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GREENSPAN REJECTS ESTATE TAX REPEAL WITHOUT OFFSETS

By Joel Friedman and Ruth Carlitz

In testimony before the Senate Banking, Housing and Urban Affairs Committee on July 21, Federal Reserve Chairman Alan Greenspan reiterated his opposition to tax-cut proposals that increase the deficit and made clear that this opposition applies to proposals that repeal or drastically reduce the estate tax without fully offsetting the costs.

With the reappearance of high deficits, Greenspan has called for reinstating the “pay-as-you-go” rule (often-called PAYGO) that require the cost of all entitlement expansions and tax cuts to be offset, so that they do not increase the deficit. Senator Charles Schumer (D-N.Y.) asked Greenspan about the affordability of estate tax repeal if the cost were not offset. Greenspan stated that, despite favoring “reducing taxes on capital,” he only supports such tax cuts “under PAYGO” and would advise Congress not to repeal the estate tax if the cost of repeal were not offset.

Schumer also asked Greenspan about estate tax reform proposals that cost nearly as much as repeal. For instance, Senator Jon Kyl has proposed allowing the first \$8 million of an estate to be tax free (\$16 million for a couple) and setting the estate tax rate equal to the capital gains rate, which is currently 15 percent. This proposal would cost 93 percent as much as repeal, according to the Urban Institute-Brookings Institution Tax Policy Center.¹ Greenspan responded that he also would oppose such costly estate tax reform proposals if they were not offset.

Greenspan Opposes Costly Estate Tax Changes Without PAYGO Offsets

Below is part of the exchange between Senator Charles Schumer and Fed Chairman Greenspan at the Senate Banking, Housing and Urban Affairs Committee on July 21, 2005:

Senator Schumer: Is it fair to say that you would advise not to repeal the estate tax if there are no offsets, if there is no PAYGO?

Chairman Greenspan: That is correct. I think that PAYGO is an essential ingredient going forward and that all programs, both spending and revenue programs, come under that.

Senator Schumer: There is a[n estate tax] proposal for a compromise which would cost about 80-90% of the full cost [of estate tax repeal]....I take it again, without PAYGO, without an offset, you would think we should not do that at this point.

Chairman Greenspan: That is correct.

¹ Joel Friedman and Ruth Carlitz, “Kyl Estate Tax ‘Compromise’ Proposal Extremely Costly; True Cost Likely to be Masked,” Center on Budget and Policy Priorities, July 7, 2005.