



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Floor Statement of Senator Chuck Grassley:
Sorry Fate of Tax Extenders in "Trailer" Package
Friday, Sept. 29, 2006

Mr. President, We've hit the end of the road on trying to pass the trailer bill separately. It is pretty clear we won't get a bill to the President's desk before we recess for the upcoming mid-term elections.

From my perspective the right thing to do is to pass legislation that resolves two important tax policy issues. The issues are a permanent death tax relief package and the trailer bill which contains a retroactive extension of several tax relief provisions. Those provisions expired way back, December 31, 2005. Taxpayers have lived with uncertainty on these bipartisan, widely-supported provisions for 9 months now.

Mr. President, how did we get here? How come we can't get a permanent death tax relief deal when it is clear that more than 60 Senators are on record in support of repeal or significant relief? How come we can't get a resolution of expired tax provisions that are overwhelmingly supported in both the House and Senate? This uncertainty is solely the responsibility of the leadership of both parties here in the Senate.

We're stuck on death tax because the Democratic Leadership won't let enough Democratic Senators vote their conscience. It's all because of political calculations. That's a shame. Family farmers and small business owners deserve an answer to the uncertainty posed by the death tax. My answer would be to repeal the death tax. But repeal isn't in the cards. Not 60 votes there. We've had roll call votes to prove it. Unfortunately, the political proof that repeal wasn't in the cards didn't materialize until the cloture vote we had back in June.

The American People deserve a final and definitive answer on death tax relief. As we go home, they have only to look to the Senate Democratic Leadership and ask why the Senate was not permitted to work its will on this issue.

I want to tell the rightfully disappointed family farmers and small business owners that we'll resolve the death tax problem. It should've been resolved by now. And, it will be resolved in a way that focuses on family farms and small businesses. I pledge to family farmers and small business owners, especially those in my home state of Iowa, that I will devote my energy and resources, as Chairman of the Senate Finance Committee, to resolving this problem.

Let's turn to the trailer bill. It's an odd name for a bill. The bill's been held up for so long some members may have forgotten the basis of the nickname. I'll remind you. It's a trailer bill because it covers tax provisions that dropped out of the tax relief reconciliation conference agreement. That conference agreement included the cornerstones of both the House and Senate bills. The cornerstone

of the House bill was a two-year extension of the lower rates on capital gains and dividends. The cornerstone of the Senate bill was an extension of the hold-harmless on the alternative minimum tax (“AMT”). I was pleased we covered the cornerstones of both bills. We only had revenue room to cover the cornerstones. The other provisions, known as the tax extenders, were decided to travel in a bill to follow or “trail.” Hence the name trailer bill.

The trailer bill took several weeks of intense negotiations. The negotiators were Chairman Thomas for the House and Senator Baucus and me for the Senate. They were tough negotiations, but they produced a fair agreement. That agreement was included in the trailer piece of the Trifecta. The House ratified Chairman Thomas’ agreement when it passed the Trifecta.

In my view, the agreement is closed. No items should be subtracted. No items should be added. A deal is a deal. Changes should only occur if all the parties to the agreement consent. We don’t have another five to six weeks to re-negotiate the trailer bill.

In getting to that agreement, I pushed hard for several Senate issues to be resolved. I’m referring to items other than the basic two-year extension of provisions that expired on December 31, 2005. Let me go through a few of those items.

First off, there is the abandoned mines reclamation (“AML”) fund proposal by Senators Santorum, Byrd, and Rockefeller and Chairman Enzi.

Secondly, there is a package of added incentives to enhance Hurricane Katrina rebuilding efforts. Senator Lott took the lead on this package, along with the support of Senators Vitter, and Landrieu.

Third, there are tax relief incentives for mine safety. Senators Byrd, Santorum, and Rockefeller argued for these important provisions.

Fourth, there is an expansion of the veterans mortgage bonds program. This is a program that the states use to provide veterans who return from combat with low-interest loans so that they can buy their families a home. Senators DeWine and Smith advanced these provisions.

Fifth, there is a proposal to provide a deduction for private mortgage insurance (“PMI”) for low-income home purchasers. Senators Lincoln and Smith worked hard to secure these provisions.

Sixth, there is a proposal to level the playing field between individual and corporate timber capital gains transactions. This proposal will ensure that timber-growing areas and related mill towns will not be disadvantaged if the timber company is a corporation. Most, not all, of the Senators from the timber growing states in the Pacific Northwest and Southeast had an interest in this provision.

Mr. President, these are a few of the proposals that were negotiated and resolved in the trailer package. In my role as Finance Committee chairman, I protected these Senate positions. I expected our Senate Leadership to back me as we proceed. I’m protecting Senators and Senate positions, so you’d think they’d automatically help me. To reiterate, a deal is a deal. The House has affirmed the deal with its vote on the Trifecta. There should be no backsliding on the deal.

Now, we haven’t been able to move a separate trailer bill because the Republican Leadership wants to use the trailer as a so-called “sweetener” for votes for death tax relief at some future point. I’ve been pushing for a separate bill for a lot of reasons. Some Republican colleagues have complained about my efforts, using terms like “whining” to describe what I’m trying to get done.

Why push so hard for a separate bill, some have asked. There are three key reasons. The first is the 19 million taxpayers who may face compliance problems because of incomplete IRS forms. The second reason is the hundreds of thousands of business taxpayers who have been in limbo waiting for final approval of measures like the research and development tax credit. Third, I'm virtually certain that the Leadership's strategy of trying to use unrelated "sweeteners" to turn Democratic votes for a death tax deal will continue to fail.

First, take a look at the Finance Committee website. On September 13, and 26, 2006, you'll find press releases that explain Finance Committee tax staff research. At my request, the tax staff looked into the effects of delaying action on the three widely-applicable expired middle-income tax relief provisions. I'm talking about the deductions for college tuition, teacher's out-of-pocket classroom expenses, and state sales tax. You'll see that we are talking about a group of up to 19 million tax filers being affected. Tax filers means families filing jointly and individuals filing as singles. In other words, we're talking about a lot more than 19 million taxpayers. Let me repeat that, Mr. President, more than 19 million taxpayers. The professional staff, all experienced tax practitioners who discussed this problem with the IRS, came to the conclusion that delaying action on extenders into the lame duck would have adverse consequences for that group of 19 million taxpayers. I won't go into details. You'll find them on the website.

Let me say that serving as Chairman of the Senate Finance Committee is a privilege and a responsibility. I thank the people of Iowa and my friends and colleagues in the Senate Republican Caucus for that privilege. I enjoy every day I serve as Chairman, but it brings responsibilities as well. One of those responsibilities is tax policy. Now, whether an individual Senator agrees or disagrees with a particular expiring tax relief matter is debatable. We all have opinions on these things. Probably no two Finance Committee members, let alone two U.S. Senators not on the committee, agree on all expiring tax relief measures. What we ought to agree on, Mr. President, is that we should not deliberately, and I underline the word deliberately, take actions to unnecessarily complicate taxpayers' efforts to comply with our admittedly complex tax system. That's what delaying action on these provisions already means. There's no ifs, ands, or buts. If we do not act before the 2006 IRS forms are finalized we're causing problems for 19 million taxpayers. It's just not right.

As Chairman, I would not be doing my job if I stayed silent. I have to speak out. It's my responsibility to those millions of taxpayers. Some have called it whining. Some might call it annoying. Others could call it persistent. I call it doing my job. When you're talking about up to 19 million middle-income taxpayers who are trying their best to comply with the tax system, we ought to whine until we're out of breath. I tried to remedy this problem by persuading my Leadership to change its mind. I did it in a way that is respectful of the rights and responsibilities of the Leadership. I'm disappointed and frustrated that that action has not been taken.

The second reason I pressed for a separate trailer bill is to deal with long-expired business-related tax incentives. These matters, like the research and development tax credit, are overwhelmingly popular in the House and Senate. Businesses have been in limbo on these provisions. We're talking about almost nine months of limbo now and at least another month of limbo. A lot of businesses, in good faith, relied on my assurances. They relied on the assurances of the Congressional Leadership, made in May of this year. These business folks were assured that these extenders would be done. In my state, Rockwell-Collins, of Cedar Rapids, is taking a financial hit because of our dilly-dallying. And it's not just management that cares. Iowa is a manufacturing state and we're proud of our "R and D." Thousands of Iowa employees of these companies have the right to ask why this popular

provision is being delayed. Some of them could ask why something this popular is a “hostage” to be cavalierly shot? They could ask me if political “credibility” of threats is more important than a job-based incentive?

When they ask me these questions, I could blame the Democratic Leadership for thwarting Republican efforts to pass death tax relief. Certainly, there’s truth to that defense. But, Mr. President, the Iowa workers, as most Midwesterners, want to know the bottom line. Blaming the other side is fair political discourse and everyone does it. But it isn’t a satisfactory answer if the matter isn’t taken care of. We owe these companies and workers a ticket out of limbo.

I come to the third reason I pushed for a separate trailer bill vote. Almost two months ago, the proponents of the Trifecta rejected my advice and decided to place the bet. I advised them publicly and privately that it would not work. I won’t repeat all of that. It’s in the Congressional Record of August 3rd. The bottom line is that the horses didn’t come in on the Trifecta. After the vote, being worried about the endless delay on extenders, I suggested a course of action that would “keep the hope of death tax relief alive.” Under that plan, the Leadership would push for an early vote on the Trifecta in either the form in which it failed or in a revised form. If it were to fail, I suggested we pass a separate trailer bill.

This plan would’ve tested, for a fourth time, whether sweeteners for key Democrats would turn their votes to favor a death tax relief package. I was convinced months ago that sweeteners wouldn’t turn Democrat votes.

On this point about turning votes with sweeteners, let’s step back for a second and look at the big picture. Death tax is a passionate issue. There is a moral dimension to it. Liberals tend to define any death tax relief as immoral because they argue the benefit of the relief will go to wealthy people. The political ads they produce use the actress Paris Hilton as an example.

Conservatives also look at the death tax as a moral issue. They see the death tax as confiscation of the fruits of labor and saving. It’s a penalty on the rewards of hard work. From our perspective, the death tax is about small business and family farms. It’s about providing one generation with a chance to pass on the results of its thrift and work to the next generation. The political ads we produce use family farm and small business examples.

So, Mr. President, this is an issue where folks have strong feelings. Ironically, from a process standpoint, Republicans and Democrats think alike. Here’s what I mean by that comment. Republicans and Democrats want permanent relief. Most, not all, of my caucus wants permanent repeal. A few Democrats agree with that view. Because of the political calculations I referred to before, you can’t find a definitive Democratic Caucus position plan on death tax relief. The Democratic Caucus is divided into three groups. Some want repeal. Some want significant relief short of repeal. Another group, probably a big majority, the liberal core, wants symbolic permanent relief and don’t want to lose much revenue in doing it.

There is a huge irony in all of this. The irony is the Republican Leadership’s sweeteners strategy ignores this basic mindset on the death tax. Republicans will not compromise their principles on the death tax with unrelated sweeteners. Neither will the middle group of Democrats.

The ultimate evidence is record votes. As former Majority Leader Bob Dole once said, it’s all about the votes. The evidence that sweeteners don’t matter is on the record. Take a look at it. Timber

capital gains was added as a sweetener on the first Thomas effort. It didn't change any votes. There was an effort to add the pension bill to a death tax relief package. That didn't any change votes. Then, we had the third sweetener effort, the Trifecta. A minimum wage hike, the ultimate sweetener, was added along with the trailer bill. It changed one vote in gross.

As the old saying goes about some places, there is no there, there. The sweeteners strategy is like the places the old saying refers to. If our goal is 60 votes and permanent death tax relief, there is no there there.

Rest assured, another Trifecta run will carry extra political baggage. Don't listen to me. Listen to the Democrats who've resisted the iron hand of their leadership on this issue. Senator Lincoln has taken more heat than any single Senator in trying to get permanent death tax relief. Ask her for her opinion on this "sweetener" strategy. She says forcing the political votes on the Trifecta set us back on getting permanent death tax relief.

Why, with the pressure of elections off, and a new session coming up, would any targeted Democrat Senator switch their vote on a bill that was designed to squeeze them? Would any of my Republican friends in the same position react any differently?

Add to this futility another factor. Taking another run at a revised trailer bill would start an endless negotiation. If we re-open the trailer bill with the idea of adding even more sweeteners, where do we stop? How would that endless negotiation help close a deal on permanent death tax relief? The truth is trying to play trailer bill issues for more votes on death tax relief only complicates resolution of the death tax.

So, Mr. President, the third reason I continued to try to clear the trailer bill is that I want a clear path to a death tax deal. Combining death tax relief with other issues only complicates our ability to get a death tax relief package. There's little or no utility in continuing the failed strategy of trying to "turn" death tax deal votes.

Now, where do go from here? As I said a few minutes ago I want to resolve two important tax relief issues – permanent death tax relief and the trailer bill. One package is done – it's the trailer bill. The other package needs some work, but can get done. We might even have a shot at permanent death tax relief in the lame duck. If we're going to move the ball forward, we're going to have to recognize that we have two separate tax relief products. I hope all of us have finally learned our lessons. If we have learned our lessons, the trailer bill is a slam dunk. If we have learned our lessons, and, key Democrats are finally freed to do what they want to do, they'll vote their conscience and their constituents' interests. If those two critical steps occur, we'll get a permanent death tax relief deal.

I yield the floor.