



U.S. SENATE COMMITTEE ON

# Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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## Grassley Praises Senate Passage of Military Tax Fairness Bill

WASHINGTON -- Sen. Chuck Grassley, chairman of the Committee on Finance, today praised the Senate's passage last night of legislation he co-authored to fix a series of tax inequities facing the nation's armed services. This is a key step toward final passage.

"Our nation is relying on the military in unique ways," Grassley said. "We remain engaged in restoring peace to Iraq. We face the challenge of defeating terrorism at home and abroad. Our enlisted men and women are front and center for all of these tasks. The sad fact is these folks don't get a fair shake under the federal tax code."

The bipartisan *Armed Forces Tax Fairness Act of 2003* passed the Finance Committee in February on an unanimous vote. The bill became stalled over philosophical differences between the Senate and the House.

Grassley said the bill passed by the Senate last night is nearly identical to the committee-passed bill except that the bill now raises the death gratuity benefit from \$6,000 to \$12,000 and is paid for with Customs Service user fees. The Military Officers Association of America urged the Senate to pass the Senate's version of the bill, which is more comprehensive than the House bill. The Reserve Officers Association also supports the legislation, which includes tax relief for National Guard members and reservists who pay for their own expenses while drilling away from home.

"This bill pays respect to the men and women making sacrifices and, in many cases, risking their lives to protect and defend freedom," Grassley said. "Congress should pass the bill as soon as possible."

Following are:

- (1) Grassley's floor statement describing the *Armed Forces Tax Fairness Act of 2003*
- (2) a detailed description of the Senate-passed bill

Senator Chuck Grassley  
Floor Statement on the *Armed Forces Tax Fairness Act of 2003*  
Nov. 3, 2003

Mr. President, we are here tonight to adopt long-overdue legislation to rectify a number of inequities faced by members of our nation's armed services.

Since the terrorist attacks of September 11th, these brave men and women have been called upon to make terrific sacrifices. They have left their families and friends behind for months at a time to willingly cast themselves into harm's way. Whether in Afghanistan, Iraq, or on whatever battlefield the war against terrorism must be fought, these courageous patriots have put their lives on the line to defend our freedoms.

While I realize that we could never begin to fully repay these fine young Americans -- not to mention the loved ones they leave behind -- the Senate has an opportunity tonight to show our gratitude for their sacrifices.

The legislation before us, which the Finance Committee first developed during the 107th Congress, will ensure that members of the uniformed services, the national guard, and the foreign service are treated fairly in all aspects of the tax code.

First, this legislation ensures that the families of military personnel called into active duty are not disadvantaged under the home sale exclusion. Unlike most Americans, military personnel who are called to active duty or asked to relocate often lack the flexibility to meet residency requirements under the exclusion and are adversely impacted by these rules. This legislation would suspend the residency test for periods of active duty aggregating no more than 10 years.

We should not punish members of our military and their families who are asked to relocate in the name of service to their country.

This legislation also clarifies that dependent care benefits provided to families of the uniformed services will not be treated as taxable compensation. The provision of affordable child care is an important function of the military during peacetime; but it is never more critical than during periods of conflict - especially for single parents and dual military career families.

We must also not forget about the increasing role that reserve and national guard members fulfill in our nation's defense. Currently, more than 157,000 reservists and National Guard are on active duty status -- most assisting in Operation Iraqi Freedom. We have begun to rely increasingly on these service personnel to defend our borders and to serve and protect in other areas of the world.

This legislation will allow an above-the-line deduction for travel expenses that these men and women incur related to training assignments. This provision will at least partially reimburse national guard members and reservists for the expenses they incur when they travel for weekend drills.

The *Armed Forces Tax Fairness Act* also ensures that military personnel serving in Secretary of Defense-designated "contingency operations" receive appropriate relief from the administrative burdens of our tax laws during participation in those operations.

What's more, this legislation is completely offset. All of the military tax fairness provisions in this legislation are fully funded by extending Customs user fees.

As we consider this legislation tonight, the men and women of our armed forces remain in hostile situations, battling terrorism wherever that battle may lead. At the same time, their loved ones -- wives, husbands, parents, children -- remain at home, making equally demanding sacrifices as they struggle to make ends meet. It is deeply regrettable that Congress has delayed so long to enact this common-sense legislation.

Mr. President, we must delay no longer. I urge my colleagues to support this legislation to provide the tax relief that our military personnel need and deserve.

### Summary of Components of Military Tax Relief Bill

A. Exclusion of Military Death Gratuity Payments. Under current law, death gratuity benefits are only excludable from income up to the amount payable as of September 9, 1986 (i.e., \$3,000). The death gratuity benefit was increased to \$6,000 in 1991 but the exclusion from income for such benefits has not been adjusted. This bill would increase the amount to \$12,000 and provide an exclusion for all death gratuity payments. The proposal is estimated to cost \$122 million over 10 years.

B. Exclusion of Gain from the Sale of a Principal Residence by Military and Foreign Service Personnel. In 1997, Congress amended the taxation of capital gains from the sale of a principal residence. Under those rules, up to \$250,000 (\$500,000 per married couple) may be excluded on the sale of a principal residence if the individual has lived in the house for at least two of the previous five years. Although Treasury Regulations provide relief in the event a principal residence is sold for work-related reasons prior to the time at which the two-year requirement is met, no relief has been provided for military and foreign service personnel who are required to move either within the U.S. or abroad in the course of active duty. The proposal would permit military and foreign service personnel to make an election to suspend for a maximum of ten years the running of the two and five year periods while away on active duty assignments. The proposal is expected to cost \$227 million over 10 years.

C. Exclusion of Amounts Received Under Military Housing Assistance Program. The Department of Defense makes payments to members of the Armed Services to offset diminution in housing values due to military base realignment or closure. For example, if a house near a base was worth \$180,000 prior to a base closure and \$100,000 after a base closure, DOD may provide the owner with a payment to offset most (but not all) of the \$80,000 diminution in value. Under current law, those amounts are taxable as compensation. The proposal would provide that such payments are not includible into income. It is expected to cost \$22 million over 10 years.

D. Expand Combat Zone Filing Rules To Include Contingency Operations. Under current law, military personnel in a combat zone receive an extended period of time for filing federal income tax returns. This exception, however, has not been extended to contingency operations. The proposal would provide similar filing extensions to military personnel assigned to contingency operations

designated by the Secretary of Defense. The proposal is estimated to cost \$14 million over 10 years.

E. Above-The Line-Deduction For Overnight Travel Expenses of National Guard and Reserve Members. Reservists who travel periodically (typically one weekend per month and two weeks in the summer) for reserve duty incur significant travel expenses, some of which are not reimbursed by the military. Under current law, those “unreimbursed business expenses” may be deducted as an itemized deduction on Schedule A to the extent those expenses exceed 2% of adjusted gross income. Thus, reservists who do not itemize (like 75% of all taxpayers) may not deduct any portion of those expenses, and reservists who itemize may deduct those expenses only in limited form. The proposal would provide an above-the-line deduction for overnight travel costs incurred more than 100 miles from the taxpayer’s home including meals, transportation and lodging up to the amount allowable as per diem allowances applicable to the locale by the DOD for all reservists and members of the National Guard. The proposal is expected to cost less than \$851 million over 10 years.

F. Expansion of Membership For Veterans’ Organizations. Qualified veterans’ organizations under section 501(c)(19) of the tax code are treated as tax-exempt organizations under the Internal Revenue Code. As such, contributions to qualified veterans’ organizations are deductible. To become a qualified veterans’ organization, (1) 75% of the members must be current or former active military personnel and (2) “substantially all” of the members must be either current or former active military personnel or widows/widowers of former active military personnel. The proposal would permit lineal descendants and ancestors of current or former active military personnel to qualify for the “substantially all” test. The proposal is expected to cost \$17 million over 10 years.

G. Clarification of Treatment of Child Care Subsidies. Under current law, employees generally may exclude from taxable income up to \$5,000 of employer-provided child care expenses. The military provides extensive child-care benefits to its employees. A separate provision in the Internal Revenue Code excludes from income benefits provided to members of the uniformed services. However, it is unclear whether child-care benefits were intended to be included in that provision. The proposal would clarify that child-care benefits provided to military personnel would be excludible from income and is not expected to have a revenue effect.

H. Treatment of Service Academy Appointments as Scholarships for Purposes of Section 529 and Section 530 Education Programs. The proposal permits penalty-free withdrawals from Coverdell education savings accounts and qualified tuition programs made on account of the attendance of the account holder or beneficiary at the United States Military Academy, the United States Naval Academy, the United States Air Force Academy, the United States Coast Guard Academy, or the United States Merchant Marine Academy. The amount of funds that can be withdrawn penalty-free is limited to the costs of advanced education as defined in Title 10, section 2005(e)(3) of the United States Code (as in effect on the date of the enactment of the proposal) at such Academies. The proposal is expected to cost \$2 million over 10 years.

I. Suspension of the Tax-Exempt Status of Terrorist Organizations. The proposal suspends the tax-exempt status of an organization that is exempt from tax under section 501(a) for any period during which the organization is designated or identified as a terrorist organization. The proposal also makes such an organization ineligible to apply for tax exemption under section 501(a). The period

of suspension runs from the date the organization is first designated or identified to the date when all designations or identifications with respect to the organization have been rescinded pursuant to the law or Executive order under which the designation or identification was made. The proposal directs the IRS to update the listings of tax-exempt organizations to take account of organizations that have had their exemption suspended and publish for taxpayers the non-deductibility of contributions to such organizations during the period of suspension. The proposal has a negligible revenue effect.

J. Assistance for Families of Space Shuttle Columbia Heroes. This amendment expands the class of those eligible for income tax relief to include astronauts who die in the line of duty, effective January 1, 2003. This amendment will afford astronauts killed in the line of duty income tax relief, death benefit relief, and estate tax relief. The proposal is estimated to cost \$1 billion over ten years.

K. Offset: Custom User Fees. The bill would be paid for by extending custom user fees through March 1, 2005.