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“Only Morons Pay the Estate Tax”

In 2017, Gary Cohn, former Goldman Sachs partner and chief economic advisor to President Trump, proclaimed “only morons pay the estate tax” when asked about the importance of the estate tax to the U.S. Treasury. He quickly restated that what he meant to say was “only rich people with really bad planning” pay the estate tax. While his first response may have been in jest, I think he was making a valid point that the estate tax is not worth fretting about for U.S. budgetary purposes since so few Americans actually pay it. The tax only raises a very small portion of the overall tax revenue collected by the government (0.53% of total U.S. tax revenue in 2015) yet an enormous amount of time, energy and expense goes into circumventing it each year. Given this data, Cohn advocated for the abolishment of the estate tax in its entirety in connection with the Trump Administration’s early efforts at tax reform.

As I reflect on Cohn’s comment, I question why some very wealthy people ever pay an estate tax when they die, given good estate tax planning can minimize or eliminate the tax altogether. The following lists the top seven reasons why I believe people pay the tax:

1. They think they are immortal and, therefore, estate tax planning is unnecessary.
2. They never get around to planning because they are too busy, self-important or failing mentally.
3. Passing more money to their heirs is not what motivates them so avoiding the estate tax is not a priority.
4. They do not trust anyone and/or fear governmental authority.
5. They have done some tax planning, but not enough of it and, as a result, end up paying estate taxes.
6. Some confuse estate planning with succession planning for their family business and, therefore, procrastinate — this concern is very prevalent within the family business owner community where owners believe planning will lead to the loss of control of their business (life).
7. They do not know how easy it is to avoid the tax [without buying any life insurance!].

Will your heirs think you were a “moron”?

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