

105TH CONGRESS  
1ST SESSION

# H. R. 1684

To increase the unified estate and gift tax credit to exempt small businesses and farmers from inheritance taxes.

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## IN THE HOUSE OF REPRESENTATIVES

MAY 20, 1997

Mr. SOUDER (for himself, Mr. ENGLISH of Pennsylvania, Mr. WATTS of Oklahoma, Mr. CHABOT, and Mr. HOSTETTLER) introduced the following bill; which was referred to the Committee on Ways and Means

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## A BILL

To increase the unified estate and gift tax credit to exempt small businesses and farmers from inheritance taxes.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*

3       **SECTION 1. SHORT TITLE.**

4       This Act may be cited as the “Farmer and Entre-  
5       preneur Estate Tax Relief Act of 1997”.

6       **SEC. 2. FINDINGS.**

7       Congress finds the following:

8               (1) The economy of the United States cannot  
9       achieve strong, sustained growth without adequate  
10      levels of savings to fuel productive activity. Inad-

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1       equate savings have been shown to lead to lower pro-  
2       ductivity, stagnating wages and reduced standards  
3       of living.

4           (2) Savings levels in the United States have  
5       steadily declined over the past 25 years, and have  
6       lagged behind the industrialized trading partners of  
7       the United States.

8           (3) These anemic savings levels have contrib-  
9       uted to the country's long-term downward trend in  
10      real economic growth, which averaged close to 3.5  
11      percent over the last 100 years but has slowed to 2.4  
12      percent over the past quarter century.

13          (4) Reforming the estate and gift tax would  
14      contribute to the goals of expanding savings and in-  
15      vestment, boosting entrepreneurial activity, and ex-  
16      panding economic growth. The estate tax is harmful  
17      to the economy because of its high marginal rates  
18      and its multiple taxation of income.

19          (5) The reform of the inheritance tax would in-  
20      crease the growth of the small business sector, which  
21      creates a majority of new jobs in our Nation. Esti-  
22      mates indicate that as many as 70 percent of small  
23      businesses do not make it to a second generation  
24      and nearly 90 percent do not make it to a third.

1           (6) Reforming the inheritance tax would lift the  
2           compliance burden from farmers and family busi-  
3           nesses. On average, family-owned businesses spent  
4           over \$33,000 on accountants, lawyers, and financial  
5           experts in complying with the estate tax laws over  
6           a 6.5-year period.

7           (7) Reforming the inheritance tax would benefit  
8           the preservation of family farms. Nearly 95 percent  
9           of farms and ranches are owned by sole proprietors  
10          or family partnerships, subjecting most of these es-  
11          tates to inheritance taxes upon the death of the  
12          owner. Due to the capital intensive nature of farm-  
13          ing and its low return on investment, many farm es-  
14          tates do not have the necessary liquidity to meet  
15          their estate tax liability and are forced to sell their  
16          land.

17          (8) As the average age of farmers approaches  
18          60 years, it is estimated that a quarter of all farm-  
19          ers could confront the inheritance tax over the next  
20          20 years. The auctioning of these productive assets  
21          to finance tax liabilities destroys jobs and harms the  
22          economy.

23          (9) Reforming the inheritance taxes would re-  
24          store a measure of fairness to our Federal tax sys-  
25          tem. Families should be able to pass on the fruits

1 of the labor to the next generation without realizing  
2 a taxable event.

3 (10) Despite this heavy burden on entre-  
4 preneurs, farmers, and our entire economy, estate  
5 and gift taxes collect only about 1 percent of our  
6 Federal tax revenues. In fact, the estate tax may not  
7 raise any revenue at all, because more income tax is  
8 lost from individuals attempting to avoid estate  
9 taxes than is ultimately collected at death.

#### 10 **SEC. 3. INCREASE IN UNIFIED ESTATE AND GIFT TAX**

##### 11 **CREDIT.**

##### 12 (a) ESTATE TAX CREDIT.—

13 (1) IN GENERAL.—Subsection (a) of section  
14 2010 of the Internal Revenue Code of 1986 (relating  
15 to unified credit against estate tax) is amended by  
16 striking “\$192,800” and inserting “the applicable  
17 credit amount”.

18 (2) APPLICABLE CREDIT AMOUNT.—Section  
19 2010 of such Code is amended by redesignating sub-  
20 section (c) as subsection (d) and by inserting after  
21 subsection (b) the following new subsection:

22 “(c) APPLICABLE CREDIT AMOUNT.—For purposes  
23 of this section, the applicable credit amount is the amount  
24 of the tentative tax which would be determined under the  
25 rate schedule set forth in section 2001(c) if the amount

1 with respect to which such tentative tax is to be computed  
2 were \$5,000,000.”

3 (3) CONFORMING AMENDMENT.—

4 (A) Section 6018(a)(1) of such Code is  
5 amended by striking “\$600,000” and inserting  
6 “\$5,000,000”.

7 (B) Section 2001(c)(2) of such Code is  
8 amended by striking “\$21,040,000” and insert-  
9 ing “the amount at which the average tax rate  
10 under this section is 55 percent”.

11 (C) Section 2102(c)(3)(A) of such Code is  
12 amended by striking “\$192,800” and inserting  
13 “the applicable credit amount under section  
14 2010(c)”.

15 (b) UNIFIED GIFT TAX CREDIT.—Section  
16 2505(a)(1) of the Internal Revenue Code of 1986 (relating  
17 to unified credit against gift tax) is amended by striking  
18 “\$192,800” and inserting “the applicable credit amount  
19 under section 2010(c)”.

20 (c) EFFECTIVE DATE.—The amendments made by  
21 this section shall apply to the estates of decedents dying,  
22 and gifts made, after December 31, 1997.

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