

105TH CONGRESS  
1ST SESSION

# S. 30

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

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## IN THE SENATE OF THE UNITED STATES

JANUARY 21, 1997

Mr. LUGAR introduced the following bill; which was read twice and referred to the Committee on Finance

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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-

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) Congress should work toward reforming the  
14      entire Federal tax code to end its bias against sav-  
15      ings by eliminating the income tax and capital gains  
16      tax and replacing them with a broad-based consump-  
17      tion tax. A broad-based retail consumption tax is the  
18      most effective tax system because it encourages sav-  
19      ings, is fair, its simple to comply with and to admin-  
20      ister, and it fosters exports.

21          (5) Repealing the estate and gift tax would con-  
22      tribute to the goals of expanding savings and invest-  
23      ment, boosting entrepreneurial activity, and expand-  
24      ing economic growth. The estate tax is harmful to

1 the economy because of its high marginal rates and  
2 its multiple taxation of income.

3 (6) The repeal of the inheritance tax would in-  
4 crease the growth of the small business sector, which  
5 creates a majority of new jobs in our Nation. Esti-  
6 mates indicate that as many as 70 percent of small  
7 businesses do not make it to a second generation  
8 and nearly 90 percent do not make it to a third.

9 (7) Eliminating the inheritance tax would lift  
10 the compliance burden from farmers and family  
11 businesses. On average, family-owned businesses  
12 spent over \$33,000 on accountants, lawyers, and fi-  
13 nancial experts in complying with the estate tax laws  
14 over a 6.5-year period.

15 (8) Abolishing the inheritance tax would benefit  
16 the preservation of family farms. Nearly 95 percent  
17 of farms and ranches are owned by sole proprietors  
18 or family partnerships, subjecting most of these es-  
19 tates to inheritance taxes upon the death of the  
20 owner. Due to the capital intensive nature of farm-  
21 ing and its low return on investment, many farm es-  
22 tates do not have the necessary liquidity to meet  
23 their estate tax liability and are forced to sell their  
24 land.

1           (9) As the average age of farmers approaches  
2           60 years, it is estimated that a quarter of all farm-  
3           ers could confront the inheritance tax over the next  
4           20 years. The auctioning of these productive assets  
5           to finance tax liabilities destroys jobs and harms the  
6           economy.

7           (10) Abolishing the inheritance taxes would re-  
8           store a measure of fairness to our Federal tax sys-  
9           tem. Families should be able to pass on the fruits  
10          of the labor to the next generation without realizing  
11          a taxable event.

12          (11) Despite this heavy burden on entre-  
13          preneurs, farmers, and our entire economy, estate  
14          and gift taxes collect only about 1 percent of our  
15          Federal tax revenues. In fact, the estate tax may not  
16          raise any revenue at all, because more income tax is  
17          lost from individuals attempting to avoid estate  
18          taxes than is ultimately collected at death.

19          (12) Repealing estate and gift taxes is sup-  
20          ported by the White House Conference on Small  
21          Business, the Kemp Commission on Tax Reform,  
22          and 60 small business advocacy organizations.

23 **SEC. 3. INCREASE IN UNIFIED ESTATE AND GIFT TAX CRED-**  
24 **IT.**

25          (a) ESTATE TAX CREDIT.—

1           (1) IN GENERAL.—Subsection (a) of section  
 2           2010 of the Internal Revenue Code (relating to uni-  
 3           fied credit against estate tax) is amended by striking  
 4           “\$192,800” and inserting “the applicable credit  
 5           amount”.

6           (2) APPLICABLE CREDIT AMOUNT.—Section  
 7           2010 of such Code is amended by redesignating sub-  
 8           section (c) as subsection (d) and by inserting after  
 9           subsection (b) the following new subsection:

10          “(c) APPLICABLE CREDIT AMOUNT.—For purposes  
 11          of this section, the applicable credit amount is the amount  
 12          of the tentative tax which would be determined under the  
 13          rate schedule set forth in section 2001(c) if the amount  
 14          with respect to which such tentative tax is to be computed  
 15          were the applicable exclusion amount determined in ac-  
 16          cordance with the following table:

<b>In the case of estate of dece-</b>	<b>The</b>	<b>applicable</b>	<b>exclusion</b>
<b>dents dying, and gifts</b>	<b>amount is:</b>		
<b>made, during:</b>			
1998 and thereafter .....			\$5,000,000.”.

17           (3) CONFORMING AMENDMENT.—

18           (A) Section 6018(a)(1) of such Code is  
 19           amended by striking “\$600,000” and inserting  
 20           “the applicable exclusion amount in effect  
 21           under section 2010(c) for the calendar year  
 22           which includes the date of death”.

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

5           (C) Section 2102(c)(3)(A) of such Code is  
6           amended by striking “\$192,800” and inserting  
7           “the applicable credit amount in effect under  
8           section 2010(c) for the calendar year which in-  
9           cludes the date of death”.

10       (b) UNIFIED GIFT TAX CREDIT.—Section  
11       2505(a)(1) of the Internal Revenue Code of 1986 (relating  
12       to unified credit against gift tax) is amended by striking  
13       “\$192,800” and inserting “the applicable credit amount  
14       in effect under section 2010(c) for such calendar year”.

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

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