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STATEMENT OF SENATOR BOB DOLE

ON S. 112,

A BILL TO REPEAL CARRYOVER BASIS

Subcommittee on Taxation and Debt Management

Mr. Chairman,

I appreciate your efforts in calling these hearings today to discuss the fate of the carryover basis provisions adopted as part of the Tax Reform Act of 1976. I know of no one else in the Congress who has demonstrated more interest and more concern than the distinguished senator from Virginia, Senator Byrd.

Mr. Chairman, under the law prior to the Tax Reform Act of 1976, the basis of inherited property was generally "stepped up" or "down" to its value on the date of the decedent's death. Under the carryover basis rules, however, the beneficiaries of an estate generally take a basis in the property that is the same as the basis in the property as held by the decedent. The carryover basis rules are complicated, unfair and in many cases will cause economic hardship. As the sponsor of S. 112 -- a bill to repeal carryover basis -- I believe it is incumbent upon Congress to eliminate the onerous and ill-conceived carryover basis rules.

COMPLICATED DISASTER

I believe that carryover basis is a complicated disaster. There is no question that the 1976 law is riddled with complexities that defy even the most sophisticated tax technician. Even if the inordinate complexities can be eliminated, which I doubt, there still remain many difficulties with carryover basis. First of all, it is often difficult to prove basis. The record-keeping requirements and the question regarding fiduciary responsibility should not be overlooked. Carryover basis also increases the relative tax burden. The impact of carryover basis must be examined from the standpoint of both death taxes and income taxes generated by the sale of assets to pay for estate taxes. The cumulative effect of federal estate tax, state death taxes, the federal and state income taxes imposed upon an estate will often consume nearly all of the assets. The harsh tax result that flows from selling assets to raise money to pay death taxes should not be allowed to continue. I am afraid many small businesses and farmers will suffer.

Mr. Chairman, you will remember that last year you and I introduced two bills on carryover basis. S. 2227 was translated into the three-year deferral amendment that was adopted by the Finance Committee as an amendment to H.R. 6715, the Technical Corrections Act, and again as part of the Revenue Act of 1978. The distinguished senator and I also introduced S. 2228 which provided for many administrative changes in the carryover basis rules. However, after careful study of the matter and talking to groups across the country, I have concluded that carryover basis is bad tax policy.

Mr. Chairman, the enactment of carryover basis was a mistake. Congress should take the appropriate action to eliminate this error. I would urge the Senate Finance Committee to move expeditiously on my proposal for repeal.