Pages of this month's Chronicle of Philanthropy dated January 11, 2001. "Philanthropy Can Thrive Without Estate Tax" can be found online at <http://www.philanthropy.com/premium/articles/v13/i06/06004701.htm> for registered users.