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Deal contains estate-tax trim Plan is that of departing Lincoln

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WASHINGTON - A proposal to reduce the estate tax floated repeatedly over the past two years by outgoing Sen. Blanche Lincoln finally saw the light of day in the waning days of her Senate tenure.

The tax policy deal between the White House and Congress announced Monday evening contains the outlines of an estate tax proposal offered by Lincoln, a Democrat from Arkansas, and Sen. John Kyl, a Republican from Arizona.

If passed, only multimillionaires will have to worry about having their estates hit by so-called death taxes.

The Lincoln-Kyl proposal calls for a 35 percent rate. Individuals would be able to exempt the first $5 million in assets from the tax; couples could exempt $10 million.

"I have long-fought for a solution to end questions over how we will move forward on this policy, and I am glad that we have reached some agreement," Lincoln said, in a statement. "Uncertainty in the estate tax law has caused incredible difficulties for Arkansas' farmers, ranchers and small businesses." Arkansas' other Democratic senator, Mark Pryor, declined to take a position on the overall deal.

"The devil is in the details," he said. "However, I am encouraged by what I've heard and look forward to examining the plan closely." Critics of Lincoln's plan say the estate tax already hits only the rich. Reducing its reach, they say, would only benefit the very wealthy.

Proponents of lowering the tax say that heirs of small business owners who want to keep their companies and farms in the family are hurt by the tax. They say lower taxes would benefit the economy.

The compromise has a long way to go on Capitol Hill before being final.

Speaker of the House Nancy Pelosi of California slammed the tax deal, which she said was tainted by demands made by Republicans that would provide tax cuts to the ultrarich, fail to create jobs and increase the deficit.

"To add insult to injury, the Republican estate tax proposal would help only 39,000 of America's richest families, while adding about $25 billion more to the deficit," she said.

As a result of tax law passed in 2001, the estate tax was gradually reduced over recent years and then set to increase dramatically in 2011.

In 2009, the Internal Revenue Service levied a 45 percent tax on heirs, who could claim a $3.5 million exemption.

The 2001 law zeroed out the estate tax in 2010 and then brings it back at a 55 percent rate in 2011, with a $1 million exemption.

President Barack Obama proposed reinstating the tax at its 2009 rate.

Andrew Fieldhouse, a budget policy analyst at the Economic Policy Institute, a liberal advocacy group, said the White House gave ground on estate taxes because it was able to get one of its priorities - a 13-month extension of unemployment benefits - included in the deal.

He criticized the estate-tax agreement, saying that heirs who would see a lower tax burden would not turn around and spend their inherited assets.

"This isn't stimulus," he said. "This was just the price tag to buy unemployment insurance" in the negotiations between the White House and Congress.

Curtis Dubay, senior policy analyst at the Heritage Foundation, a conservative Washington research and advocacy group, said small-business owners are hit especially hard by the estate tax. That's because so much of their assets are in real estate and equipment, rather than more liquid assets such as cash and stocks.

"The estate tax is a huge drag on the economy," he said.

Fiscal conservatives criticized the effect that enacting the plan would have on the budget.

Maya MacGuineas, president of the Committee for a Responsible Federal Government, a Washington group that advocates fiscally conservative policies, called the agreement "surreal" and "utterly exasperating." Rather than looking for ways to reduce the fiscal imbalance, she said, "lawmakers are tripping over themselves to add more deficit-financed measures to the bill." Under Congress' budget rules, spending or tax "offsets" to finance the tax and unemployment changes would have to be found, unless they are considered "emergencies." "It's a clear-cut case that the labor market is in a crisis," said the Economic Policy Institute's Fieldhouse. But he said the case for calling an increase on estate taxes an emergency was "flimsy." Fieldhouse said the lower estate tax rate would not encourage spending and would benefit less than 1 percent of taxpayers.

If the broader tax deal were passed in full, U.S. Treasury coffers would be reduced - because of both increased unemployment benefits and lower tax revenue - by more than $900 billion over two years.

The impact on the budget of the estate tax portion of the deal isn't clear. The Treasury Department projected that Obama's original proposal, reverting back to 2009 estatetax policy with its $3.5 million exemption and 45 percent rate, would reduce tax revenue by a total of $13 billion for the first two years, and then by $28 billion in 2015.

Though estates were not subject to the estate tax this year, many heirs were hit by another levy - the capital gains tax - which has different rules for calculating the value of a taxed asset.

Observers on the left and right predicted the new tax proposal will provide what tax lawyers call a "stepped up basis" instead of a "carryover basis." Translation - With a stepped-up basis, heirs only face a capital gains tax if the property they inherit rises in value between the date the decedent died and the date the asset is sold. With a "carryover basis," the property is valued from the date the decedent originally acquired it.

The compromise tax package would last only two years, they added, increasing the likelihood that taxation will be a popular topic during the 2012 presidential campaign.

Liberals bashed this week's deal.

A posting on the blog DailyKos, for example, referred to Lincoln as "the Senator from Wal-Mart," claiming she pushed for the lower rates to benefit people in Arkansas who had seen their fortunes increase as the Bentonville retail chain prospered.

Dan Mitchell, a senior fellow at the CATO Institute, a conservative Washington research and advocacy group, disagreed, and said he didn't believe in penalizing the accumulation of wealth and investment.

He was not concerned about the effect the tax change would have on the deficit because government "red ink is 100 percent driven by spending." Mitchell was optimistic Congress would act on the negotiated deal, keeping the estate tax from rising to 55 percent.

He thinks a long-term, low-tax policy, rather than short- term gimmicks to juice the economy would result in steady economic growth.

But, Mitchell, who favors low taxes, wasn't totally satisfied with the outcome.

"If I'm a glass-half-empty guy, I'm thinking, `We had a zero rate, and now we're going up to 35 percent,'" he said.

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