AMERICANS FOR TaxFairness

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REPORT: AMERICAN WEALTH DYNASTIES POISED TO REACH TRILLION-DOLLAR LEVELS AND ESCAPE ESTATE TAX IN PERPETUITY

Report Reveals Gaping Tax Loopholes that Allow Richest Families to Hoard Trillions in Wealth by Avoiding Estate and Related Transfer Taxes; Mild Reforms Were Stripped from Build Back Better Act that Passed the U.S. House

WASHINGTON, D.C. — America's wealthy family dynasties are poised to hoard $21 trillion in wealth between now and 2045 using huge loopholes in wealth-transfer tax rules, a new American for Tax Fairness (ATF) report finds. Moderate reforms that would have marginally reduced the size of huge fortunes as they flow down the generations were briefly included in Build Back Better (BBB) legislation but pulled before the bill passed the House of Representatives in November.

The report, "Dynasty Trusts: Giant Tax Loopholes that Supercharge Wealth Accumulation," is available here.

The report estimates there could be as much as $8.4 trillion in foregone revenue from estate-, gift- and generation-skipping tax avoidance by dynasty trusts between now and 2045 based on the current estate tax rate of 40%. Most or all of this is legal due to huge loopholes built into the tax system over the years, in some cases by clever tax lawyers and in others by Congress. "Dynasty trust" is the term for a variety of wealth-accumulating structures that remain in place for multiple generations to ensure their fortunes cascade down to children, grandchildren and beyond undiminished by wealth-transfer taxes. They typically are employed by estates of $10 million or more.

That huge $8.4 trillion sum—an average of $350 billion a year over 24 years—is equivalent to the cost of over four Build Back Better plans costing $1.75 trillion each over ten years. About half of the $8.4 trillion is equivalent to the cost of 24 years of the expanded Child Tax Credit (CTC), which was included in the House-passed BBB bill and is estimated to reduce childhood poverty by 40%. The expanded CTC costs about $1.6 trillion over 10 years, or roughly $160 billion a year.

The report notes that the Build Back Better legislation—otherwise a vehicle for significant progressive tax reform—does nothing to directly reverse this toxic accumulation of dynastic wealth. Moreover, some dynasty trust reforms that were included in the bill passed by the House Ways and Means Committee in September were stripped out before the House voted on the measure in November.

“This hoarding of wealth is inexcusable,” said **Bob Lord**, the report’s principal author, who practiced estate law for 30 years before joining **Americans for Tax Fairness as Tax Counsel**. “The BBB legislation now before the U.S. Senate should be amended to close loopholes in the three components of America’s wealth transfer tax system: the estate, gift and generation-skipping tax. Effective reforms have already been developed—all that’s needed is for Congress to recognize the urgency to act now.”

The nation’s already worrisome wealth gap will only widen in coming years as fortunes compound transfer-tax free in the trusts of America’s most privileged families. That’s on top of the meteoric rise in dynasty fortunes since the early 1980s that saw the net worth of Walmart’s Walton clan rise over 40-fold to $247 billion; the conservative activist Koch family’s riches multiply from $4 billion to $100 billion; and the Mars candy company heirs enjoy a collective boost of over $90 billion.

In the absence of substantial reform soon, the report warns, those 20th century dynasties will in coming years look paltry compared to the fortunes of the descendants of Elon Musk, Jeff Bezos, Mark Zuckerberg and other 21st century billionaires already worth $100 billion or more. Based on Forbes data, ATF calculates that as of mid-October 2021 there were eight billionaires worth more than $100 billion and that the country’s 745 billionaires saw their wealth grow by 70%, or $2.1 trillion, during the first 19 months of the pandemic.

The report describes the accounting maneuvers used by America’s most fortunate families and the wealth-industry professionals they employ to dodge trillions of dollars in taxes, along with the reforms needed to stop them.

“The choice is clear,” the report declares. “We can fix our broken estate and gift tax system and stop the concentration of an ever-larger share of America’s wealth inside enormous dynasty trusts, or we can trust our democracy to a handful of trillionaire trust fund babies.”

The report traces the history of U.S. wealth-transfer taxation from Teddy Roosevelt’s 1910 clarion call for an estate tax that increased “rapidly in amount with the size of the estate” and was “properly safeguarded against evasion.” It tracks the aggressive moves of estate-planners to diminish or zero-out tax liabilities and the usually delayed and often ineffective efforts by the IRS to block their ploys.

The loopholes used by the ultra-rich to sidestep intergenerational wealth-transfer taxes outlined in the report include: artificially depressing for tax purposes the value of family assets; creating trusts that allow for the systematic transfer of wealth free of estate and gift tax; and leveraging the exemption from generation-skipping tax to shelter massive fortunes from wealth-transfer taxation in perpetuity.

In addition to the economic and societal risks posed by family dynasties, the report points out the political dangers. It cites a recent ATF finding that America’s billionaires collectively made $1.2 billion in political donations in the 2020 election cycle, meaning this handful of overwhelmingly white male voters contributed one of every $10 spent.