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TAX REFORM ACT OF 1969
H.R. 13270

SENATE DEBATE OPENING STATEMENT

COMMITTEE ON FINANCE
UNITED STATES SENATE
RUSSELL B. LONG, *Chairman*



NOVEMBER 24, 1969

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MR. PRESIDENT:

WHEN THE FINANCE COMMITTEE BEGAN PUBLIC HEARINGS ON THE TAX REFORM ACT OF 1969 I REFERRED TO THE BILL AS "368 PAGES OF BEWILDERING COMPLEXITY". IT IS NOW 785 PAGES AND, ALTHOUGH A HOST OF THE MORE COMPLICATED FEATURES OF THE HOUSE BILL HAVE BEEN SIMPLIFIED—GREATLY SIMPLIFIED—BY THE COMMITTEE ON FINANCE, IT IS STILL A VERY COMPLEX MEASURE. MUCH OF THIS COMPLEXITY STEMS FROM THE MANY SOPHISTICATED WAYS WEALTHY INDIVIDUALS—USING THE BEST ADVICE THAT MONEY CAN BUY—HAVE FOUND WAYS TO SHIFT THEIR INCOME FROM HIGH TOP BRACKETS TO LOW ONES, AND IN MANY INSTANCES TO MAKE THEMSELVES COMPLETELY TAX-FREE. IT TAKES COMPLICATED AMENDMENTS TO END COMPLICATED DEVICES.

FORTUNATELY, I CAN REPORT TO THE SENATE THAT THE ORDINARY TAXPAYER WILL RARELY BE AFFECTED BY THE COMPLEX FEATURES OF THIS BILL. TO THE CONTRARY, AS I SHALL DEMON-

STRATE LATER IN MY PREPARED STATEMENT, TAX REPORTING WILL BE MADE SIMPLER FOR MORE THAN 16 MILLION RETURNS—MANY OF THEM THE JOINT RETURNS OF A HUSBAND AND WIFE. FOR THESE AMERICANS, THIS BILL WILL BRING RICH DIVIDENDS IN ADDITION TO SIMPLIFICATION—DIVIDENDS IN THE FORM OF TAX REDUCTION THROUGH GENERAL LOWERING OF THE INDIVIDUAL INCOME TAX RATE STRUCTURE, AND DIVIDENDS IN THE FORM OF GREATER TAX EQUITY AND GREATER TAX JUSTICE.

AS THE MEMBERS OF THE SENATE WELL KNOW, THERE IS A GREAT DEMAND FOR TAX REFORM THROUGHOUT THE COUNTRY, OUR PEOPLE ARE PAYING HIGH TAX RATES AND BEARING HEAVY TAX BURDENS. THEY WANT TO MAKE SURE THAT THEIR TAXES ARE FAIR. THEY ARE WILLING TO PAY THEIR SHARE OF THE TAX BURDEN, BUT THEY DO NOT WANT TO BEAR SOMEONE ELSE'S TAX BURDENS. THERE IS NOTHING THAT MAKES A MAN SO ANGRY AND DISCOURAGED AS THE FEELING THAT OTHER PEOPLE ARE NOT PAYING THEIR TAXES AND ARE PUTTING THEIR TAX BURDENS ON HIS BACK.

I THINK THERE IS A WIDESPREAD FEELING THROUGHOUT THE COUNTRY THAT OUR TAX SYSTEM IS NOW NOT AS FAIR AS IT SHOULD BE. JOE BARR, WHEN HE WAS SECRETARY OF THE TREASURY, POINTED OUT THE NATURE OF THE PROBLEM THAT FACES US WHEN HE CITED 154 INDIVIDUALS WITH INCOMES OF \$200,000 OR MORE IN 1966 WHO PAID NO INCOME TAX. THERE WERE EVEN 21 INDIVIDUALS WITH INCOMES OF \$1,000,000 OR MORE IN THAT YEAR WHO PAID NO TAX. THESE ARE ONLY THE MOST STRIKING CASES. THERE ARE MANY MORE CASES WHERE PEOPLE WITH LARGE INCOMES PAY VERY LITTLE TAX—MUCH LESS IN RELATION TO THEIR INCOME THAN PEOPLE WITH MODEST INCOMES ARE REQUIRED TO PAY UNDER PRESENT LAW. THIS IS NOT GOOD FOR THE COUNTRY AND IT IS NOT GOOD FOR THE TAX SYSTEM. WE RELY VERY HEAVILY ON INCOME TAXES IN THIS COUNTRY TO GET THE MONEY THAT THE GOVERNMENT NEEDS TO PAY ITS EXPENSES, AND THESE INCOME TAXES ARE PRIMARILY COLLECTED UNDER A SELF-ASSESSMENT SYSTEM. IF TAXPAYERS ARE GENERALLY TO KEEP ON PAYING THEIR TAXES VOLUNTARILY, THEY MUST FEEL THAT THE

TAXES ARE FAIR. IN ADDITION, WE MUST HAVE A FAIR TAX SYSTEM BECAUSE WE CAN KEEP THE TAX BURDEN AT A LEVEL WHICH IS TOLERABLE FOR ALL TAXPAYERS ONLY IF THE BURDEN IS SHARED FAIRLY.

SO THE COUNTRY NOT ONLY NEEDS TAX REFORM—IT NEEDS TAX REFORM SOON. I THEREFORE AGREED WITH THE LEADERSHIP OF THE SENATE THAT, AS CHAIRMAN OF THE COMMITTEE ON FINANCE, I WOULD DO ALL I COULD TO TRY AND HAVE THE COMMITTEE ORDER A COMPREHENSIVE TAX REFORM BILL REPORTED TO THE SENATE BY OCTOBER 31. I MIGHT SAY THAT I AM EXTREMELY PROUD THAT THE MEMBERS OF THE COMMITTEE—REPUBLICAN AND DEMOCRAT ALIKE—COOPERATED IN EVERY CONCEIVABLE MANNER TO HELP ME MAKE GOOD ON THE AGREEMENT I HAD MADE. WE DID ORDER THE BILL REPORTED ON OCTOBER 31; AND I AM THE FIRST TO ACKNOWLEDGE THAT IT COULD NOT HAVE BEEN POSSIBLE WITHOUT THE REMARKABLE DEDICATION AND TEAMWORK THAT EVERY MEMBER OF THE COMMITTEE BROUGHT TO BEAR ON THIS BILL.

I THINK IT IS HARD TO CONVEY TO ANYONE WHO HAS NOT BEEN THROUGH THIS HIMSELF JUST

HOW ENORMOUS A JOB IT HAS BEEN TO PRODUCE THE TAX REFORM LEGISLATION THAT IS NOW BEFORE US AND HOW HARD THE INDIVIDUAL MEMBERS OF THE FINANCE COMMITTEE HAVE WORKED TO MEET THE DEADLINE FOR REPORTING THE BILL. ON SEPTEMBER 4, IMMEDIATELY FOLLOWING THE CONGRESSIONAL RECESS, THE COMMITTEE BEGAN HEARINGS ON THIS BILL. THESE EXTENDED OVER 23 DAYS AND THE COMMITTEE HEARD OVER 300 WITNESSES. THE RECORD OF THE HEARINGS COVERS OVER 7,000 PAGES. AFTER COMPLETING ITS PUBLIC HEARINGS, THE COMMITTEE CONSIDERED THE BILL IN 16 DAYS OF EXECUTIVE SESSION IN OCTOBER—BOTH MORNING AND AFTERNOON SESSIONS—AND LET ME ASSURE YOU THAT IN THESE EXECUTIVE SESSIONS WE GAVE ALL ASPECTS OF THE BILL A THOROUGH EXAMINATION AND ANALYSIS. FOR EXAMPLE, THERE WERE 457 MOTIONS MADE ON SPECIFIC PROVISIONS. THE FINAL PRODUCT—THE BILL ITSELF—COVERS 585 PAGES.

ACTUALLY, THE JOB OF PRODUCING A BILL OF THIS SIZE IS SO GREAT THAT UNDER ORDINARY CIRCUMSTANCES IT COULD BE EXPECTED TO TAKE OVER A YEAR. THE FACT THAT THE FINANCE COMMITTEE HAS REPORTED THIS BILL WITH ITS ENOR-

MOUS SCOPE AND NECESSARILY COMPLEX PROVISIONS SHOWS THE EXTRA EFFORT IN TERMS OF BOTH LONG HOURS AND HARD WORK THAT THE INDIVIDUAL COMMITTEE MEMBERS HAVE BEEN WILLING TO APPLY TO THIS IMPORTANT LEGISLATION. I WOULD LIKE AT THIS TIME TO THANK EACH AND EVERY MEMBER OF THE COMMITTEE FOR HIS CONTRIBUTION TO THE MEASURE.

I AM AWARE THAT THE MEMBERS OF THE SENATE HAVE ONLY RECENTLY RECEIVED COPIES OF THE TAX REFORM BILL AND THE COMMITTEE REPORT. HOWEVER, THE COMMITTEE HAS TAKEN GREAT PAINS TO KEEP THE SENATE ADVISED REGARDING THE BILL AT EVERY STAGE OF ITS DEVELOPMENT. IN ORDER THAT THE SENATE MIGHT BE KEPT INFORMED ABOUT THE ISSUES THE COMMITTEE INSERTED INTO THE *CONGRESSIONAL RECORD*, DAILY SUMMARIES OF THE ORAL STATEMENTS OF THE WITNESSES WHO TESTIFIED AT THE PUBLIC HEARINGS. DURING THE PERIOD OF TIME THAT THE COMMITTEE WAS IN EXECUTIVE SESSION, DAILY PRESS CONFERENCES WERE HELD. IN ADDITION, TO ALERT THE SENATE ON THE SPECIFIC DECISIONS, SUMMARIES OF THE DECISIONS WERE INSERTED IN THE *CONGRES-*

**SIONAL RECORD ON A DAILY BASIS. FURTHER-
MORE, ALL THE ANNOUNCEMENTS OF THE COMMIT-
TEE'S WORK WERE COMPILED INTO A SINGLE DOCU-
MENT AND I PERSONALLY SENT A COPY OF THIS
DOCUMENT TO EVERY SENATOR ON NOVEMBER 4.
FINALLY, SO THAT ALL SENATORS COULD BE KEPT
UP TO DATE ON THE MOST RECENT DEVELOPMENTS
BEFORE THE COMMITTEE REPORT BECAME AVAIL-
ABLE, A RATHER EXHAUSTIVE SUMMARY OF THE
PROVISIONS OF THE TAX REFORM ACT WAS PUB-
LISHED LAST TUESDAY, NOVEMBER 18, AND I
WROTE EACH SENATOR A PERSONAL LETTER URG-
ING THAT HE STUDY THIS SUMMARY—WHICH WAS
ATTACHED—AND AQUAINT HIMSELF WITH THE
MANY COMPLEX AND DETAILED AMENDMENTS IN
THE BILL BEFORE FORMAL DEBATE ON THE MEAS-
URE ACTUALLY BEGAN. FINALLY, THE COMMITTEE
REPORT CONTAINS A SHORT SUMMARY OF THE
PRINCIPAL PROVISIONS IN THE TAX REFORM BILL
WHICH APPEARS NEAR THE FRONT OF THE RE-
PORT.**

**LET ME TURN NOW AND SAY A FEW WORDS
ABOUT THE PHILOSOPHY OF THE TAX REFORM**

BILL THE COMMITTEE HAS REPORTED. THIS BILL EMPHASIZES EQUITY. THAT IS WHAT THE WHOLE AFFAIR IS ABOUT, AND, ALTHOUGH THE COMMITTEE HAS MADE MANY AMENDMENTS TO THE HOUSE BILL, IN THIS RESPECT THERE IS LITTLE DIFFERENCE BETWEEN THE COMMITTEE'S BILL AND THE BILL PASSED BY THE HOUSE. ACTUALLY, THE BILL NOW BEFORE US IS, IN A GREAT MANY RESPECTS, VERY SIMILAR TO THE HOUSE BILL. THIS REFLECTS THE FACT THAT BOTH BILLS HAVE A COMMON GOAL—A FAIRER AND MORE EFFICIENT TAX SYSTEM. IN FACT, THE FINANCE COMMITTEE REGARDS ITS AMENDMENTS AS BUILDING ON THE BASIC FOUNDATION PROVIDED BY THE HOUSE BILL.

I HOPE THAT IN EVALUATING THIS BILL MY DISTINGUISHED COLLEAGUES WILL KEEP IN MIND THAT IT REPRESENTS A CONSENSUS MEASURE. BECAUSE OF ITS VAST SCOPE AND THE NEED TO BE COMPREHENSIVE, THE BILL INCLUDES A LARGE NUMBER OF COMPLEX AND FAR-REACHING PROVISIONS. IT IS NOT REASONABLE TO EXPECT ANY SENATOR TO BE IN COMPLETE AGREEMENT WITH EACH AND EVERY PROVISION. I MYSELF DO NOT AGREE WITH SOME OF THE PROVISIONS.

FOR EXAMPLE, AS YOU WELL KNOW, I DID NOT AGREE WITH THE COMMITTEE'S DECISION TO REDUCE PERCENTAGE DEPLETION ALLOWANCES FOR OIL AND GAS AND I VOTED AGAINST THIS DECISION. NONETHELESS, I WANT TO EMPHASIZE THAT I AM WHOLEHEARTEDLY IN FAVOR OF ADOPTION OF THE BILL BECAUSE IT REPRESENTS THE MOST FUNDAMENTAL AND FAR-REACHING REFORM MEASURE SINCE THE ADOPTION OF THE INCOME TAX.

I HAVE PREVIOUSLY CHARACTERIZED THIS BILL AS THE THIRD MOST SIGNIFICANT TAX MEASURE IN OUR HISTORY—SURPASSED ONLY BY THE ENACTMENT OF THE ORIGINAL INCOME TAX IN 1913, AND THE MASSIVE TAX-CUTTING REVENUE ACT OF 1964 WHICH I WAS ALSO PRIVILEGED TO MANAGE IN THE SENATE. ON REFLECTION, I THINK PERHAPS THIS BILL IS EVEN MORE SIGNIFICANT THAN THE 1964 ACT. THE COMBINATION OF \$7 BILLION OF REVENUE-RAISING TAX REFORMS IN THIS BILL AND THE \$9 BILLION OF TAX CUTS WILL HAVE A VASTLY GREATER IMPACT ON BUSINESS, INVESTMENT AND CONSUMER DECISIONS THAN THE 1964 ACT EXERTED. BUT, IN ADDITION, THIS BILL FOCUSES ATTENTION ON BASIC

SHORTCOMINGS IN OUR TAX LAW AND DOES SOMETHING ABOUT THEM.

I WOULD STRONGLY URGE THE DISTINGUISHED MEMBERS OF THE SENATE TO VIEW THE BILL AS A WHOLE.

PLEASE WEIGH THE BILL ON ITS OVERALL MERITS RATHER THAN ON THE BASIS OF SOME SPECIFIC PROVISION WHICH YOU THINK MIGHT BE IMPROVED. IF WE DO THIS THERE WILL BE LITTLE DOUBT AS TO THE OUTCOME. IF, ON THE OTHER HAND, EACH OF US IS GOING TO TRY TO DELETE FROM THE BILL SOME PARTICULAR PROVISION TO WHICH HE OBJECTS OR SEEKS TO ADD PROVISIONS REFLECTING HIS OWN PERSONAL PHILOSOPHY OF TAXATION, THEN THERE IS SERIOUS DANGER WE WON'T BE ABLE TO PASS ANY TAX REFORM BILL THIS YEAR. I THEREFORE STRONGLY URGE MY DISTINGUISHED COLLEAGUES TO WEIGH WHATEVER CHANGES THEY WOULD LIKE TO SEE IN THE BILL IN THE SCALES OF THIS CONSIDERATION. THIS IS THE REAL TEST—THE TEST AS TO WHETHER THE SENATE REALLY WANTS TAX REFORM. IF IT REALLY WANTS REFORM IT WON'T TRY TO NIT-PICK THIS BILL WITH A WHOLE HOST OF LITTLE CHANGES.

LET ME TURN NOW TO SOME OF THE SPECIFICS OF THE TAX REFORM PROGRAM. THE MAIN THRUST OF THE PENDING BILL, AS UNDER THE HOUSE BILL, IS TO REDUCE THE SCOPE OF THE TAX PREFERENCES THAT ENABLE SOME INDIVIDUALS AND CORPORATIONS TO ESCAPE THEIR FAIR SHARE OF THE TAX BURDEN. IN BROAD OUTLINE, THE BILL SEEKS TO ACHIEVE THIS OBJECTIVE THROUGH A TWO-TIER APPROACH—OR A SORT OF ONE, TWO PUNCH—AGAINST TAX PREFERENCES. THE FIRST LINE OF ATTACK LIMITS THE SCOPE OF PARTICULAR TAX PREFERENCES THROUGH SPECIFIC PROVISIONS DESIGNED FOR THIS PURPOSE. THE SECOND LINE OF ATTACK IS TO GROUP THE TAX PREFERENCES WHICH REMAIN AFTER APPLICATION OF THE SPECIFIC PROVISIONS TO WHICH I HAVE JUST REFERRED AND TO SUBJECT THESE TAX PREFERENCES TO A MINIMUM TAX.

THIS IS THE SAME GENERAL APPROACH FOLLOWED IN THE HOUSE BILL. BUT, THE BILL NOW BEFORE US CONTAINS MANY AMENDMENTS WHICH CHANGE THE SCOPE AND TECHNICAL LANGUAGE OF THE HOUSE PROVISIONS, ADD NEW TAX REFORM PROVISIONS, AND DELETE SOME PROVISIONS OF THE HOUSE BILL.

IN A BILL OF THIS SCOPE, IT WOULD OBVIOUSLY BE IMPRACTICAL TO DESCRIBE EVERY PROVISION, BUT I WOULD LIKE TO MENTION BRIEFLY SOME OF THE MORE IMPORTANT PROVISIONS TO HIGHLIGHT THE SCOPE AND RANGE OF THE TAX REFORM PROGRAM. THE BILL, FOR EXAMPLE, MAKES SUBSTANTIAL CHANGES IN THE TREATMENT OF FOUNDATIONS. IT PREVENTS SELF-DEALING BETWEEN THE FOUNDATIONS AND THEIR SUBSTANTIAL CONTRIBUTORS, REQUIRES THE DISTRIBUTION OF INCOME FOR CHARITABLE PURPOSES, AND RESTRICTS FOUNDATION HOLDINGS OF PRIVATE BUSINESSES. PRIVATE FOUNDATIONS, UNDER THE BILL, WILL PAY A SMALL ANNUAL AUDIT FEE TAX. IN ADDITION, EACH PRIVATE FOUNDATION WILL BE ELIGIBLE FOR INCOME TAX EXEMPTION FOR ONLY 40 YEARS—BEGINNING WITH JANUARY 1, 1970 FOR EXISTING FOUNDATIONS.

TAX-EXEMPT ORGANIZATIONS ARE PREVENTED FROM SHARING THEIR EXEMPTION WITH PRIVATE BUSINESSES AND THE UNRELATED BUSINESS INCOME TAX IS EXTENDED TO ALL TAX-EXEMPT ORGANIZATIONS NOT PREVIOUSLY COVERED, INCLUDING CHURCHES AFTER 1975.

THE GENERAL CHARITABLE CONTRIBUTION DEDUCTION LIMIT IS INCREASED TO 50 PERCENT OF ADJUSTED GROSS INCOME. THE UNLIMITED CHARITABLE DEDUCTION IS PHASED OUT OVER A 5-YEAR PERIOD. THE EXTRA TAX BENEFITS DERIVED FROM CHARITABLE CONTRIBUTIONS OF APPRECIATED PROPERTY ARE RESTRICTED IN THE CASE OF GIFTS TO PRIVATE FOUNDATIONS AND GIFTS OF ORDINARY INCOME PROPERTY.

THE BILL RESTRICTS THE TAX ADVANTAGES DERIVED UNDER THE SPECIAL FARM ACCOUNTING RULES BY THOSE WITH LARGE FARM LOSSES WHICH ARE APPLIED TO REDUCE TAXES ON SUBSTANTIAL INCOMES FROM NONFARM SOURCES.

BENEFICIARIES OF TRUSTS WILL NO LONGER BE ABLE TO SECURE SUBSTANTIAL UNDUE TAX ADVANTAGE FROM ACCUMULATING INCOME SINCE THE INCOME ACCUMULATED BY A TRUST WILL BE TAXED TO THE BENEFICIARIES IN THE SAME MANNER AS IF THE INCOME HAD BEEN PAID OUT TO THEM WHEN IT WAS EARNED.

THE COMMITTEE'S BILL ELIMINATES THE UNDUE STIMULUS THAT PRESENT LAW GIVES TO CORPORATE MERGERS BECAUSE IT ALLOWS ACQUIRING CORPORATIONS TO DEDUCT AS INTEREST SOME

PAYMENTS ON "DEBT" WHICH HAVE THE BASIC CHARACTERISTICS OF EQUITY.

FINANCIAL INSTITUTIONS INCLUDING COMMERCIAL BANKS, SAVINGS AND LOAN INSTITUTIONS, AND MUTUAL SAVINGS BANKS WILL BE ABLE TO DERIVE LESS TAX ADVANTAGES FROM THE USE OF SPECIAL BAD DEBT RESERVES WHICH EXCEED THE BAD DEBT RESERVES ALLOWED TO TAXPAYERS GENERALLY.

THE PERCENTAGE DEPLETION RATE FOR OIL AND GAS IS REDUCED FROM THE PRESENT RATE OF $27\frac{1}{2}$ PERCENT TO 23 PERCENT FOR BOTH DOMESTICALLY AND FOREIGN-PRODUCED OIL AND GAS.

THE TREATMENT OF CAPITAL GAINS AND LOSSES IS CHANGED. THE ALTERNATIVE CAPITAL GAINS TAX IS PHASED OUT OVER A 3-YEAR PERIOD FOR INDIVIDUALS WITH LARGE CAPITAL GAINS AND SIGNIFICANT AMOUNTS OF TAX PREFERENCES. OTHER CHANGES IN THIS AREA REDUCE THE TAX ADVANTAGES OF LONG-TERM LOSSES AND REMOVE CAPITAL GAINS TREATMENT FROM CERTAIN RECEIPTS SUCH AS LUMP-SUM DISTRIBUTIONS OF PENSION PLANS WHICH ARE ATTRIBUTABLE TO EMPLOYERS' CONTRIBUTIONS. IN ADDITION, THE ALTERNATIVE TAX RATE ON A CORPORATION'S

LONG-TERM CAPITAL GAIN IS INCREASED FROM 25 PERCENT TO 30 PERCENT.

THE TAX ADVANTAGES DERIVED FROM REAL ESTATE OPERATIONS WHICH HAVE ATTRACTED SO MUCH NOTORIETY WILL BE REDUCED. IN GENERAL, THE 200-PERCENT DECLINING BALANCE METHOD (OR SUM-OF-THE-DIGITS METHOD) IS LIMITED TO NEW HOUSING. OTHER NEW REAL ESTATE IS LIMITED TO 150-PERCENT DECLINING BALANCE DEPRECIATION. USED PROPERTY ACQUIRED IN THE FUTURE IS LIMITED TO STRAIGHT-LINE DEPRECIATION. IN ADDITION, THE PRESENT RECAPTURE RULES APPLYING TO REAL ESTATE ARE GENERALLY REVISED SO THAT ON THE SALE OF PROPERTY, MORE OF THE DEPRECIATION IN EXCESS OF STRAIGHT-LINE WILL BE RECAPTURED AS ORDINARY INCOME. HOWEVER, TO PROVIDE INCENTIVES TO BUILD MORE HOUSING UNITS, MORE LENIENT RECAPTURE RULES ARE PROVIDED FOR RESIDENTIAL PROPERTY THAN APPLY FOR OTHER PROPERTY.

SHAREHOLDER EMPLOYEES OF PROFESSIONAL SERVICE CORPORATIONS AND SUBCHAPTER S CORPORATIONS (THAT IS, CORPORATIONS TREATED

SOMEWHAT LIKE PARTNERSHIPS) ARE TO BE SUBJECT TO THE SAME PENSION RULES AS SELF-EMPLOYED PEOPLE.

RESIDENTS OF A FOREIGN COUNTRY WILL BE PERMITTED EXEMPTION OF NO MORE THAN \$6,000 OF EARNED INCOME RECEIVED FROM ABROAD INSTEAD OF \$20,000 OR \$25,000 AS UNDER PRESENT LAW.

RELATED CORPORATIONS WILL NO LONGER BE ABLE TO TAKE MULTIPLE SURTAX EXEMPTIONS WHICH WILL BE PHASED OUT OVER A 5-YEAR PERIOD. THIS WILL PREVENT LARGE GROUPS OF COMMONLY CONTROLLED CORPORATIONS FROM OBTAINING SUBSTANTIAL TAX BENEFITS INTENDED PRIMARILY FOR SMALL BUSINESS.

FINALLY, TO DISCOURAGE ARBITRAGING, STATE AND LOCAL BOND INTEREST WILL BE SUBJECT TO FEDERAL INCOME TAX WHERE THE PROCEEDS OF THESE BONDS ARE INVESTED IN HIGHER YIELDING FEDERAL OR CORPORATE BONDS.

AS I INDICATED, AFTER SPECIFIC PROVISIONS OF THE TYPE WHICH I HAVE JUST DESCRIBED ARE APPLIED AGAINST PARTICULAR ITEMS OF TAX PREFERENCE SO AS TO REDUCE THEIR SCOPE, THE SECOND LINE OF DEFENSE—THE MINIMUM TAX—

COMES INTO PLAY. THE PENDING BILL PROVIDES FOR A MINIMUM TAX WHICH IN THE COMMITTEE'S OPINION IS MUCH SUPERIOR TO THAT PROVIDED IN THE HOUSE BILL. UNDER THE COMMITTEE'S PROVISION A SELECTED NUMBER OF TAX PREFERENCES WOULD BE AGGREGATED AND THE TOTAL AMOUNT IN EXCESS OF A \$30,000 EXEMPTION WOULD BE SUBJECTED TO A 5 PERCENT TAX. SOME OF THE MAJOR ITEMS INCLUDED IN THE BASE OF THIS MINIMUM TAX ARE LONG-TERM CAPITAL GAINS, ACCELERATED DEPRECIATION IN EXCESS OF STRAIGHT LINE DEPRECIATION, YES, EVEN PERCENTAGE DEPLETION AND INTANGIBLE DRILLING AND EXPLORATION EXPENSES AND INTEREST EXPENSES INCURRED FOR INVESTMENT PURPOSES IN EXCESS OF INVESTMENT INCOME. THIS MINIMUM TAX APPLIES TO BOTH INDIVIDUALS AND CORPORATIONS AND IS IN ADDITION TO THE REGULAR INCOME TAXES.

THIS MINIMUM TAX IN THE COMMITTEE'S OPINION PRODUCES FAIRER RESULTS THAN THE COMPARABLE HOUSE PROVISIONS—WHICH WERE CALLED A LIMIT ON TAX PREFERENCES AND AN ALLOCATION OF DEDUCTIONS. FOR ONE THING, THE COMMITTEE'S MINIMUM TAX APPLIES TO CORPORA-

TIONS WHILE THE HOUSE PROVISIONS DID NOT LEND THEMSELVES TO APPLICATION TO CORPORATIONS. ALSO, THE MINIMUM TAX APPLIES MORE EVENLY TO INDIVIDUALS THAN THE HOUSE PROVISIONS; IT IMPOSES THE SAME TAX ON TAXPAYERS WITH THE SAME AMOUNTS OF TAX PREFERENCES INCOME WHILE THE HOUSE BILL VARIED THE TAX ON SUCH INDIVIDUALS DEPENDING ON THE AMOUNT OF THEIR TAXABLE INCOME.

FINALLY THIS 5-PERCENT TAX IS A RELATIVELY SIMPLE AFFAIR TO COMPUTE, WHILE COMPUTATION OF THE TAX DUE UNDER THE HOUSE PROVISION IS QUITE COMPLEX. IN FACT THE HOUSE PROVISIONS FREQUENTLY INVOLVED THE TAXPAYER IN HIGHER MATHEMATICS, BY REQUIRING THE USE OF SIMULTANEOUS EQUATIONS.

THE 5-PERCENT MODIFICATION INCLUDED IN THE COMMITTEES BILL COVERS QUITE A FEW TAX PREFERENCE ITEMS NOT INCLUDED UNDER THE HOUSE LTP AND ALLOCATION PROVISION. HOWEVER, I WOULD LIKE TO ADVISE THE SENATE THAT THIS MINIMUM TAX DOES NOT APPLY TO INTEREST ON STATE AND LOCAL GOVERNMENT BONDS WHICH WERE COVERED BY THE HOUSE PROVISIONS. NOR DOES IT COVER THE APPRECIATION IN VALUE OF

PROPERTY FOR WHICH DEDUCTIONS ARE TAKEN AS CHARITABLE CONTRIBUTIONS.

THE COMMITTEE STRONGLY BELIEVES IN THE BASIC PRINCIPLE THAT TAX PREFERENCES SHOULD BE CURTAILED TO THE GREATEST EXTENT POSSIBLE. HOWEVER, THE COMMITTEE ALSO BELIEVES, AND I AM SURE THAT THE MEMBERS OF THE SENATE WILL AGREE WITH ME, AT LEAST IN PRINCIPLE, THAT CHANGES IN THE TREATMENT OF SPECIFIC TAX PREFERENCES SHOULD BE MADE ONLY WHEN THE OVERALL RESULT OF THE CHANGE IS BENEFICIAL. THE COMMITTEE CAME TO THE CONCLUSION ON THE BASIS OF THE TESTIMONY RECEIVED DURING ITS HEARINGS ON THE TAX REFORM BILL THAT THE TAXATION OF STATE AND LOCAL BOND INTEREST, EVEN IF INDIRECTLY, BY MEANS OF INCLUSION IN THE MINIMUM TAX PROVISION, WOULD CONSTITUTE AN INEFFICIENT TAX REFORM. STATE AND LOCAL GOVERNMENTS ARE NOW ENCOUNTERING VERY CONSIDERABLE DIFFICULTIES IN MARKETING THEIR BONDS IN VIEW OF PRESENT RECORD INTEREST RATES IN TIGHT MONEY CONDITIONS. THE TAXATION OF STATE AND LOCAL BOND INTERESTS WOULD ADD TO THESE DIFFICULTIES AND MAKE IT EVEN MORE

DIFFICULT FOR STATE AND LOCAL GOVERNMENTS TO RAISE NEEDED FUNDS. I HOPE THAT THE SENATE WILL SEE FIT TO CONFIRM THE COMMITTEE IN THIS ACTION. THIS WILL HELP MAINTAIN THE CONFIDENCE THE COMMITTEE ACTION RESTORED TO THE TAX-EXEMPT BOND MARKET AND ENABLE STATE AND LOCAL GOVERNMENTS TO GET ON WITH THE IMPORTANT WORK OF IMPROVING SERVICES AND FACILITIES FOR THEIR CITIZENS.

THE MINIMUM TAX IN THE BILL ALSO DOES NOT INCLUDE THE NONTAXED APPRECIATION IN VALUE OF PROPERTY DEDUCTED AS A CHARITABLE CONTRIBUTION. IT WAS INCLUDED IN THE HOUSE PROVISIONS FOR A LIMIT ON TAX PREFERENCES AND ALLOCATION OF DEDUCTIONS. THE COMMITTEE BELIEVED THAT IT WOULD NOT BE WISE TO INCLUDE GIFTS OF APPRECIATED PROPERTY TO CHARITY UNDER THE 5-PERCENT MINIMUM TAX PARTICULARLY SINCE IT HAD ALREADY APPROVED A NUMBER OF OTHER PROVISIONS SPECIFICALLY DIRECTED TOWARD CURTAILING THE TAX ADVANTAGES RESULTING FROM SUCH GIFTS. THE COMMITTEE FELT THAT THE ADDITIONAL STEP OF INCLUDING GIFTS OF APPRECIATED PROP-

ERTY IN THE MINIMUM TAX WOULD REDUCE THE BENEFIT OF THE CONTRIBUTION AND UNDULY RESTRICT PUBLIC SUPPORT OF WORTHWHILE EDUCATIONAL AND OTHER PUBLIC CHARITABLE INSTITUTIONS.

OTHER PROVISIONS OF THE BILL (1) EXTEND THE INCOME TAX SURCHARGE AT A 5-PERCENT RATE FROM JANUARY 1, 1970 THROUGH JANUARY 30, 1979; (2) POSTPONE FOR AN ADDITIONAL YEAR THE REDUCTIONS IN EXCISE TAXES ON PASSENGER AUTOMOBILES AND COMMUNICATIONS SERVICES SCHEDULE UNDER PRESENT LAW; (3) TERMINATE THE INVESTMENT CREDIT FOR PROPERTY WHERE CONSTRUCTION, RECONSTRUCTION OR ERECTION BEGAN AFTER APRIL 18, 1969, AND (4) PROVIDE 5-YEAR AMORTIZATION FOR POLLUTION CONTROL FACILITIES AND RAILROAD ROLLING STOCK.

I DO NOT WANT TO BURDEN YOU WITH ALL THE SPECIFICS OF EACH OF THESE PROVISIONS. THEY ARE DESCRIBED IN CONSIDERABLE DETAIL IN THE COMMITTEE'S REPORT AND ALSO IN THE BLUE COVERED SUMMARY I SENT TO EACH OF YOU.

I WOULD LIKE TO NOTE, HOWEVER, THAT WHILE NONE OF US LIKES TO EXTEND HIGHER TAX RATES, THERE IS AN URGENT NEED AT THE PRES-

ENT TIME TO EXTEND THE INCOME TAX SURCHARGE AND TO POSTPONE THE SCHEDULED EXCISE TAX REDUCTIONS AS PROVIDED IN THE PENDING BILL. THIS ACTION IS ESSENTIAL AS AN ANTIINFLATION MEASURE AND TO KEEP THE BUDGETARY SITUATION UNDER CONTROL. THE EXTENSION OF THE SURCHARGE AND THE POSTPONEMENT OF THE EXCISE TAX DEDUCTION ARE RELATIVELY MODERATE ACTIONS. THEIR BURDEN IS RELATIVELY MODERATE—PARTICULARLY WHEN IT IS CONSIDERED THAT THE COST OF A ONE POINT INCREASE IN THE CONSUMER PRICE INDEX EXCEEDS \$5 BILLION AND PARTICULARLY IN VIEW OF PRESENT SOARING INTEREST RATES WHICH THESE PROVISIONS WILL HELP TO CHECK.

SIMILARLY THERE ARE STRONG GROUNDS FOR TERMINATING THE INVESTMENT CREDIT WHICH, IF CONTINUED, WOULD SERVE ONLY TO FUEL CAPITAL GOODS SPENDING, THUS INCREASE INFLATIONARY PRESSURES. THE FINANCE COMMITTEE HAS VOTED FIVE DIFFERENT TIMES AND IN THREE DIFFERENT BILLS TO REPEAL THE INVESTMENT TAX CREDIT AS OF APRIL 18, 1969. THE SENATE DEMOCRATIC POLICY COMMITTEE HAS ALSO VOTED UNANIMOUSLY TO REPEAL THE CREDIT.

THE COMMITTEE HAS VOTED DOWN SEVERAL AMENDMENTS WHICH WOULD HAVE PRESERVED THE CREDIT FOR SEVERAL INDUSTRIES OR SEVERAL GROUPS. WE THINK IT IS IMPORTANT THAT THE CREDIT BE REMOVED FROM THE TAX LAW. I URGE THE SENATE NOT TO EXTEND THE CREDIT FOR ANY PARTICULAR INDUSTRY, OR GROUPS OF INDUSTRIES, BECAUSE THIS WOULD CRIPPLE THE EFFECT OF ITS REPEAL.

THE MAJOR OBJECTIVE OF THE TAX REFORM PROGRAM IS, OF COURSE, TO PERMIT A FAIRER SHARING OF THE TAX BURDEN. THE BILL NOW BEFORE US ACHIEVES THIS OBJECTIVE. IN EFFECT, WE USE THE MONEY THAT WE GET FROM THE TAX REFORM PROVISIONS AND FROM THE REPEAL OF THE INVESTMENT CREDIT FOR A BROAD-GAGE PROGRAM OF TAX RELIEF.

THE TOP RELIEF IN THIS BILL AMOUNTS TO \$1.7 BILLION IN THE CALENDAR YEAR 1970 BUT BUILDS UP RAPIDLY TO \$9 BILLION OF TAX REDUCTION IN 1972.

IN DECIDING ON THE PARTICULAR WAY THAT THE TAX RELIEF WAS TO BE ALLOCATED, A NUMBER OF COURSES WERE AVAILABLE TO THE COM-

MITTEE. SINCE THE FUNDS AVAILABLE FOR TAX RELIEF NECESSARILY ARE LIMITED, WE COULD NOT ADOPT ALL THE SUGGESTIONS AND, AS A PRACTICAL MATTER, HAD TO CHOOSE AMONG COMPETING CLAIMS. SOME URGED THAT ALL OR A MAJOR PORTION OF THE TAX REDUCTION BE GIVEN IN THE FORM OF LOWER TAX RATES. OTHERS WANTED THE INDIVIDUAL INCOME TAX PERSONAL EXEMPTION LEVELS TO BE RAISED TO LEVELS WHICH WOULD ABSORB ALL THE AVAILABLE REVENUE FOR TAX RELIEF, LEAVING NO MARGIN AVAILABLE FOR OTHER FORMS OF TAX REDUCTION. THE TAX RELIEF PROVISIONS SELECTED BY THE COMMITTEE PROVIDE A BALANCED PROGRAM, INCLUDING SOME RATE REDUCTIONS AND A NUMBER OF RELIEF PROVISIONS. THE COMMITTEE PROVISIONS ARE DESIGNED TO GRANT TAX RELIEF TO THE POOR WHO NEED IT MOST, TO ENCOURAGE PEOPLE TO WORK AND TO INVEST BY CUTTING TAX RATES AND TO SIMPLIFY THE TAX LAWS.

ACCORDINGLY, THE COMMITTEE'S BILL GIVES INDIVIDUALS TAX RATE REDUCTIONS AMOUNTING TO ALMOST \$4½ BILLION A YEAR WHEN FULLY EFFECTIVE IN 1972. THE 1973 TAX RATES WILL BE AT LEAST ONE PERCENTAGE POINT LOWER IN ALL

BRACKETS THAN THEY ARE NOW. TAX RATES WILL RANGE FROM 13 PERCENT IN THE LOWEST BRACKET TO 65 PERCENT IN THE TOP BRACKET COMPARED WITH THE PRESENT RANGE OF 14 PERCENT TO 70 PERCENT. THE NET EFFECT WILL BE TO GIVE A TAX REDUCTION OF 5 PERCENT OR MORE IN ALL BRACKETS. THIS IS THE SAME REDUCTION THAT IS PROVIDED UNDER THE HOUSE BILL. HOWEVER, FOR BUDGETARY REASONS THE COMMITTEE'S BILL PROVIDES ABOUT ONE-THIRD OF THE RATE REDUCTION IN 1971 AND THE REMAINING TWO-THIRDS IN 1972. THE HOUSE BILL DIVIDED THE RATE REDUCTIONS EVENLY BETWEEN 1971 AND 1972.

IN ESTABLISHING THE NEW TAX RATES, THE COMMITTEE DELETED FROM THE BILL A HOUSE PROVISION LIMITING TO 50 PERCENT THE MAXIMUM MARGINAL RATE APPLYING TO AN INDIVIDUAL'S EARNED INCOME. THIS ACTION WAS TAKEN BECAUSE THE COMMITTEE BELIEVED THAT A 50-PERCENT TOP MARGINAL RATE, THOUGH BENEFICIAL FOR WORK INCENTIVES, WOULD PROVIDE UNDULY LARGE TAX REDUCTIONS TO THOSE WITH SUBSTANTIAL EARNED INCOMES.

THE BILL ALSO PROVIDES A LOW-INCOME ALLOWANCE WHICH IS TAILOR MADE TO GRANT

RELIEF TO THE POOR AND THE NEAR POOR. THIS PROVISION, WHOSE MAIN FEATURES ARE CARRIED OVER FROM THE HOUSE BILL, WILL GRANT \$2.65 BILLION OF REVENUE A YEAR WHEN IT IS FULLY EFFECTIVE. ESSENTIALLY, THIS LOW-INCOME ALLOWANCE RAISES THE MINIMUM STANDARD DEDUCTION ON EACH TAX RETURN TO \$1,100. THIS LOW-INCOME ALLOWANCE, TOGETHER WITH THE \$600 PER CAPITA PERSONAL EXEMPTION, WILL RELIEVE FROM ALL TAX SINGLE PERSONS WITH INCOMES OF \$1,700 OR LESS, MARRIED COUPLES WITH INCOMES OF \$2,300 OR LESS AND MARRIED COUPLES WITH TWO CHILDREN WITH INCOMES OF \$3,500 OR LESS.

THESE AMOUNTS CLOSELY CONFORM TO THE POVERTY LEVELS ESTABLISHED ON THE BASIS OF FIGURES OF THE DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE. THEY ALSO CONFORM TO H.E.W. FIGURES WHICH SHOW THAT FAMILIES REMAIN AT THE POVERTY LEVEL UNLESS THEIR INCOMES INCREASE BY ABOUT \$600 FOR EACH ADDITIONAL PERSON IN THE FAMILY AFTER A POVERTY LEVEL BASE OF INCOME OF \$1,100. FOR BUDGETARY REASONS, IN 1970 AND 1971 THE LOW-INCOME ALLOWANCE PROVIDED BY THE BILL IS "PHASED OUT" AS THE INCOME OF THE TAXPAYER

INCREASES ABOVE POVERTY LEVELS. HOWEVER, IN 1972 THIS PHASEOUT WILL NO LONGER APPLY AND THE FULL AMOUNT OF THE LOW-INCOME ALLOWANCE WILL BE AVAILABLE WITHOUT ANY REDUCTION FOR THE SIZE OF INCOME. IN OTHER WORDS, AT THAT TIME EVERY FAMILY UNIT FILING A TAX RETURN WILL HAVE A STANDARD DEDUCTION OF AT LEAST \$1,100. THIS IS IN ADDITION TO THEIR PERSONAL EXEMPTIONS.

THIS LOW-INCOME ALLOWANCE IS DESIGNED TO WORK HAND-IN-HAND WITH AN INCREASE IN THE REGULAR STANDARD DEDUCTION. AT PRESENT, THE STANDARD DEDUCTION IS LIMITED TO 10 PERCENT OF INCOME WITH A CEILING OF \$1,000. THE BILL GRADUALLY RAISES THESE LIMITS TO A LEVEL 15 PERCENT OF INCOME WITH A CEILING OF \$2,000 IN 1972 AND LATER YEARS. THIS PROVISION, TOGETHER WITH THE LOW-INCOME ALLOWANCE WHICH I HAVE DESCRIBED, WILL ACHIEVE VERY SUBSTANTIAL SIMPLIFICATION FOR TAXPAYERS IN FILING THEIR TAX RETURNS. AS A RESULT OF THE CHANGES, ABOUT 11.6 MILLION RETURNS WHICH NOW ITEMIZE DEDUCTIONS WILL USE THE STANDARD DEDUCTION. THIS MEANS THAT THE PROPORTION OF ALL RETURNS USING THE STANDARD DEDUCTION WILL BE INCREASED FROM ITS

PRESENT LEVEL OF 58 PERCENT TO 74 PERCENT. ABOUT 5.2 MILLION PEOPLE WILL BE MADE NON-TAXABLE AS A RESULT OF THESE PROVISIONS.

SINCE INCREASES IN THE PER CAPITA EXEMPTION LEVEL HAVE ALSO BEEN OFFERED AS A MEANS OF AIDING LOW-INCOME PEOPLE, I WOULD LIKE TO INDICATE WHY THE COMMITTEE DECIDED NOT TO INCREASE THE PERSONAL EXEMPTION. THIS IS A VERY IMPORTANT ISSUE, SINCE THERE HAS BEEN A LOT OF TALK ABOUT INCREASING EXEMPTIONS. THE ISSUE WE HAVE TO DECIDE IS—ARE EXEMPTION INCREASES MORE EFFICIENT OR LESS EFFICIENT IN PROVIDING TAX RELIEF TO LOW-INCOME PEOPLE? DO THEY PROVIDE MORE JUSTICE OR LESS JUSTICE THAN THE PROVISIONS THAT THE BILL CONTAINS TO GRANT TAX RELIEF TO THE POOR? LET'S EXAMINE THIS ISSUE.

FIRST, THE INCREASES IN THE PER CAPITA EXEMPTION WILL BE SUBSTANTIALLY MORE COSTLY THAN THE LOW-INCOME ALLOWANCE. AN INCREASE IN THE PER CAPITA EXEMPTION TO \$900, FOR EXAMPLE, WOULD INVOLVE A REVENUE LOSS OF \$9.7 BILLION A YEAR, OR MORE THAN THE REVENUE COST OF THE ENTIRE TAX RELIEF PROGRAM IN THE COMMITTEE BILL. THE COST RISES TO

ASTRONOMICAL FIGURES AS THE PER CAPITA EXEMPTION LEVEL RISES. A \$1,000 PER CAPITA EXEMPTION WOULD COST \$12.7 BILLION A YEAR AND A \$1,200 PER CAPITA EXEMPTION, WHICH IS SOMETIMES MENTIONED, WOULD COST \$18 BILLION A YEAR—OR TWICE AS MUCH AS THE ENTIRE RELIEF PROVISIONS UNDER THE BILL.

I DO NOT BELIEVE, AND THE COMMITTEE ON FINANCE DID NOT BELIEVE, THAT WE WOULD BE ACTING IN A FISCALLY RESPONSIBLE MANNER IF WE VOTED TO INCREASE THE FEDERAL DEFICIT BY THE AMOUNTS THAT WOULD BE INVOLVED IF WE AGREED TO A PERSONAL EXEMPTION OF THOSE PROPORTIONS.

THE LOW-INCOME ALLOWANCE NOT ONLY IS LESS COSTLY THAN INCREASES IN THE PER CAPITA EXEMPTION; IT IS ALSO MORE EFFECTIVE AS A WAY OF AIDING THE POOR. THIS IS BECAUSE IT CONCENTRATES ITS RELIEF AT THE LOW-INCOME LEVELS WHERE THE POOR ARE TO BE FOUND. FOR EXAMPLE, ALTHOUGH THE LOW-INCOME ALLOWANCE WILL COST ONLY ABOUT ONE-THIRD AS MUCH AS AN INCREASE IN THE PER CAPITA EXEMPTION LEVEL TO \$900, TOGETHER WITH THE PRESENT \$600 EXEMPTION IT GIVES MORE RELIEF

TO A SINGLE PERSON—EXEMPTING A SINGLE PERSON FROM TAX UP TO THE \$1,700 INCOME LEVEL COMPARED WITH EXEMPTING ONLY \$1,200 FROM TAX IF YOU HAVE ONLY A \$900 PERSONAL EXEMPTION AND THE PRESENT MINIMUM STANDARD DEDUCTION. SIMILARLY, A MARRIED COUPLE WITH NO DEPENDENTS WILL BE FREE OF TAX UP TO THE \$2,300 INCOME LEVEL UNDER THE LOW-INCOME ALLOWANCE; IT WOULD BE FREE FROM TAX ONLY UP TO \$2,200 UNDER THE \$900 EXEMPTION LEVEL WITH THE PRESENT MINIMUM STANDARD DEDUCTION.

IT IS TRUE THAT LARGE FAMILIES WOULD REMAIN FREE OF TAX AT SOMEWHAT HIGHER INCOME LEVELS UNDER \$900 PER CAPITA EXEMPTION THAN UNDER THE LOW-INCOME ALLOWANCE, BUT THESE DIFFERENCES WOULD BE RELATIVELY MODERATE COMPARED WITH THE ENORMOUS ADDITIONAL COST IN THE INCREASES OF THE PER CAPITA EXEMPTION. THERE ALSO IS ANOTHER ASPECT OF THIS WHICH SHOULD BE CALLED TO THE MEMBERS' ATTENTION. H.E.W. FIGURES SHOW THAT AFTER A \$1,100 ALLOWANCE IS MADE AVAILABLE TO A POVERTY LEVEL FAMILY, AN ADDITIONAL \$600 ALLOWANCE FOR EACH DEPENDENT—SUCH AS IS PROVIDED UNDER THE COMBINATION

OF THE LOW-INCOME ALLOWANCE AND EXEMPTIONS SYSTEM—WILL SUFFICE TO EXEMPT THE FAMILY FROM ALL TAX AT POVERTY LEVELS.

HERE IS ANOTHER POINT THE MEMBERS SHOULD REALIZE. OVER 60 PERCENT OF THE TOTAL BENEFITS OF THE LOW INCOME ALLOWANCE WILL GO TO THOSE WITH INCOMES UNDER \$5,000 AND ONLY 4 PERCENT OF THE BENEFITS WILL GO TO THOSE WITH INCOMES OF \$10,000 OR MORE.

IN CONTRAST, IF THE PER CAPITA EXEMPTIONS WERE RAISED TO \$900, ONLY 12 PERCENT OF THE BENEFITS WOULD GO TO THOSE WITH INCOMES UNDER \$5,000—12 PERCENT AS AGAINST 60 PERCENT FOR THE LOW INCOME ALLOWANCE. OVER 50 PERCENT OF THE BENEFITS OF THE INCREASED EXEMPTIONS WOULD GO TO PEOPLE WITH INCOMES OF MORE THAN \$10,000 AND AS MUCH AS 12 PERCENT OF THE BENEFITS WOULD BE RECEIVED BY THOSE WITH INCOMES OF \$20,000 OR MORE. HOW DRASTICALLY DIFFERENT FROM THE LOW INCOME ALLOWANCE.

STILL ANOTHER POINT THE MEMBERS SHOULD BE AWARE OF IS THAT THE LOW INCOME ALLOWANCE, TOGETHER WITH THE INCREASE IN THE

MAXIMUM STANDARD DEDUCTION PROVIDED BY THE BILL, WOULD MAKE A MUCH GREATER CONTRIBUTION TO TAX SIMPLIFICATION THAT INCREASING PER CAPITA EXEMPTIONS. THE LARGER EXEMPTION, WHILE IT WOULD TAKE A SIGNIFICANT NUMBER OF PEOPLE OFF THE TAX ROLLS, WOULD NOT HAVE THE EFFECT OF SWITCHING TO THE STANDARD DEDUCTION ALMOST 12 MILLION PEOPLE WHO NOW ITEMIZE THEIR DEDUCTIONS. THIS SUPERIOR CONTRIBUTION OF THE BILL'S PROVISIONS TO TAX SIMPLIFICATION SHOULD NOT BE UNDERESTIMATED. IT IS COMPLICATED TAX LAWS, ALMOST AS MUCH AS INEQUITIES, WHICH ARE LIKELY TO CAUSE THE RANK AND FILE OF TAXPAYERS TO REVOLT AGAINST THE TAX SYSTEM. THE SIMPLIFICATION WE HAVE PROVIDED IN THIS BILL CAN MAKE ALL THE DIFFERENCE IN THE WORLD IN THE ATTITUDE OF PEOPLE TOWARD THE TAX SYSTEM.

FINALLY, I WOULD LIKE TO NOTE THAT SOME PEOPLE WHO ARE IMPRESSED WITH THE VIRTUES OF THE LOW-INCOME ALLOWANCE AND THE INCREASED MAXIMUM STANDARD DEDUCTION SEEK TO COMBINE THESE IMPROVEMENTS WITH AN INCREASE IN THE PER CAPITA EXEMPTION LEVEL.

IT OBVIOUSLY WOULD BE IMPRACTICAL BECAUSE OF REVENUE COSTS JUST TO COMBINE ALL THESE TAX RELIEF MEASURES INTO ONE GIGANTIC PACKAGE.

THE CONSIDERATIONS I HAVE JUST OUTLINED ARE THE CONSIDERATIONS WHICH LED THE COMMITTEE TO REJECT PROPOSALS TO INCREASE THE PER CAPITA EXEMPTION AND TO ACCEPT THE LOW-INCOME ALLOWANCE AS THE BEST MEANS OF AIDING LOW-INCOME PEOPLE. THESE REASONS SEEMED MORE THAN PERSUASIVE TO THE COMMITTEE AND I HOPE THAT MY COLLEAGUES WILL AGREE.

LET ME TURN NOW TO ONE FINAL SUBJECT. THE BILL BEFORE YOU PROVIDES VERY SUBSTANTIAL TAX RELIEF FOR SINGLE PEOPLE. THIS ACTION IS NEEDED BECAUSE PRESENT LAW IMPOSES HARSH TAX BURDENS ON SINGLE PEOPLE COMPARED TO MARRIED PEOPLE WHO RECEIVE THE BENEFITS OF THE SO-CALLED SPLIT-INCOME PROVISION. UNDER THE BILL, SINGLE PEOPLE ARE PROVIDED WITH A NEW TAX RATE SCHEDULE WHICH PRODUCES A TAX BURDEN FOR THEM APPROXIMATELY 17 TO 20 PERCENT ABOVE THOSE OF MARRIED COUPLES WITH TAXABLE INCOMES BETWEEN \$14,000 AND \$100,000. TODAY THEY CAN

PAY AS MUCH AS 40 PERCENT MORE TAX THAN MARRIED COUPLES PAY ON A SIMILAR AMOUNT OF INCOME.

THESE PROVISIONS DIFFER FROM THE PROVISIONS IN THE HOUSE BILL WHICH WOULD PERMIT WIDOWS AND WIDOWERS, REGARDLESS OF AGE, AND SINGLE PEOPLE AGE 35 AND OVER TO USE THE HEAD-OF-HOUSEHOLD RATE SCHEDULE.

THERE IS ANOTHER WAY OF LOOKING AT THE BILL WHICH I THINK IS USEFUL: I WOULD LIKE TO CALL ATTENTION TO THE FACT THE NET EFFECT OF ALL THE PROVISIONS OF THE BILL—THE TAX RELIEF MEASURES AND THE TAX REFORM PROVISIONS TAKEN TOGETHER—IS FAVORABLE TO PEOPLE WITH LOW AND MODERATE INCOMES. THE ENTIRE PACKAGE PROVIDES AN AVERAGE TAX REDUCTION OF ABOUT 10 PERCENT FOR ALL TAXPAYERS. HOWEVER, TAX REDUCTIONS WILL AVERAGE ABOUT 66 PERCENT OF THE PRESENT LAW TAX FOR THOSE WITH INCOMES UNDER \$30,000, ABOUT 30 PERCENT FOR THOSE WITH INCOMES BETWEEN \$3,000 AND \$5,000 AND ABOUT 17 PERCENT FOR THOSE WITH INCOMES BETWEEN \$5,000 AND \$7,000. THE AVERAGE TAX REDUCTION WILL STILL BE 10 PERCENT FOR THOSE WITH INCOMES BE-

TWEEN \$10,000 AND \$15,000 AND WILL BE 7 PERCENT FOR THOSE WITH INCOMES BETWEEN \$20,000 AND \$50,000. FOR THOSE WITH INCOMES BETWEEN \$50,000 AND \$100,000, HOWEVER, IT FALLS TO LESS THAN 5 PERCENT. HIGH INCOME PEOPLE—THOSE WITH INCOMES OF \$100,000 AND OVER—WILL, ON THE AVERAGE, PAY EVEN MORE AS A RESULT OF THE BILL THAN THEY PAY TODAY. WITH A PATTERN LIKE THIS, I THINK IT IS APPARENT THAT THE BILL HELPS MOST PEOPLE OF LOW AND MODERATE INCOMES. NEVERTHELESS, I BELIEVE BY PROVIDING SOME RATE RELIEF ACROSS THE BOARD, IT PROVIDES JUSTICE TO ALL INCOME GROUPS.

THE PROGRAM OF TAX RELIEF PROVIDED BY THE BILL, LARGE AS IT IS, WILL UNDOUBTEDLY FALL SHORT OF THE EXPECTATIONS OF SOME. A NUMBER OF MY DISTINGUISHED COLLEAGUES WILL UNDOUBTEDLY FAVOR MANY OTHER WORTH-WHILE TAX RELIEF PROVISIONS THAT WILL COST ADDITIONAL MONEY.

IN CONSIDERING SUCH PROPOSALS, I HOPE THAT THIS BODY WILL KEEP IN MIND THE FACT THAT THERE ARE LIMITS TO THE AMOUNT OF TAX RELIEF THAT WE CAN GIVE IF WE WANT TO BE FIS-

CALLY RESPONSIBLE, AND WE MUST BE FISCALLY RESPONSIBLE—NOT ONLY TO KEEP OUR ECONOMY ON A SOUND BASIS, BUT ALSO TO RAISE THE MONEY THAT WILL BE NEEDED IN THE FUTURE TO MEET THE NEW DEMANDS THAT ARE CONSTANTLY BEING MADE UPON OUR GOVERNMENT. PEACE IN VIETNAM, WHICH WE ALL PRAY FOR, WILL HELP PROVIDE FUNDS FOR THESE URGENT NEEDS, BUT WE CANNOT EXPECT THE END OF HOSTILITIES TO PROVIDE UNLIMITED FUNDS. MOREOVER, FOR A PERIOD AFTER THE WAR ENDS, THE COSTS OF WITHDRAWING THE TROOPS AND DEMOBILIZATION MAY WELL BE ALMOST AS GREAT AS THE COSTS OF THE WAR. WE SHOULD HAVE LEARNED THAT LESSON AFTER THE END OF WORLD WAR II AND AFTER KOREA.

WE ARE GOING TO HAVE TO MAINTAIN OUR REVENUES AT A HIGH LEVEL EVEN AFTER PEACE IN VIETNAM IF WE ARE REALLY GOING TO DO ANYTHING ABOUT OUR SOCIAL PROGRAMS HERE AT HOME. THE NEEDS OF OUR URBAN AREAS, THE NEEDS OF THE POOR AND UNDERPRIVILEGED ARE SUCH THAT WE DARE NOT CAUSE ANY APPRECIABLE LOSS IN REVENUE.

I AM GLAD TO REPORT THAT THE BILL BEFORE YOU MEETS RIGID TESTS FOR A FISCALLY RESPONSIBLE PROGRAM. AS A WHOLE, ALL THE PROVISIONS OF THE BILL, INCLUDING THE EXTENSION OF THE SURCHARGE AND EXCISE TAX RATES, WILL INCREASE TAX COLLECTIONS BY \$3.4 BILLION IN FISCAL YEAR 1970 AND \$3 BILLION IN FISCAL YEAR 1971. SIMILARLY, ALL THE PROVISIONS OF THE BILL WILL INCREASE TAX REVENUES BY ALMOST \$6½ BILLION IN CALENDAR YEAR 1970 AND BY OVER \$300 MILLION EVEN IN THE CALENDAR YEAR 1971. THE FACT THAT THE BILL, AS A WHOLE, BRINGS IN ADDITIONAL REVENUE RATHER THAN LOSES REVENUE IN 1971 RESULTS FROM COMMITTEE AMENDMENTS DEFERRING PART OF THE TAX RELIEF THAT THE HOUSE BILL PROVIDED FOR THAT YEAR. THE COMMITTEE MADE THESE AMENDMENTS BECAUSE WE MUST BE MOST CAREFUL TO PROVIDE A PROPER FISCAL STANCE IN 1970 AND 1971 TO COMBAT THE STRONG INFLATIONARY PRESSURES THAT ARE PREVALENT IN OUR ECONOMY.

IN THE LONG RUN, THE BILL WILL REDUCE TAXES BY ABOUT \$2.4 BILLION A YEAR. HOWEVER, THIS DECREASE IN TAXES IS COMPUTED ON THE BASIS OF PRESENT LEVELS OF INCOME.

THE FISCAL DIVIDEND OR THE AUTOMATIC INCREASE IN THE REVENUES AS THE ECONOMY GROWS OVER THE YEARS WILL AMOUNT TO MANY TIMES THAT FIGURE.

THIS BILL IS NOT THE END-ALL OF TAX REFORM. IT IS NOT THE ANSWER TO ALL OUR TAX PROBLEMS—THERE UNDOUBTEDLY WILL BE MORE TO DO AS WE REEXAMINE THE TAX SYSTEM OVER THE YEARS AHEAD. BUT THE BILL IS THE BEST APPROACH TO OUR TAX PROBLEMS THAT I HAVE SEEN IN MY CAREER AS A SENATOR. IT IS NOT ONLY THE BIGGEST TAX REFORM BILL IN OUR HISTORY—IT IS THE BEST TAX REFORM BILL SINCE THE ADOPTION OF THE INCOME TAX.

AGAIN, I WANT TO REMIND MY DISTINGUISHED COLLEAGUES THAT THE BILL IS A CONSENSUS BILL. DON'T DESTROY IT BY OFFERING TOO MANY COSTLY ADDITIONAL TAX RELIEF PROVISIONS OR BY WHITTLING AWAY ON THE TAX REFORM PROVISIONS NOW IN THE BILL. IN OTHER WORDS, IF YOU ARE REALLY FOR TAX REFORM HELP US HOLD THE LINE. I HAVE SAID THIS BEFORE, BUT IT MERITS SAYING AGAIN. THE TEST OF WHETHER THE SENATE REALLY WANTS TAX REFORM IS WHETHER IT IS WILLING TO TAKE A CONSENSUS

BILL WHICH CAN PASS THE CONGRESS AND BE
SIGNED BY THE PRESIDENT. I URGE YOUR SUP-
PORT FOR TAX REFORM IN THE CONSIDERATION
OF THIS BILL.

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