SEN. JACK REED'S FLOOR STATEMENT ON ESTATE TAX REPEAL 06-07-06

Mr. President, I rise today to express my deep concern about efforts by the President and some in Congress to repeal or all but eliminate the estate tax.

The estate tax is an important component of our progressive Federal tax system, it is the Federal Government's only tax on wealth, and by 2009 less than one-half of 1 percent of all estates will be subject to the tax. Far from being a ``death tax," the tax falls on heirs who seldom had any real role in earning the wealth built up by the estate holder.

The estate tax is simple: when a very wealthy person dies, the decedent's estate pays a portion of the total assets to the Federal Government and the remainder is then passed on to heirs. Capital gains that have built up in the estate tax free are passed on to the heirs on a ``stepped up" basis, and the heirs are not liable for any income tax on these gains. No tax is levied if the estate passes to a spouse or is donated to charity. The overwhelming majority of estates pay no Federal estate tax.

This tax raises significant revenue, it is highly progressive, and it provides an important backstop to the income tax.

Today, only estates worth more than $2 million are subject to the estate tax and an individual will be able to pass along up to $3.5 million tax-free by 2009. A couple can pass along twice that amount. And let's not forget that estate planning often shields even greater sums of wealth from taxation.

The House Committee on Government Reform estimates that the heirs of Lee Raymond, former ExxonMobile CEO, and the current CEOs of the five largest U.S. oil companies would receive a windfall of up to $211 million if the estate tax were permanently repealed. The committee has also calculated that estate tax repeal could save the heirs of President Bush, Vice President Cheney and 11 Cabinet members as much as $344 million.

It would be hard to call this a middle class tax cut without pretending a great deal.

Indeed, the Congressional Research Service reports that in 2004 when the exemption was $1.5 million, 99 percent of estates paid no estate taxes whatsoever. It bears repeating that less than one-half of 1 percent of estates will pay any tax at all as the estate tax exemption climbs to $3.5 million by 2009.

Despite the concerns expressed by some farm and small business groups, the vast majority of taxable estates are those of multimillionaires and billionaires who made their fortunes through their business and investments in securities and real estate or were born into extremely wealthy families.

After the President's tax cuts passed in 2001, he took a victory lap through Iowa where the New York Times quoted the President as saying:

I heard somebody say, ``Well, you know, the death tax doesn't cause people to sell their farms.''

He added:

I don't know who they're talking to in Iowa.

Perhaps it was Neil Harl, an Iowa State, University economist whose tax advice has made him a household name among farmers throughout the Midwest. He has searched far and wide but has never found a case in which a farm was sold to pay estate taxes. ``It's a myth,'' says Professor Harl, who has only found heirs who wanted to sell the family farm.

Even the American Farm Bureau Federation, one of the leading advocates of estate tax repeal, can not provide a single example of a farm lost due to estate taxes.

The reality is that only a small fraction of taxable estates consists primarily of family-owned farm or small business assets. The Tax Policy Center estimates that in 2004, only 440 taxable estates--2 percent of all taxable estate--were primarily made up of farm or business assets. And the Congressional Budget Office found that the vast majority of family farms and small business estates would have sufficient liquid assets--such as bank accounts, stocks, bonds, and insurance--to pay the tax without having to sell any farm or business assets. CBO also found that with a $3.5 million exemption--$7 million per couple--only 13 or fewer farms would encounter any liquidity constraints.

Moreover, there are already special provisions in place to ease tax burdens for family-owned small businesses and farms, such as allowing additional sums to be bequeathed tax free and permitting estate taxes to be paid in installments over 14 years at favorable interest rates.

So if saving family farms and small businesses is not the real root of the repeal effort, you would think that there would be some sound economic rationale. However, claims by proponents that eliminating the estate tax would encourage saving and investment, reward entrepreneurship, and contribute to economic growth turn out to be myths as well.

Repeal advocates argue that capital assets have already been taxed during the taxpayer's lifetime, so a tax at death is gratuitous. But the reality is that a large share of capital assets has never been taxed. Under current law, we have a provision called the ``step-up'' in basis that allows capital gains from the appreciation of assets--such as a house or stocks--during the decedent's lifetime to escape taxation through 2009. In 2010, the lone year in which full repeal is currently slated to be in effect, we switch to a ``carry-over basis'' in which heirs of large estates would inherit the potential capital gains liability that is realized only when the asset is sold.

In effect, today under the pretax law, the heirs receive the estate but on a stepped-up basis--the current value of the home. So for the home the father purchased for $30,000 and is now worth $1 million, they receive the estate based on the value of a million dollars. No taxes were ever paid on that appreciation other than the estate tax.

The Small Business Council of America opposes the full repeal of the estate tax because they estimate that a great number of small business owners will be worse off due to the loss of step-up in basis and only an extraordinary few will be better off. Four years from now, the Halls of Congress will be filled with heirs who won't want to pay taxes that they have inherited with repeal of the estate tax.

But any economic rationale for repeal falls apart when you learn that it will reduce national saving and hurt economic growth. According to the Joint Committee on Taxation, making estate tax repeal permanent would cost an additional $369 billion over 10 years. This estimate, however, dramatically understates the true cost of repeal. The full cost of repeal would not be felt until the second decade, beyond the time period of the budget estimates. In that decade, the cost of repeal could reach nearly $800 billion, plus debt service costs that would bring the total to nearly $1 trillion.

A compromise plan currently circulating in the Senate would permanently raise the exemption to $5 million and cut the top estate tax rate to 15 percent, which would cost nearly as much as full repeal, and it is not much of a bargain.

Rising federal budget deficits make the cost of repeal or ``repeal-lite'' even more unpalatable. The drain on the budget would occur at the very time that the baby boom generation enters retirement and rising Social Security and Medicare costs would strain our budget.

The President's tax cuts were passed at a time of huge projected surpluses in the Federal budget. The surpluses have been squandered by this administration and with deficits as far as the eye can see, it is simply irresponsible for the President and Republicans in Congress to press for full repeal of this tax.

By financing repeal with debt, we would be replacing the so-called ``death tax'' for a few very wealthy heirs with a ``birth tax'' for all, an action that seems neither wise nor fair. The cost of estate tax repeal will be paid for with borrowed money. Future generations of taxpayers--who will make significantly less than the deceased multimillionaires and billionaires whose estates would no longer owe taxes--will have to repay those funds. Estate tax repeal would raise the per-person debt burden by about $3,000 in just the first 10 years after the tax disappears.

In 2005, the CEO of ExxonMobile earned $9.1 million. Contrast that with the fact that the typical firefighter, police officer, or soldier today makes less than $50,000 a year and the inequity of this repeal is inescapable.

Clearly, estate tax repeal will predominately benefit the heirs of a handful of very wealthy estates. According to the Forbes 2005 ``World's Richest'' list, three members of the Mars family have $10.4 billion each and four members of the Walton family have nearly $20 billion each. These heirs still rank among the world's wealthiest people even after taxes.

Jamie Johnson, heir to the Johnson and Johnson fortune, put it this way, ``I was always told that the American Dream is about getting a bigger and better life than your parents have. But that dream was accomplished by my great-grandfather. ``

In their book about the history and politics of the estate tax, Death by a Thousand Cuts, Yale professors Michael J. Graetz and Ian Shapiro provide an eye-opening account of how a few very wealthy individuals and families have been working long and hard behind the scenes on repeal efforts. In the meantime, some of the wealthiest Americans--including Warren Buffett, William Gates, Sr., George Soros, and Ted Turner--have warned about the corrosive effect of eliminating the estate tax.

When Teddy Roosevelt endorsed the idea of an inheritance tax, he said that its ``primary objectives should be to put a constantly increasing burden on the inheritance of those swollen fortunes, which it is certainly of no benefit to this country to perpetuate.'' Indeed, our Founding Fathers abandoned an economic aristocracy--where large fortunes were handed down generation after generation, concentrating wealth and power--to create a meritocracy based on the ideal of equal opportunity for all. Underlying the estate tax is the notion that because our government provides a stable environment for wealth to be created and flourish--our financial markets, legal system, regulatory system, and strong national defense--society is owed a modest return on those investments.

Television ads last year depicted a World War II veteran supporting the repeal of the estate tax, the underlying message being that the tax is somehow unpatriotic. Ironically, the estate tax was first adopted in the nineteenth century to pay for government shortfalls due to wartime spending.

Today, we are at war and yet there is no sense of the shared sacrifice that has united this country in past conflicts. Our military families are making tremendous sacrifices, and too many of them have made the ultimate sacrifice in service to our country. With $320 billion appropriated or pending for Iraq operations to date and nearly 2,500 service men and women killed, the human and financial tolls are both more staggering than imagined.

With mounting war costs, the impending retirement of the baby boom generation and deficits as far as the eye can see, it is unconscionable to think that we are going to vote on repealing one of the most progressive taxes on the books.

There has been a lot of discussion about the death tax. It is not the death tax. It is the estate tax. But there is a death tax that is paid by Americans to sustain and support this country--and it is terribly unfair because it falls on a few. In Iraq, it has fallen upon 2,480 of our soldiers. In Afghanistan, it has fallen upon 299. It also falls upon the police and fire officers who each day risk their lives and some who give their lives. They truly pay the death tax. They will never be touched by this estate tax.

The average base pay of a specialist in the U.S. Army is $24,000. He won't be worried nor will his family be worried about the estate tax. Firefighters make about $40,000; police officers, $47,000 on average in this country. Yet, sadly, too many of them each year for their country pay the ultimate death tax. It is more debilitating than any check one sends to the IRS.

What do they need? What do their families need? They certainly need a strong, robust economy that will support their families in the future.

For those young Americans who are wounded in action--and right now in Iraq, 17,869--they need a strong Veterans Administration to support them years from now just when this repeal of the estate tax burden would take its toll and take more and more money away from the Federal revenue.

They are the ones who really pay the cost. If we pass this measure, we won't be able to help them when they need the help. We won't be able to support the Veterans' Administration system. We won't be able to provide the kind of support for education, for opportunities for higher education that will be so necessary for their children.

This repeal vote misses the point. The death tax was a slogan thought up by Republican operatives to sell an idea that does not have a compelling economic rationale. But there is a real death tax, and sadly, Americans in uniform must pay it for this country every day. They will receive no benefit from this repeal. Indeed, our ability to help them and their families will be limited in the years ahead.

I don't think this is just bad policy, it is unconscionable.

I yield the floor.