



# Committee On Finance

Max Baucus, Ranking Member

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## Markup of CARE Act, Tax Shelters, and Military Tax Legislation

Senator Grassley, I commend you for holding today's markup to advance legislation that the Committee approved last year. They were good measures then; they remain so today.

Both measures – the “Armed Forces Tax Fairness Act” and the “CARE Act” – enjoy wide-spread, bipartisan support. They were overwhelmingly approved by the Committee last year. Unfortunately, we were unable to get these bills enacted into law before we adjourned. I share the Chairman's hope that we will be more successful this year.

I am particularly pleased that both bills continue to be fully offset and that we will not be adding to the growing deficit. More importantly, the offsets are important in their own right. They will shut down tax law noncompliance – abusive tax shelters – and help ensure that everyone is paying their fair share.

Let me say a few words about each measure. First, the “CARE Act.” The tax provisions in the CARE Act will encourage additional giving to the organizations that serve those in need. With the sluggish economy, charitable giving has not kept pace with the increasing demand for services from these organizations.

For example, in my home state, the Montana Food Bank Network serves 1.5 million meals, including meals to almost 200,000 children. More and more people are relying on food banks and soup kitchens for their daily nourishment. Demand is outstripping supply.

I am glad today's mark includes additional incentives to spur donations of surplus food. There are a number of provisions contained in the CARE Act that will help charities help our communities. Books for literacy programs. Computers for schools. Contributions of open space for conservation.

The mark also contains a number of provisions to improve the oversight of tax-exempt organizations. The bill will provide for greater sunshine on charitable activities. State officials will have greater access to information allowing them to ensure that contributions are used for their intended purpose.

Second, the "Armed Forces Tax Fairness Act." Our country is preparing for war with Iraq. Our service personnel shouldn't have to fight the tax code when they're serving our country.

Under this measure, American military personnel would get new tax relief.

- Death benefits paid to military survivors would be fully exempt from tax.
- The capital gain rules would be modified for home sales by service members called away to duty.
- Military reservists and National Guard personnel would be allowed to deduct their service-related travel expenses.

Last year, the Senate voted without dissent to pass this bill. I hope we can move quickly to provide relief to those who are prepared to make the ultimate sacrifice to protect us.

Mr. Chairman, yesterday, I attended the Memorial Service for the *Columbia* shuttle astronauts in Huston. It was a wonderful tribute to America's fallen heroes.

Upon return, I introduced legislation to provide assistance to the astronaut's families. The relief package would essentially provide the same benefits as families of military personnel who die in the line of duty. I'm hopeful we can move on this measure this morning.

Let me turn to offsets. The military tax relief bill would be paid for by a tax on individuals who renounce their U.S. citizenship. Specifically, the bill would provide that expatriates pay the tax they owe on the day they relinquish their citizenship. Treasury would be given new tools to make sure that assets do not move with the expatriate before tax has been paid.

The CARE Act would be paid for with tax shelter legislation developed by the Committee over the past four years. It is time to put a stop to the unsavory practice of mining the tax code for abusive shelters.

For years, the Finance Committee has been committed to helping combat these carefully engineered transactions. They have little or no economic substance. They are designed to achieve unwarranted tax benefits rather than business profit. They place honest corporate competitors at a disadvantage.

Treasury believes that if a taxpayer feels comfortable entering into a transaction, if a promoter feels comfortable selling a transactions, and an advisor feels comfortable

recommending a transaction, they should all feel comfortable detailing the transaction for the IRS. I agree. This legislation reinforces Treasury's shelter program and will put the brakes on these abusive shelters.

Under the mark, promoters, advisors and taxpayers would be subject to stiff penalties for failing to acknowledge these transactions to the IRS.

The mark would also eliminate abusive tax shelters by denying tax benefits claimed to arise from transactions that do not meet a heightened economic substance requirement. Under the mark, taxpayers will have to enter into transactions for legitimate economic and business reasons and not for purely tax avoidance.

The shelter legislation is an important first step. The Joint Committee on Taxation is nearing completion of its investigation into Enron. Additional steps may be needed. I am confident that this Committee will not hesitate to take further action.

The legislation does not include the inversions bill Chairman Grassley and I pushed last year. But businesses affected by the inversions legislation should not breathe too easily. I urge the Chairman to bring this legislation before the Committee expeditiously.

Thank you again Mr. Chairman for holding today's markup. I look forward to working with you, and members on the Committee, to see these measures enacted into law.