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## NEW VARIANT OF KYL PROPOSAL WITH GRADUATED RATE STRUCTURE STILL VIRTUALLY TANTAMOUNT TO REPEAL

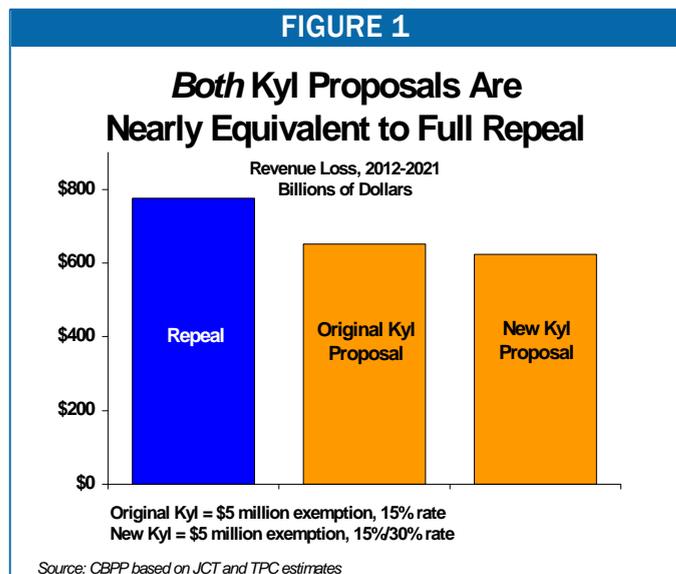
By Joel Friedman

In the hopes of reaching a compromise deal on the estate tax, Senator Jon Kyl has reportedly floated a variant of his previous proposal. This alternative may be presented as representing more of a compromise and being less costly than the original proposal.<sup>1</sup> According to estimates by the Urban Institute-Brookings Institution Tax Policy Center, however, this *new variant would cost 96 percent as much as his original proposal*, which itself was so costly that it differed little from full repeal of the estate tax. It is unclear which version of his proposal Senator Kyl ultimately will stand behind. What is clear is that neither comes close to a meaningful compromise.

Senator Kyl has been a staunch advocate of repealing the estate tax. He has recently acknowledged, however, that repeal supporters “do not have the votes” in the Senate to make repeal permanent and that their “position is eroding.”<sup>2</sup> Given this situation, he has for several months been promoting a “compromise” position: an estate tax with a \$5 million exemption — \$10 million for a couple — and a 15 percent rate.

According to Joint Committee on Taxation estimates, this proposal would cost 84 percent as much as repeal. Over the 2012 to 2021 period, the first decade in which the proposal’s costs would be fully reflected in the estimates, it would reduce revenues by about \$650 billion. Because Senator Kyl has not proposed to offset these revenue losses, they will result in higher deficits and debt, generating \$175 billion in higher interest costs over the period for a total ten-year cost of \$825 billion.

Due to the proposal’s high cost, most have recognized it as virtually tantamount to repeal. In an apparent attempt to



<sup>1</sup> Mary Dalrymple, “Senate Opens Debate on Fate of Estate Tax,” *Los Angeles Times*, Jun 7, 2006.

<sup>2</sup> Susan Cornwell, “Republican Says Compromise Likely on Estate Tax,” Reuters, May 2, 2006.

generate more support for his proposal, Senator Kyl has reportedly suggested amending it to include a 30 percent tax rate for the amount of an estate over \$30 million. Under this modified proposal, the first \$5 million of an estate (\$10 million for a couple) would be exempt from tax, and amounts between \$5 million and \$30 million would be subject to a low 15 percent rate. Only amounts above \$30 million would face a 30 percent rate.

The addition of this new 30 percent tax bracket for estates over \$30 million does little to mitigate the very high cost of Senator Kyl's original proposal. The Tax Policy Center has examined both Kyl proposals and found their cost is nearly identical: the new proposal with the graduated rate structure would cost 96 percent as much as Senator Kyl's original proposal. With interest, his new proposal would still have a total cost of nearly \$800 billion over the 2012 to 2021 period, a time when the baby boomers will be retiring in large numbers and federal health care and retirement costs will rise. Thus this new proposal also is close to full repeal and does not represent a meaningful compromise.