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2003 HOUSE FINANCE AND TAXATION

HCR 3043

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10/16/03
Date

2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HCR 3043

House Finance and Taxation Committee

Conference Committee

Hearing Date February 10, 2003

Tape Number	Side A	Side B	Meter #
1	X		1.2
Committee Clerk Signature <i>Janice Stein</i>			

Minutes:

REP. WESLEY BELTER, CHAIRMAN Called the hearing to order.

REP. AL CARLSON, FARGO Introduced the resolution. This resolution is urging Congress to eliminate the estate tax. The reason for introducing this resolution is because I am a product of reaganomics. In 1977, I quit teaching, and went into the construction and real estate business, and interest rates were eight percent. Within six months after leaving, the interest rates were nineteen percent. It was a little hard to sell houses and a little hard to build houses. The city of Fargo had four building permits in 1979. When Ronald Reagan came in with his philosophy of supply side economics, he believed money is best spent if left in the pocket of the taxpayer, and by doing that they would generate more economic activity for the nation. The point was, it worked. We can argue about lots of things that happened during the Reagan years, but as a businessman, the more money you leave in a businessman's pocket, the more jobs he will create and the more money he will spend in the economy, and the economy is going to grow. A couple

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of thing happened from that, and that is why this resolution is up as the estate tax. Because people grow their businesses, especially in North Dakota, with family farms, and the majority of our businesses being small businesses, the estate tax has really been devastating for small business. If the estate tax had been repealed in 1996, over the next nine years it has been estimated the United States economy would have averaged as much as \$11 billion per year in extra output, and an average of 145,000 new jobs would have been created. I think there has been a general consensus, that the estate tax is not a fair tax. I think we should encourage Congress to finish what they started, instead of temporarily phasing it out, to get rid of it.

REP. WINRICH Referred to one of the whereas clauses, which talks about farmers and small business owners, not being passed on because of the estate tax, there is a limit below which the estate tax is not composed, do you know, what that is?

REP. CARLSON There was a six hundred thousand dollar limit before, but it has been raised.

REP. BELTER Stated it had been raised.

Someone commented from the side lines, stating it was one million dollars.

REP. WINRICH I believe there are proposals to raise it further.

REP. CARLSON Stated he was not aware of it going beyond that level. But I can tell you, in today's dollars, I used to think a million dollars was a lot of money, but it isn't too hard today to own a reasonable sized farm or to own one or two office buildings and be significantly beyond a million dollars. I am glad they raised it, and if they will raise it further, it doesn't take a lot of assets to reach that level any more.

SANDY CLARK, REPRESENTING THE NORTH DAKOTA FARM BUREAU Testified in support of both resolutions HCR 3043 and HCR 3044. She stated HCR 3043, the estate tax is

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a very important issue to their members. She stated they have worked a long time on the repeal of the estate tax.

REP. SCHMIDT Asked the question, in the state of North Dakota, whenever we propose to reduce property tax, we are always accused of shifting taxes to some other people, on this resolution, according to this, 11 billion dollars is shifted to somebody else, who will take up that 11 billion dollars?

REP. BELTER Answered the question, stating, he thought there could be some shifting, but the overall spending of the federal government is extremely out of control, and he thought a lot could be done at the federal level to reduce spending. There is not a need to completely shift all of the spending to another tax.

JOHN RISCH, REPRESENTING THE UNITED TRANSPORTATION UNION Testified in opposition of the bill. He stated the estate tax is the most fairest tax we have in the country today. It is fairest because it applies only to the very wealthy. It applies to less than two percent of all estates. Positive things about estate tax, it helps break up concentrated wealth and encourages charitable giving. I have read in a number of different places, that large charitable trusts are concerned because as much as forty to fifty percent of all charitable giving in the United States, comes from estate and through estate planning. A lot of it comes from large estates wanting to avoid taxes, so they give the money to charity. Currently, the exemptions for estates is one million dollars for an individual and two million if they are married. Farms and small businesses have numerous other provisions that allow them to present much more than the one and two million dollars. Other planning devices allow much more money to escape state taxation. Under current federal law, the estate tax is scheduled to increase to 3.5 million dollars

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for an individual and 7 million dollars for a married couple by year 2009. That takes place in 99.7 % of all estates in the estate tax nation. Related to the Senate Budget Committee who estimated that the estate tax will cost the federal government one hundred billion dollars over the next decade to the year 2013. The highest number I saw was four hundred billion dollars. It gets much worse, the following decade, it is estimated that it will cost the US Treasury more than seven hundred billion dollars. It couldn't come at a worse time, because this coming decade and the following decade is when the baby boomers are set to retire and to draw social security and relying on medicare. That is a time when the federal government need not be running enormous debts but should be preparing for the enormous demands that these baby boomers, demanding medicare and social security trust funds. President Bush has proposed a four hundred billion dollar prescription drug benefit, which will also have to be funded from the US Treasury, add to that the Iraq war, which will cost anywhere from one hundred to two hundred fifty billion dollars, you can see the elimination of the estate tax is one more provision which will add to economic chaos and dramatic budget deficits in this country. He related to Senator Conrad's proposal regarding the estate tax to be raised to three million dollars. He also related to the North Dakota Farm Bureau who stated that farmers lost their farm because of estate tax. He said he has yet to read an article where someone actually did lose their farm because of estate tax.

REP. CLARK Do you know what the federal budget currently collects in tax on all kinds, whether it be personal or corporate income tax as a whole?

JOHN RISCH No

REP. CLARK Stated about ten years ago, he read that the federal budget was at about 1.2 trillion dollars, you mentioned that the estate tax cost about four hundred billion dollars over ten

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years, that is about forty billion per year, that must be about two percent of the federal budget, why isn't that two percent critical?

JOHN RISCH Four hundred billion dollars is an immense amount of money, the two percent of the federal budget is like, he stated there are all kinds of things taking place in the budget today, related to Amtrak, which he is personally involved in. He said the president's budget reduces Amtrak funding from 1.2 billion dollars to five hundred million dollars.

REP. KLEIN Related to the fairness issue, is this estate tax fair when it taxes the wealthy?

JOHN RISCH It is fair because it taxes people who can pay it. It is not an attack on the rich or wealthy. Related to Bill Gates Sr. who asked that they not repeal the estate tax.

BRENDA DISSETTE, EXECUTIVE DIRECTOR OF THE NORTH DAKOTA

ASSOCIATION OF NON PROFIT ORGANIZATIONS Testified in opposition of the bill.

She stated that estate tax creates funds for organizations throughout North Dakota. There are a lot of states decoupling from the estate tax. The American Farm Bureau Federation has acknowledged to the New York Times that they cannot say a single example of any farmer or small business that has lost their farms or business in order to pay estate taxes. She stated there would be less charitable giving if there wasn't an estate tax.

With no further testimony, the hearing was closed.

COMMITTEE ACTION

REP. WINRICH Gave a little history in public policy. He stated fortunes don't necessarily have to be passed onto heirs, and possibly, there is great danger in allowing that to happen. It can create a hereditary kind of aristocracy. As Mr. Risch pointed out, 98% of all of the estates,

