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Hillary Clinton Proposes 65% Top Rate for Estate Tax

Tax plan changed to increase top rate for wealthiest households

Hillary Clinton's campaign altered its tax plan. *PHOTO: STEVE POPE/GETTY IMAGES*

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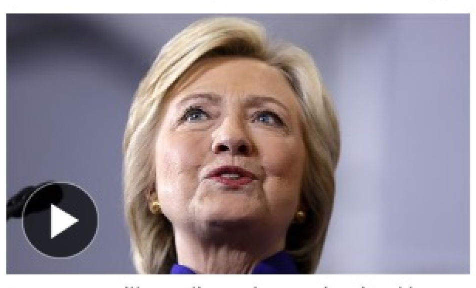
Democratic presidential candidate Hillary Clinton would levy a 65% tax on the largest estates and make it harder for wealthy people to pass appreciated assets to their heirs without paying taxes, expanding the list of tax increases she would impose on the top sliver of America's affluent.

The estate-tax increase and other new proposals that Mrs. Clinton detailed on Thursday would generate $260 billion over the next decade, enough to pay for her plans to simplify small business taxes and expand the child tax credit, according to the nonpartisan Committee for a Responsible Federal Budget, which advocates fiscal restraint.

In all, Mrs. Clinton would increase taxes by about $1.5 trillion over the next decade, increasing federal revenue by about 4%, though that new burden would be concentrated on relatively few households. There is at least a $6 trillion gap between her plan and the tax cuts proposed by her Republican rival Donald Trump.

The Clinton campaign changed its previous plan—which called for a 45% top rate—by adding three new tax brackets and adopting the structure proposed by Sen. Bernie Sanders of Vermont during the Democratic primaries. She would impose a 50% rate that would apply to estates over $10 million a person, a 55% rate that starts at $50 million a person, and the top rate of 65%, which would affect only those with assets exceeding $500 million for a single person and $1 billion for married couples.

Poll: Clinton Keeps Lead Over Trump



Democrat Hillary Clinton has maintained her lead over Republican Donald Trump, according to a new WSJ/NBC News poll out Wednesday. WSJ's Gerald F. Seib discusses the poll and what it will take to shake up the numbers. Photo: AP

In 2014, just 223 estates with a gross value exceeding $50 million filed taxable estate-tax returns, according to the Internal Revenue Service.

In a statement, Mr. Sanders said the proposal would respond to the "grotesque level of wealth" concentrated among the top few households.

"Secretary Clinton understands that it is appropriate to ask the top three-tenths of 1%, the very wealthiest people in this country, to pay their fair share of taxes so that we can provide a child tax credit for millions of working families and lower taxes for small businesses," Mr. Sanders said.

The 65% estate-tax rate would be the highest since 1981 and marks one of the most enormous tax-policy gulfs between Mrs. Clinton and Mr. Trump, who would repeal the tax.

"It is the height of hypocrisy for Hillary Clinton to offer an even more dramatic hike in the death tax at the same time she uses exotic tax loopholes reserved for the very wealthy to exempt her Chappaqua estate," said Jason Miller, a spokesman for Mr. Trump, referring to Mrs. Clinton's use of residence trusts in New York to lower the value of her taxable estate.

Neither Mrs. Clinton's nor Mr. Trump's proposals stand much chance of succeeding in a divided Congress where Republicans control the House and Democrats can block action in the Senate. The current top rate of 40% was set as part of a bipartisan compromise in January 2013, and the first $5.45 million a person is exempt from tax.

Mrs. Clinton's plan is "dead on arrival," said Rep. Kevin Brady (R., Texas), chairman of the House Ways and Means Committee.

"It will stop family owned businesses—including women and minority-owned businesses —from being passed down to their children and grandchildren," he said.

Hillary Clinton went on Funny or Die's show "Between Two Ferns" to try to improve her image with Millennials. Why are the presidential candidates paying more attention to the under 35 set? WSJ's Jason Bellini has today's Campaign Calculus. Photo: AP.

The estate tax is "wildly unpopular" with small business owners, said Matt Turkstra, who works on the issue for the National Federation of Independent Business, and "the biggest transfer of wealth is going to be from very, very wealthy people to lawyers."

The shrunken version of the estate and gift tax that has been in place in recent years brings in relatively little money for the federal government, less than 1% of projected revenue over the next decade, according to the Congressional Budget Office.

Still, the tax carries symbolic and political weight. Republicans and their allies in the business world see it as a patently unfair confiscation of wealth that punishes family-owned businesses. Democrats see it as a leveling tool necessary to combat the increasing concentration of wealth, and say that the impact would largely be felt by a very small number of people.

"The people who care a lot about it are the ones who are subject to it or the ones who benefit from it," said Michael Graetz, a tax-law professor at Columbia University and co-author of a book on the politics of the estate tax. That includes charities, he said, which worry that a repeal of the tax would reduce charitable bequests.

Mrs. Clinton would also repeal what is known as the step-up in basis. Under that rule, people who die with appreciated assets—for example, a stock bought decades ago—don't have to pay the capital-gains taxes on the increase in value before death. Then, their heirs only have to pay taxes when they sell the assets and only have to pay capital-gains taxes on the difference between the sale price and the value when they were inherited.

Under Mrs. Clinton's plan and under a proposal from President Barack Obama that has gone nowhere in Congress, a bequest of an asset would be treated as realizing those pent-up gains. There would be an exemption of undetermined size that would focus the tax on high-income families, and Mrs. Clinton's proposal, the campaign said, would include "careful protections and flexibility for small and closely held businesses, farms and homes, and personal property and family heirlooms."

But the combination of the 65% estate tax and the change to capital-gains rules could lead to significant increases in effective tax rates at death on some people—including, for example, Mr. Trump, who claims a net worth of $10 billion, though independent estimates put it lower.

Mrs. Clinton's new proposals would also limit like-kind exchanges, the technique commonly used in real estate to defer capital gains when properties are sold.

The latest changes are part of a series of tax increases Mrs. Clinton has rolled out to pay for targeted tax cuts and for increased spending. She would impose a 4% surcharge on income over $5 million a year, limit deductions for high-income households, create higher capital-gains rates on assets held for between two and six years and require the "Buffett Rule," a minimum 30% tax rate for the highest-income households named for investor Warren Buffett.

"These proposals reflect Hillary Clinton's approach to growing our economy: making investments in good-paying jobs and the middle class, paid for by closing loopholes and asking the wealthiest to pay their fair share—even as Donald Trump wants to give trillions in tax breaks tilted towards the wealthy," said Mike Shapiro, an economic policy adviser to Mrs. Clinton.

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