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**The
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MEMORANDUM

To: Interested Parties
From: Frank Luntz & Jef Pollock
Re: Americans Talk Taxes
Date: March 2, 2005

OVERVIEW

Listen to the American people: ***85% of Americans in the six states we surveyed either want the Death Tax completely eliminated or significantly reduced.***

When it comes to tax policy, Americans are often divided either politically or socio-economically. But not when it comes to the Death Tax. It continues to be one of the most hated avenues for government revenue in America today. In fact, with each passing year, opposition to the Death Tax continues to grow. From its perceived lack of fairness to the overly burdensome rate to the feeling that people should not be taxed two or three times for the same income, support for abolishing the Death Tax continues to run high.

- 64% want to abolish the Death Tax, while only 31% want it maintained in its current form.
- A plurality from every demographic, income, regional, and political subgroup supports ending the Death Tax in its entirety right now.
- Even after telling people that “*the estate tax*” only impacts estates of \$1.5 million or more, 60% still want to see the tax reduced, while only 34% want to see it maintained in its current form.

Make no mistake, Americans in the six states we surveyed feel the Death Tax (and estate and inheritance taxes) in *principle* are patently unfair and unjust. We gave Americans 15 different forms of taxation and asked them to indicate whether they were fair or unfair. Taxes on Social Security benefits are considered the most unfair form of taxation, but Death Taxes are second – even more unfair than the marriage penalty or taxes on savings account interest.

But what is even more remarkable is that *it no longer matters what you label the estate tax*. Sure, when the phrase “Death Tax” is used, you get a more hostile response to the tax and greater support for its abolition. But even when “inheritance” and/or “estate” tax questions are posed, the results are almost the same. *The American people we spoke to simply oppose on principle the concept of anyone – even the children of wealthy parents – being taxed on the death of their parents.*

The results of this survey are based on telephone interviews with 1,900 registered voters in six states (Maine, North Dakota, South Dakota, Indiana, Colorado and Arkansas), and has a margin of error of plus or minus 2 percent.

TAX FAIRNESS

When it comes to taxes, nothing matters more to Americans than the principle of “*fairness*.” In general, people tend to like the taxes that don’t affect them personally and dislike the taxes that they themselves have to pay.

But there are some taxes that individuals know they will never face and yet they oppose them anyway. **To Americans, some taxes are just plain unfair.** Several times over the past decade we have examined the relative fairness of most of the taxes paid by Americans today. We asked Americans in six states whether each tax was completely fair, somewhat fair, somewhat unfair or completely unfair. Listed below are the percentages for the most extreme responses – those that think the tax is “*completely fair*” and “*completely unfair*.”

<u>TAX</u>	<u>% BELIEVE TAX COMPLETELY FAIR</u>	<u>% BELIEVE TAX COMPLETELY UNFAIR</u>
Taxes on Social Security Benefits	5%	59%
Death Tax	5%	58%
Marriage Penalty Tax	5%	54%
Inheritance & Estate Tax	7%	48%
Tax on Savings Account Interest	11%	42%
Long Distance Phone Call Tax	10%	40%
Capital Gains Tax	15%	21%
Gas Taxes	22%	21%
Property Taxes	20%	19%
Taxes on Stock Dividends	20%	18%
Income Taxes	22%	15%
Payroll Taxes	24%	13%
Cigarette Taxes	57%	13%
Sales Taxes	31%	10%
Alcohol and Beer Taxes	56%	7%

The results are significant. Yes, when you call the inheritance/estate tax a “Death Tax” you get a slightly more hostile reaction. *But not matter how you label the tax, it is considered one of the least fair and most unfair taxes that a government can levy.*

- The **lower** your income, the more you think the Death Tax is unfair. Remarkably, those with incomes below \$30K are actually slightly more hostile to the Death Tax than individuals with incomes above \$60K:

	THE DEATH TAX	
	Completely <u>Fair</u>	Completely <u>Unfair</u>
Under \$30K Income	3%	61%
Above \$60K Income	6%	60%

No, the difference is not great, but the finding is significant. No matter what your income, you don’t like the Death Tax.

- Not surprisingly, 89% of Bush voters believe the Death Tax is somewhat or very unfair. But what is surprising is that 71% of Kerry voters also find the Death Tax at least somewhat (25%) or very (46%) unfair. When it comes to the Death Tax, there is universal affirmation that the tax is simply unfair.

THE DEATH TAX

By a 2 to 1 ratio, Americans we spoke to want the Death Tax eliminated or reduced...even after learning that it only impacts millionaire estates.

At the outset of our examination of public attitudes towards the estate/inheritance/Death Tax, we asked Americans where they stood. **A sizeable 64% want this tax eliminated, 31% want it kept, and 6% remain undecided.** We followed that with a question informing them that the tax was on estates above \$1.5 million and then asked whether the tax should be reduced or maintained. The answer: 60% support a reduction, 34% would keep it as it is, and 6% still undecided.

We also asked a series of agree/disagree questions testing both sides of the Death Tax debate. In virtually every question, a clear majority spoke out against the Death Tax – often overwhelmingly.

The arguments against the Death Tax are universally positively received. The results below explain why when politicians say it is the wrong tax and the wrong amount at the wrong time, the public agrees.

	<u>AGREE</u>	<u>DISAGREE</u>
Inheritance taxes are an extreme form of taxation. The tax rate, as high as 47%, is higher than even the highest federal income tax rates – and that’s unfair.	81%	17%
Inheritance taxes represent double and triple taxation. It is unfair for people to pay taxes on their income, and then more taxes on what they save, and a third time when they die.	80%	18%
Death Taxes are unfair because they single out those who save and invest for no reason other than the fact that they became successful and then died.	70%	26%

On most economic and tax issues, where you sit on the socio-economic ladder determines where you stand on the various proposals. The Death Tax is the lone exception. Opposition to the Death Tax cut across all income and partisan lines. **Democrats and those with lower incomes are just as likely to feel that the death/inheritance tax rate is too high, that it is double or triple taxation, and that it is a punishment for those who have been successful.**

The arguments in favor of maintaining the Death Tax have virtually no support from virtually anyone. We tested the arguments most commonly used by advocates of maintaining an estate/inheritance/Death Tax and almost all of them failed to win much backing:

	<u>AGREE</u>	<u>DISAGREE</u>
People do not work for inherited income, so Inheritances should be taxed at a higher rate since it is not earned income.	22%	75%
The inheritance tax is progressive, and it only affects the wealthiest Americans. Right now, inheritances of less than one million are not taxed. Since only the richest two or three percent of Americans have estates that high, the Death Tax should not be reduced.	42%	52%
Thanks to accountants and lawyers, the wealthiest families are able to take advantage of tax loopholes to avoid paying their income taxes, and the inheritance taxes make up for some of the money that is lost.	58%	35%

Of the six arguments we tested in favor and against the Death Tax, only one – the tax loophole argument – indicated any significant support for keeping the tax as it is. We include it in this analysis to emphasize that this was a straightforward survey designed to measure attitudes towards taxes in an accurate and unbiased fashion.

SO WHAT DO AMERICANS REALLY WANT?

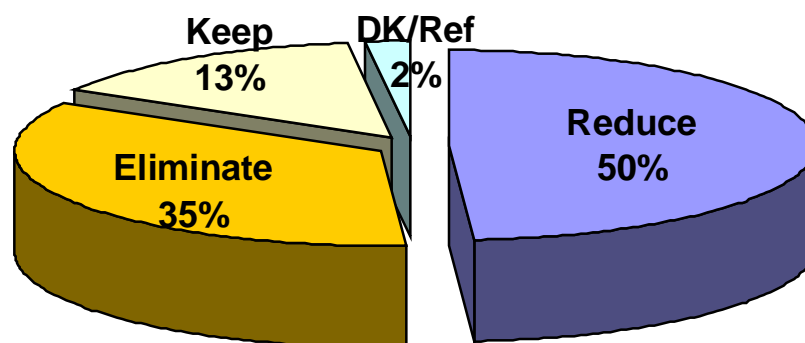
We gave Americans the ability to design what they thought would be the most fair Death Tax rate. The results could not be more conclusive:

- Fully 41% felt the Death Tax rate should either be zero or less than the capital gains rate – and 70% feel the rate should be 25% or less. Conversely, a tiny 9% think it should remain above the federal income tax rate.
- We then asked about the Death Tax compared to their desire to reduce the deficit. This is what we asked:

“Because of the federal deficit, we cannot afford to eliminate the Death Tax completely, but people should not be taxed at a 47% rate. Since death often results in the sale of assets, the Death Tax should be at the same rate as the capital gains tax: 15%.”

And by an overwhelming 3 to 1 ratio, our respondents said yes: 71% agree, 25% disagree, 4% don’t know. Even mentioning the federal deficit doesn’t dampen the desire and demand to either significantly reduce or completely eliminate the Death Tax.

And then our final question. Should the Death Tax be eliminated, should it be significantly reduced, or should it remain the same? While Americans are divided over whether it should stay or go, there is no question whatsoever that almost ALL those we spoke to want it dramatically lowered.



CONCLUSION

Even in times of economic distress and budget deficits, the Death Tax is simply one of the most hated forms of federal taxation. No matter what you call the tax – death, estate or inheritance – people hate it when they first hear about it, and they hate it when they learn more about it. While it may be targeted to collect money from the wealthy, lower-income Americans are just as hostile to its existence. While Republicans may have scored significant political advantage supporting its repeal, registered Democrats don't like it, either.