

Cheating death

Print

By Tim Harford

Published: August 4 2006 14:52 | Last updated: August 4 2006 14:52

Benjamin Franklin reminded us that death and taxes were life's only certainties. Franklin was plain wrong. It is easy to avoid most taxes. If you don't want to pay sales taxes, don't buy things. If you don't want to pay income tax, don't earn money. If you'd rather avoid tax on petrol, ride a bike.

Typically the result of this perfectly legal tax dodging is what we economists call "deadweight loss" and what normal people might call a pointless waste. If you're willing to pay £8.50 for a T-shirt but not £10, VAT will tip the balance between you buying and not buying. Because of the tax, you don't get the shirt you wanted, the shop owner doesn't collect the money she wanted - and, of course, the taxman doesn't collect any revenue either. Everybody is worse off.

This is just another example of a favourite economic maxim: "People respond to incentives." It's cute, and true, but not always helpful. We need to know how much, and in which direction. Sometimes the question has huge policy weight. For instance, there's an enthusiastic movement in the US that believes income tax cuts can raise revenue because they stimulate more work and more income and take a smaller slice of a much bigger pie. This view is implausible at anything other than very high tax rates. Cut taxes from 30 per cent to 25 per cent, and the economy needs to expand by a fifth before total revenues recover. That is an implausibly large expansion. In fact, it's not even obvious that income tax cuts stimulate more work. They might indeed encourage people to work overtime knowing that they will keep more of the proceeds. They might equally encourage people to slack off: with take-home pay rising, why work so hard?

Still, it is unwise to underestimate the power of taxes to alter behaviour. Perhaps following Franklin, Margaret Mitchell commented in *Gone with the Wind*, "Death, taxes and childbirth! There's never a convenient time for any of them." She should have seen the economic research emerging from Australia. It turns out that death, taxes and childbirth can be and are rescheduled to suit the needs of Australian bank accounts.

The economists who realised this are Joshua Gans and Andrew Leigh, who have been publishing a series of papers and notes showing some suspicious patterns in Australian birth and death rates. Australia passed legislation to abolish estate taxes in 1978, meaning that anyone who died on or after July 1 1979 was entirely exempt, but anyone dying before that date would be fully subject to the inheritance tax, paid by about one in 10 of the departed. The fall in the death rate in late June of that year is quite striking, as is the sudden rise in early July. Gans and Leigh estimated that one in 20 likely deaths in the last week of June were postponed long enough to escape inheritance tax. With 90 per cent of estates too small for tax anyway, this suggests that fully half the likely taxpayers managed to escape death long enough to escape the tax too.

A happier example of the same phenomenon came in the summer of 2004. The Australian government announced in May that it would pay a "baby bonus" of A\$3,000, about £1,250, to each family of a child born on or after July 1. The effect was unsurprising, at least to an economist: the number of happy events on July 1 was an all-time record, and twice as many as on June 30.

I shall bear this in mind. The Harford family is due to expand in September - or possibly October. We shall have to see what the incentives are before we decide.

Copyright The Financial Times Limited 2006

[Home](#) » [National](#) » Article

Rich folk managed to turn death rattle into tax wheeze

John Garnaut
June 16, 2006

IT IS well known that the rich will go a long way to avoid taxes. A new study shows just how far: they will cheat death itself if it saves them money.

Two economists, Andrew Leigh and Joshua Gans, scoured the death records of 27 years ago, when the then treasurer, John Howard, abolished federal inheritance taxes.

Rich people dying before midnight on July 1, 1979, were to be taxed at up to 28 per cent of the value of their estates. But those who saved their final breath for the new financial year were free to die untaxed.

Mr Leigh, of The Australian National University, and Professor Gans of the Melbourne Business School, discovered a large blip in the data as rich people postponed their deaths to the new financial year.

"Over half of those who would have paid the inheritance tax in its last week of operation managed to avoid doing so," they state in their paper, *Did the Death of Australian Inheritance Taxes Affect Deaths?*

That is, about five in every nine rich people who, statistically, should have expired in the last week of June did not do so until the first week of July.

Pastor Renton McRae, of the Lifestream Christian Fellowship, said human will could extend life beyond the body's expiry date. "There is an incredible ability within the human spirit that denies logic and physiology," he said.

But he doubted whether leaving a larger estate for others could provide sufficient motive.

Did the families who stood to gain keep their benefactors alive until July with the help of medical life support? "As long as you keep the heart beating you can keep people technically alive," said Pastor McRae.

The authors concede the possibility they have uncovered an outbreak of morbid tax fraud, as relatives concealed the bodies of their rich loved ones until the new financial year.

The abolishing of death taxes made Australia one of the few developed countries that does not impose an explicit or de facto inheritance tax.

But just as tax cuts appear to promote longevity, the authors believe reintroducing an inheritance tax could cause premature death. "Any country that introduced [it] should expect a spike in the death rate in the week before the law takes effect," they said.

[SAVE 50% on Home Delivery - Have the Herald waiting for you, for as low as \\$1.50 a weekend. Limited time only](#)

Copyright © 2006. The Sydney Morning Herald.

LIFE

CASH CRUNCH

Death or Taxes. A legal quirk makes 2010 a great year to bequeath wealth. Can resting in peace be incentivized?

BY ADAM FISHER

ATTN: WEALTHY PEOPLE. BECAUSE OF A COMPLICATED political standoff in Washington, there is no federal estate tax this year. That means if you die on or before Dec. 31, Uncle Sam won't get so much as a dime of your millions when they go to your heirs. But if you live just long enough to see the ball drop on New Year's Eve, the IRS will take up to a 55% cut of your nest egg.

Economics—a.k.a. the dismal science—is based on the idea that people respond to financial incentives. But can your death be incentivized? "I've had clients tell me that if they were to get terminally ill this year, they would want to pull the plug instead of hanging on," says William Zabel, an estate-planning attorney in New York City who wrote wills for Doris Duke and Jackie O.

ILLUSTRATION BY TED MCGRATH FOR TIME; SUIT: ANDERSEN ROSS—GETTY IMAGES; BAG OF MONEY: COMSTOCK—GETTY IMAGES



4
6
7
8
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

LIFE | CASH CRUNCH

One CPA in San Francisco, who requested that we not identify him by name, has a client he suspects is planning a tax-related suicide. “She keeps asking me over and over to recalculate the tax savings and talking about joining her husband in heaven,” says the CPA. “I’m really worried. I’m not trained for this, and I don’t know what to do.”

It’s a troubling issue that “has not popped up on our radar,” says Joel Allegretti, spokesman for the American Institute of Certified Public Accountants, the leading industry association for accountants. But academic researchers have known for years that death rates are influenced by major changes in estate-tax law. A 2003 paper published in the prestigious *Review of Economics and Statistics* looked at 13 major estate-tax changes in the U.S.—following the creation of the tax in 1916—and found they had a small but statistically significant effect on death rates. Among those wealthy enough to be affected by the changes, the chance of dying increased slightly in the two weeks before rates went up and decreased in the two weeks after an estate-tax cut, a phenomenon the authors have dubbed death elasticity.

Other studies have found the effect is particularly dramatic when countries eliminate in-

INHERIT THE MATH

\$1 MILLION

Amount shielded from the 2011 estate tax

1

Number of years the federal estate tax is on hiatus

55%

Estate-tax rate that will kick in Jan. 1

heritance taxes altogether. In Australia, which abolished the tax in 1979, economist Joshua Gans used weekly death data to conclude that approximately 50 people who would have died in any other week managed to hang on until the tax expired. That’s noteworthy in a country where each week only 90 of the people who died got hit by the tax.

Come January, when the U.S. estate tax goes from zero to 55% literally overnight, will the death rate spike as radically as it fell in Australia? Gans finds it “plausible.”

To be sure, no one is expecting a death wave in December. For one thing, only 1 in 460 Americans has an estate big enough to be affected by the change in estate-tax law, and of this group, typically only about 5,500 die in any given year. (In 2009, the tax targeted people with a net worth of more than \$3.5 million; in 2011, the threshold will drop to a mere \$1 million.) Zabel speculates that this year, perhaps 20 or 30 people will hasten their own deaths for the sake of their heirs. “But they are not going to admit it,” he says. “Suicide is ignoble.” Not to mention ill-advised, since Congress could still pass a law that taxes people who have already gone to their graves. ■