



U.S. SENATE COMMITTEE ON

# Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Senator Chuck Grassley  
Opening Statement before the Senate Committee on Finance  
“Armed Forces Tax Fairness Act of 2003”  
Wednesday, February 5, 2003

Senator Baucus and I have called this session to mark up legislation carried over from the 107<sup>th</sup> Congress. The *Armed Forces Tax Fairness Act of 2003* is intended to provide tax equity and fairness for members of the uniformed services and foreign service personnel. Compensation and taxation of our military personnel is particularly timely, as war in the Middle East becomes an increasingly imminent possibility for the United States. In fact, the public today will hear remarks from Colin Powell regarding the status of inspections in Iraq and the Administration’s proposed next steps.

In addition to ongoing inspections and dialogue with Iraq, we face new and unexpected challenges with the government of North Korea. None of this is intended to give short shrift to the threats and difficulties we continue to face in our effort to secure the homeland in the post-9/11 world we live in today. We depend increasingly upon our members of the uniformed services and their reserve components to defend our borders and protect our country. We need to ensure that our military personnel are adequately compensated, provided with incentives to continue their service to our country, and receive equal and fair treatment under our tax laws. Those are the objectives of the military tax bill we consider today.

We are here today to consider the *Armed Forces Tax Fairness Act of 2003*, which mirrors legislation introduced by Senator Baucus, myself and others of this committee yesterday and is nearly identical in its content to what we passed out of this committee in September of last year. Similar to last year, we have included provisions that exclude from income tax certain military benefits including (i) death gratuity benefits, (ii) military child care benefits, and (iii) payments made under the housing assistance program. We have ensured the continued vitality of veteran organizations by allowing ancestors and lineal descendants of military personnel to count toward membership requirements. We again provided leniency with respect to the filing of tax returns for persons located in a contingency operation, as those areas as designated by the secretary of defense.

Also comparable to last year, we provided that members of the uniformed services and foreign service are treated fairly under the home sale rules. These people are asked to travel on extended duty for significant periods in service to their country. These periods of service should not be counted against them when they go to sell their homes. Like many of the provisions in this bill, the issue is one of fairness, and it is important to ensure that our military personnel are eligible for the same tax incentives for home ownership available to all Americans.

Another important component of our bill is the above-the-line deduction for unreimbursed travel expenses incurred by members of the reserve components of the United States armed forces. Many of Iowa's 94,000 reservists have contacted me to emphasize that reservists often must subsidize their own military training. This happens because 75 percent of the population (including numerous reservists) do not itemize on their tax returns, and for reservists who do itemize, unreimbursed travel expense deductions are limited to those expenses in excess of 2 percent of their adjusted gross income.

I think it is worth noting that reservists have become an increasingly important part of our military regime over the last 10 to 12 years. Reservists were involuntarily activated only four times over the 45 years from 1945 to 1990 – approximately 85 percent of those to assist in the Korean War during the 1950s. By contrast, since 1990, reservists have been involuntarily activated six times--in some cases related to peace-keeping and nation building exercises in Haiti, Bosnia and Kosovo but also related to armed conflicts such as those with Iraq and the current military operation against terrorists. As of today, Iowa has 908 National Guard members and reservists on active duty.

We have added two important provisions to this bill that were passed in November on the floor of the Senate. First, we have provided that military appointments will be treated as scholarships for purposes of educational savings accounts. This means that families will not be punished for planning ahead for secondary education in the event that a child has the opportunity to serve at one of the military academies. Secondly, as in the CARE bill, we have provided for the suspension of tax-exempt status of organizations deemed by statute or executive order to operate for the benefit of terrorist organizations.

In closing, I would like to thank those men and women who continue to serve in the United States military and provide us with the freedoms that we so frequently take for granted. I urge my colleagues to support the package of military tax initiatives under consideration in this committee session. Thank you.