



Committee On Finance

Max Baucus, Chairman

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OPENING STATEMENT OF CHAIRMAN MAX BAUCUS "ARMED FORCES TAX FAIRNESS ACT OF 2002" SEPTEMBER 5, 2002

As we approach the first anniversary of the September 11th attacks, our thoughts are not only with the victims of the attacks, but also with the men and women who are leading America's response and serving our country.

The Marines deployed in Afghanistan and the Arabian Sea, as part of Operation Enduring Freedom. The members of the Army National Guard who are helping to protect our borders and airports. The Foreign Service officers serving in dangerous diplomatic posts.

For my part, I think, in particular, about the dedicated members of the 120th Fighter Wing of the Air National Guard, from Montana, who have been mobilized to join the forces that secure the skies of the no-fly zone over Iraq. All of these dedicated public servants, and their families, deserve our thoughts and our thanks. They also deserve to be treated appropriately under the tax laws. That's why we are meeting today, to consider the "Armed Forces Tax Fairness Act of 2002."

The bill does two things. First, it corrects provisions that treat members of the armed forces unfairly. Second, it provides modest incentives, to encourage young men and women to continue to serve our country.

Let me describe some of the key provisions of the bill. Under our current tax code, if a member of the armed forces dies while on active duty, the Federal government pays the surviving spouse a small death benefit of \$6,000. The entire amount should be excluded from taxable income. However, because of a glitch in the law, only half is excluded. Senator Carnahan has introduced legislation to correct this, by excluding the entire \$6,000 payment, and the mark incorporates her bill.

Another example. In 1997, we changed the tax code to exclude gains from the sale of a person's own home from the capital gains tax, below certain threshold amounts. In order to qualify, you have to own and live in the home for at least two of the five years preceding the sale. This works just fine for most folks. But it doesn't work for many

members of the armed forces and the diplomatic corps, because they frequently are required to move from place to place around the country or the world. Senators McCain, Graham and Lincoln have proposed a bill to correct this, by establishing a special rule for determining the excludable gain from the sale of these homes, and the mark incorporates their bill.

A third example relates to the young men and women who serve in the National Guard and the Reserves, who, as we all know, are being called on with increasing frequency.

Many reservists must travel away from home for weekend drill and wind up spending a substantial amount of money for overnight travel and lodging. In fact, for many of our younger, more junior reservists, the expenses exceed their take home pay for that weekend. At the same time, they generally are unable to deduct the expenses from their taxes, because the expenses don't exceed the two percent floor. Senator DeWine has proposed a bill to provide an above-the-line deduction, and the mark incorporates this provision.

There are several other provisions that make further improvements. In addition, the mark also includes two provisions that raise revenue, to offset the revenue loss.

First, we improve the collection of unpaid taxes from people who have renounced their American citizenship in order to avoid future U.S. taxes. Second, we extend certain IRS user fees. These are modest, sensible changes. In fact, in the case of expatriates, the offset seems especially fitting.

All told, this bill does a small part to improve our tax code and, more importantly, pay respect to the men and women who are making sacrifices and risking their lives to defend us all.

I thank all of the members who have contributed to the development of the bill. Senators Levin, Warner and Cleland of the Armed Services Committee. Senator Landrieu for the child care provision. Senator Johnson for the contingency operations provision. Senator Harkin for the Veterans and Expatriation provisions. I especially thank the ranking member, Senator Grassley, who has once again been a partner in the development of important bipartisan tax legislation.