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# Abolish Minnesota's estate tax



## STATE POLICYMAKERS SHOULD:

- **Abolish the estate tax**

Minnesota imposes one of the heaviest estate taxes in the United States. Even so, it accounts for a minuscule share of the state's total tax revenues: 0.6 percent in 2020 and not more than 0.9 percent in any year since 1974.

Against this, it imposes some very real costs. People move to avoid paying the estate tax and when they do they take future payments of other taxes with them. Evidence suggests that the revenue costs of Minnesota's estate tax outweigh its benefits.

## Minnesota's estate taxes are high

Minnesota is one of twelve states and the District of Columbia to impose an estate tax (a further six impose inheritance taxes and Maryland imposes both).

Minnesota's estate tax burden is also one of

the heaviest. Of the 13 jurisdictions imposing one, Minnesota's exemption, \$3 million, is lower than in another eight. At 13 percent, Minnesota has the second-highest minimum rate of estate tax after Vermont.

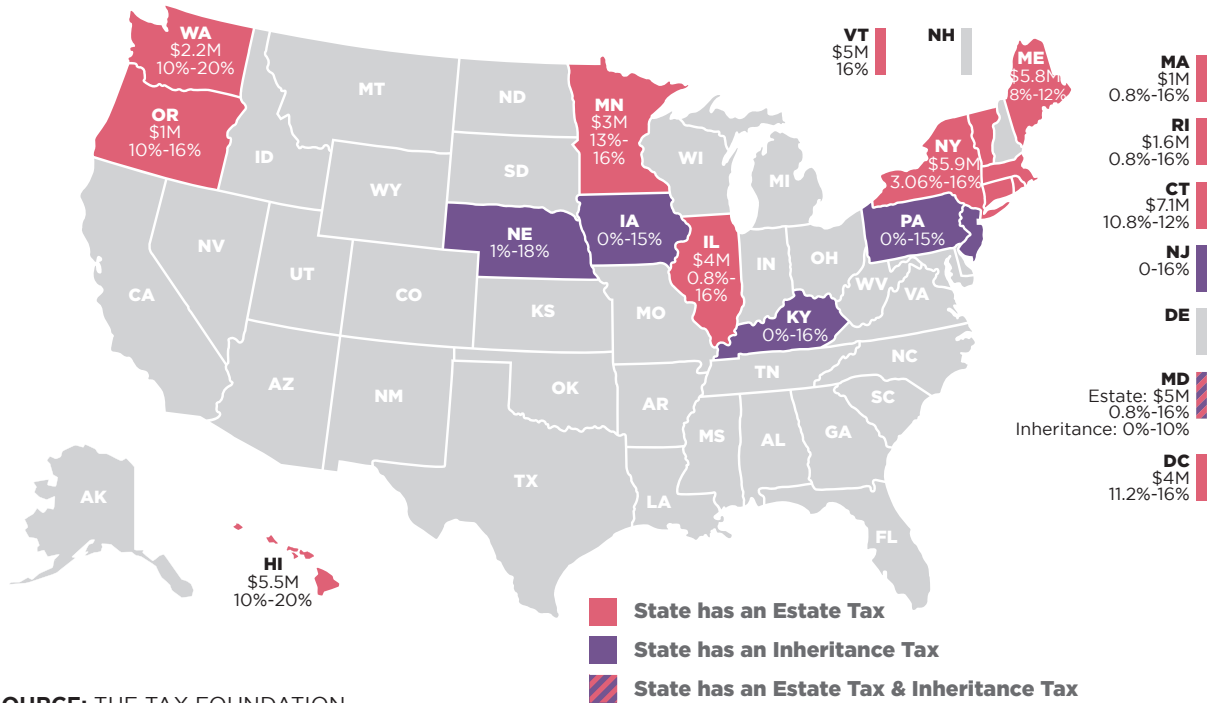
## The costs of estate taxes

Both theory and evidence show that people take taxes into consideration when deciding where to live, work, or invest. This includes the estate tax.

In 2013, the Minnesota Society of Certified

Public Accountants surveyed its members and found that "more than 86 percent of respondents said clients had asked for advice regarding residency options and moving from Minnesota" and that

FIGURE 1  
**STATE ESTATE & INHERITANCE TAX RATE & EXEMPTIONS IN 2021**



SOURCE: THE TAX FOUNDATION

91 percent said the number of clients asking about moving had increased from previous years.

When people leave Minnesota to avoid the estate tax, they take with them the future payments of income and sales taxes, among others. The net effect on state government tax revenues depends on whether the amount the estate tax brings in from those who stay is high enough to more than offset the lost revenues from these other taxes from those who go. In our 2018 report *The Cost of Minnesota's Estate Tax*, we found they probably aren't. We estimated that, in 2015-2016 for example, the estate tax cost the state government \$232.5 million in lost income and sales tax revenues.

A subsequent paper by economists Enrico Moretti and Daniel J. Wilson supports this. They

studied "the effect of state-level estate taxes on the geographical location of the Forbes 400 richest Americans" and "estimate(d) the effect of billionaire deaths on state tax revenues." "Surprisingly," they concluded, "we find that the benefit exceeds the cost for the vast majority of states." But not for Minnesota. We are one of four states they identify where the costs in terms of lost revenues from other taxes outweigh the benefits in terms of estate tax revenues. Those states are the ones with the highest top rates of income tax: Hawaii, Minnesota, Oregon, and Vermont. This suggests that there is a tradeoff: a state can have either a high top rate of income tax or an estate tax but it cannot have both, as Minnesota currently does.

## Conclusions

The purpose of taxation is not to bash the rich but to raise revenue to pay for government functions. By costing the state government revenue, Minnesota's estate tax actually makes this harder.

Our estate tax should be repealed.

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